



L'ORÉAL
2009 Annual Report

L'ORÉAL
PARIS
PROFESSIONNEL

REDKEN
5TH AVENUE NYC

KÉRASTASE
PARIS

MATRIX
IMAGINE ALL YOU CAN BE

L'ORÉAL
PARIS

Take care.
GARNIER

MAYBELLINE
NEW YORK

SOFTSHEEN·CARSON®

LANCÔME
PARIS

GIORGIO ARMANI
PARFUMS

YVES SAINT LAURENT

BIOThERM

RALPH LAUREN

Kiehl's
SINCE 1851

shu uemura

HR
HELENA RUBINSTEIN

cacharel

DIESEL

VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE DERMATOLOGIQUE

innéov

SKINCEUTICALS
ADVANCED PROFESSIONAL SKINCARE

THE
BODY
SHOP

1st cosmetics group worldwide

23 international brands⁽¹⁾

17.5 billion euros of sales in 2009

130 countries

64,600 employees

674 patents registered in 2009

(1) International brands with annual sales of more than 50 million euros.



In May 2009, the Indian actress Freida Pinto became a L'ORÉAL PARIS ambassador. A rising young star in India, Freida became known for her role in *Slumdog Millionaire*, the eight Oscar-winning film directed by Danny Boyle. The film launched her on the international film scene where she has begun a very promising career. Freida has joined the brand's other spokespeople, embodying the diversity of beauty worldwide.

Find out more about the 2009 highlights at www.loreal2009.com

In addition to its Annual Report, L'Oréal invites you to discover the highlights of 2009 in pictures and films.

Take a world tour of its brands in their distribution channels, the major Research innovations and the group's tangible advances in the field of sustainable development.

Continue the L'Oréal adventure by following the pictograph below, wherever it appears in the Annual Report.

loreal2009.com

MAKING BEAUTY UNIVERSAL

L'Oréal is entering its second century of beauty with an even stronger belief in its mission: to offer populations all over the world products attuned to their needs, their cultures and their aspirations. Products based on respect for consumers and the environment. Products which enable the widest range of people to enjoy the fundamental right to beauty. A challenge made possible by the cultural richness of the group's teams, its knowledge of beauty rituals all over the world, and a portfolio of international brands available through a range of distribution channels.

L'Oréal's long-standing determination to build its success on cutting-edge research means it is always pushing back the boundaries of cosmetics. Mastery of the latest scientific and technological advances opens up immense perspectives for the beauty professions. The ability of researchers to anticipate consumer expectations has made L'Oréal's laboratories the most powerful and innovative in the cosmetics industry.

Economic success also stems from an ethical approach shared by everyone. The men and women of L'Oréal focus all their efforts on making their company an emblematic model of responsible citizenship. A company which extends its solidarity to local communities, and is alert to the major issues of its time, with the aim of making the world more beautiful.

For everyone, the whole world over, L'Oréal is making beauty universal.

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the Chief Executive Officer
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2009 was a great year for innovation, supporting L'Oréal's choice from the outset to focus on highly advanced research and cosmetics developed through cutting-edge science. Two major scientific innovations, Inoa and Génifique, are opening up the era of a new beauty science, and with it, unlimited potential for discoveries.

As well as marking the centenary of L'Oréal, 2009 was an extremely challenging year due to an unprecedented economic crisis.

The group confirmed its position as the world leader in beauty and accelerated in every field, from innovation to globalisation, with one clear objective: to quickly expand its consumer base.

The major advances made in 2009, a year of transformation and adaptation, are preparing L'Oréal to tackle the future more effectively.

18 Sustainable Development FOR A MORE BEAUTIFUL WORLD

2009 was a year of very tangible advances in every area of sustainable development: environment, sustainable innovation and philanthropy. It was also a year of major commitments, with highly ambitious targets in environmental terms: to halve greenhouse gas emissions as well as water consumption and waste per finished product by 2015⁽¹⁾.

- 20** Commitments
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(1) The reductions will be calculated on a like-for-like basis. Period 2005-2015.



34 Businesses

OFFERING THE BEST OF BEAUTY IN ALL DISTRIBUTION CHANNELS



36 - Professional Products

With a record number of new salons, 2009 was the year of Inoa, which heralded a new era in salon hair colourants.



42 - Consumer Products

With even more accessible ranges, extensions to cover new product categories, and the acceleration of global reach, everything possible is being done to offer the best in cosmetics innovation to as many consumers as possible.

50 - Luxury Products

Technological innovations, concentration on strategic brands, the successful integration of YVES SAINT LAURENT, and the ongoing conquest of new markets: in 2009 the division laid the foundations for its future expansion.



58 - Active Cosmetics

The division reinforced its worldwide leadership, particularly in anti-ageing skincare, thanks to its innovations and an even closer partnership with pharmacists and dermatologists.



64 - The Body Shop

The Body Shop continued to pursue its extremely dynamic innovation strategy, increase the number of ethical initiatives and reorganise its operations.

67 - Galderma

A specialty pharmaceutical company focused exclusively on dermatology, Galderma achieved a record market share.

68 International DOUBLING OUR CONSUMER BASE



- 70 Markets
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2009 was the year of accelerating globalisation, enabling L'Oréal to increase its potential customer base. The new markets are growing strongly, driven in particular by launches tailored to suit local consumption habits. This represents a tremendous growth reservoir for achieving an ambitious target: increasing the customer base from 1.2 billion to 2.5 billion.



In 2009, L'Oréal took creativity to new heights to reinvent the company. Every aspect of expertise is being remodelled to prepare L'Oréal to successfully take up tomorrow's industrial, environmental, human and financial challenges.

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84 Expertise CONTINUING TO OPTIMISE OUR ORGANISATIONAL STRUCTURES

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Contacts, financial calendar, information on the L'Oréal share.

Message from Sir Lindsay Owen-Jones

L'ORÉAL HAS SHOWN ITS ABILITY TO RENEW ITSELF AND TO BOUNCE BACK

A collective effort

As chance would have it, L'Oréal's centenary in 2009 coincided with one of the most sudden and severe economic crises the world has ever known! It was as though the group was being challenged to surpass itself, by drawing on the values which have underpinned its strength and continuity over the last century.

Despite appearances, it has not always been plain sailing but, as on many occasions in the company's past, L'Oréal has shown its ability to renew itself and to bounce back. The huge efforts everyone has made to successfully overcome a year of great uncertainty have been combined with transformations that ensure we are fully prepared for the future. I would like to thank all L'Oréal's teams for their exemplary commitment and solidarity.

Courageous decisions and good quality results

Despite the unfavourable context, L'Oréal has succeeded in posting results extremely close to those of 2008, while at the same time investing to prepare for its future growth. With record cash flow and a substantial reduction in debt, the group's financial situation has been further strengthened.

As of end 2008, Jean-Paul Agon took some courageous decisions to stay on course during the storm, look beyond the short-term difficulties, and adapt the company in the light of future challenges. On behalf of the Board of Directors, I would like to pay tribute to his strength and his tireless energy which he passes on to all of his teams so effectively.

The increase in research expenses, the rise in advertising and promotion investments, the modernisation of the organisational structures, together with cost reductions, mean that L'Oréal is in the famous "virtuous circle" which paves the way for the future.

2009 provides further proof of the resilience of our business model. It is based on a good balance of our business

across all distribution channels, the most comprehensive and diversified brand portfolio in the industry, and a well-established presence in all markets worldwide, including the major markets of tomorrow.

The quality of the results and great confidence in L'Oréal's solidity have enabled the Board to propose to the Annual General Meeting a dividend payment of €1.50 per share, representing an increase of +4.2%. This proposal also reflects our sincere concern to achieve the right balance, which as you know, is particularly important to us.

High standards of governance

The quality of our results is also a reflection of our high standards of governance, which we are always striving to improve.

The separation of roles, introduced in 2006, enables the Chief Executive Officer to concentrate on operational matters, and engage the group vigorously in all its battles; the Chairman's role is to provide analysis, advice and strategic guidance with the necessary perspective. He also oversees the Board's work. The separation of the roles means we can move forward quickly and steadily. The transition period is over, but the Board of Directors wishes to confirm this arrangement, which has proven its worth over the last four years.

The Board of Directors is fully playing its role in defining strategic priorities. It has firmly backed all the changes proposed by the General Management to prepare for the company's long-term growth. The richness of its deliberations stems from the great diversity of the directors—five nationalities, three women, and a wide variety of profiles and experience—which ensures a high level of debate. The Board also keeps in close touch with operational realities by visiting factories and sales outlets.

The contribution of the Board's Committees has been further reinforced. Their proposals, which are increasingly thorough, enrich and facilitate the Board's debates.

“On the threshold of its second century, L’Oréal is ready to push back all boundaries.”



Sir Lindsay Owen-Jones
Chairman

As governance matters were taking up a growing proportion of its agenda, the Board decided to extend the Appointments Committee’s brief to include the examination of issues of this kind. Furthermore, the Remuneration Committee has very carefully reviewed the status of the Chief Executive Officer. Finally, the Audit Committee has been able to verify that its *modus operandi* complies with the Eighth Directive on statutory auditing.

The Board notes that its corporate governance approach is in line with the Afep-Medef recommendations of December 2008.

An ever closer relationship with all our shareholders

The group’s success is also based on the loyalty of its shareholders. This is one of the great strengths of our group, and an essential requirement for the implementation of a long-term strategy. The continuing increase in the dividend distribution rate moreover reflects our determination to support our shareholders, as does the introduction of the loyalty bonus, approved at the last Annual General Meeting, to reward those prepared to make a long-term commitment.

In 2009, there was a large increase in the number of registered shareholders, and the percentage of their total stake has quadrupled. This is a mark of mutual confidence which is particularly significant at a time of turbulence. This strong signal is encouraging us to develop an even closer relationship with our shareholders. L’Oréal’s teams met more than 7,000 shareholders, offering us the opportunity to listen to them and maintain an invaluable dialogue.

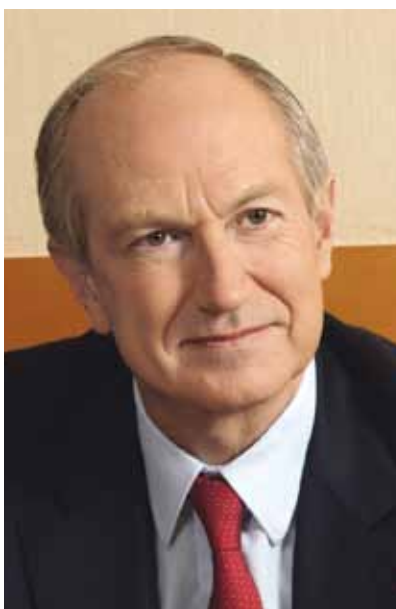
Proactive values for tomorrow

The particularly difficult economic context has enabled L’Oréal to gauge its strengths, and to reassert its ownership of the founding values of the company, such as a quest for excellence and an appetite for challenges, combined with pragmatism and imagination. L’Oréal is an imaginative company full of resources, which is flexible in adapting to change. These are unquestionable advantages when weathering any storm.

The group’s strength and modernity also stem from its sense of ethics, a concern for sustainable development, its solidarity with local communities, and its eagerness to look ahead to tomorrow’s world. The L’Oréal Corporate Foundation is developing large-scale philanthropy programmes and extending the scope of its action. The fact that two winners of L’ORÉAL-UNESCO “For Women in Science” Awards in 2008 have received Nobel Prizes can only strengthen our ambitions for this programme, and confirms that we have made the right choices.

2009 was also L’Oréal’s centenary year, which gave us the opportunity to delve into our history, and to look forward to L’Oréal’s second century with more determination than ever.

Today, L’Oréal is ready to push back all boundaries: to win a further one billion new consumers throughout the world, and open up new horizons through science. We are well prepared: our governance is strong and vigilant, our teams are solid and resolute, and our research is anticipating tomorrow’s beauty in all its diversity. More than ever before, L’Oréal is asserting its life force.



Jean-Paul Agon
Chief Executive Officer

Interview with Jean-Paul Agon

“WE HAVE PAVED THE WAY FOR THE L'ORÉAL OF TOMORROW.”

How would you sum up 2009?

It was a memorable year in many respects. As we celebrated L'Oréal's centenary, we faced the worst economic crisis the world has seen for a long time. For us, 2009 will remain a turning point. We have emerged from it stronger and transformed, paving the way for the L'Oréal of tomorrow.

How did L'Oréal cope with the year?

The good news is that the cosmetics market proved very resilient. Despite the exceptionally tough economic conditions, it ended up showing slight growth even though the start of the year was very difficult. Overall, L'Oréal weathered the storm well and has strengthened its global leadership in the beauty sector. Even though our results decreased very slightly, they were solid and of good quality. We have improved gross profit margin, increased research expenses and advertising and promotion expenses, and reduced costs. Despite the very difficult context, we have recreated the “virtuous circle”, the traditional driving force for growth at L'Oréal. Furthermore, the group is generating record cash flow and its financial situation is very robust.

How did you react when faced with the crisis?

We introduced three major strategic changes to prepare for the future: the broadening of our consumer base with the target of winning a billion new consumers worldwide, a thorough transformation of the company to make it stronger and more flexible, and finally, a determined increase of investments in R&D and advertising and promotion to accelerate future growth. I would particularly like to thank the men and women of L'Oréal. From one end of the planet to the other, they have faced the difficulties with considerable intelligence, great courage, remarkable drive and unwavering solidarity. Thanks to them, L'Oréal has been able to adapt and reinvent itself to emerge stronger from this year of adversity.

What were your greatest difficulties in 2009?

At the start of the year, we had to cope with a contraction in consumption and a massive inventory reduction by the trade, which had a strong impact on the amounts we invoiced. Overall, our sales were very slightly down, but the group gradually returned to growth.

Did some distribution channels prove more resilient than others?

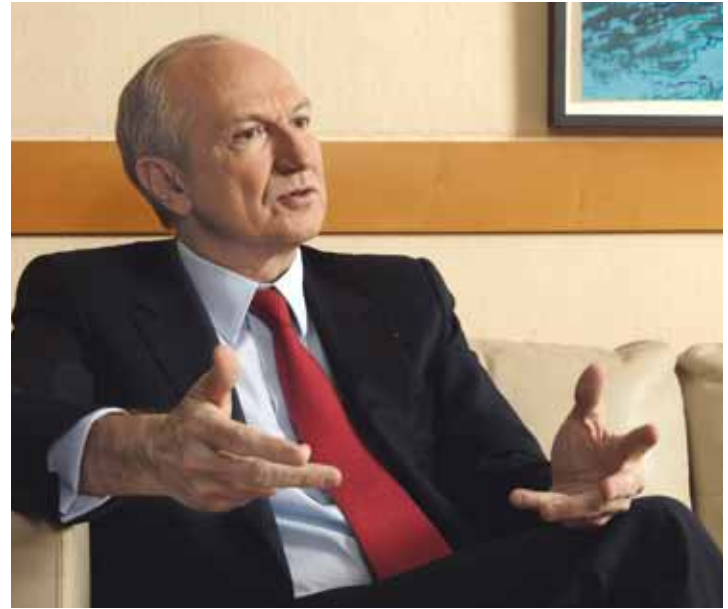
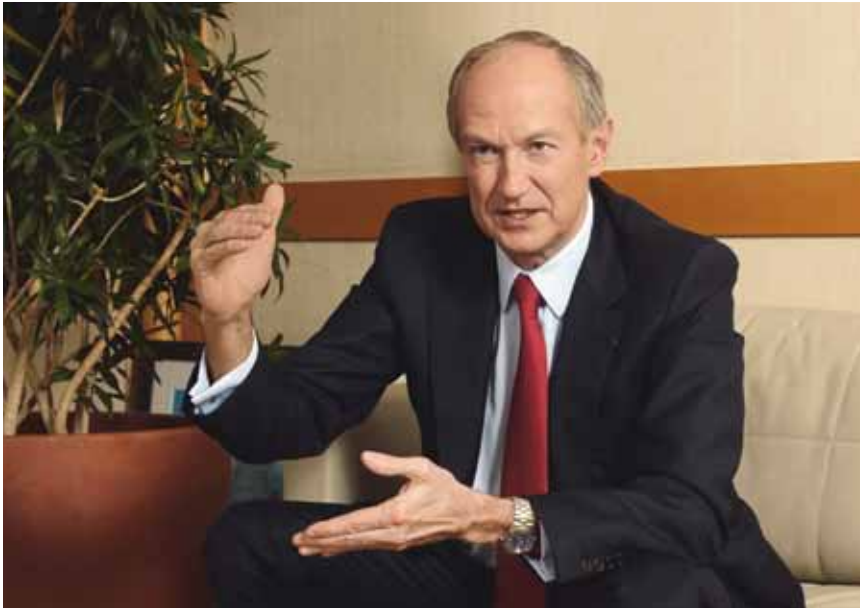
The performances of our divisions were indeed highly differentiated. The Consumer Products Division grew faster than its market and strengthened its positions across the world, particularly in the new markets. Luxury Products experienced a difficult year in a negative market context. The integration of YVES SAINT LAURENT was successful, and it is our ambition to make the brand one of the top global leaders. The Professional Products Division experienced a difficult year in sales terms, but set an all-time record for recruiting new salons, with market share gains in every region of the world. Active Cosmetics strengthened its position as world number 1 in dermocosmetics. The Body Shop proved resilient in the crisis, with very slight sales growth in a severely affected retail market. Lastly, Galderma achieved another year of double-digit growth and once again made very significant market share gains.

In your view, what was the major highlight of 2009?

There were two highlights. The first was the acceleration of innovations. 2009 was an exceptional vintage, with Inoa by L'ORÉAL PROFESSIONNEL, Génifique and Absolué Precious Cells by LANCÔME, to name but a few. They achieved immediate and universal success, which is invariably the case of products that are ahead of their time and meet essential needs. These successes bear out L'Oréal's fundamental choice of relying on highly advanced research.

The second highlight was the gradual return to strong growth in the Rest of the World zone, with large market share gains in all divisions. We are winning many of our battles in these regions. This set of countries, which accounts for more than 85% of the world's population, already represents 50% of the planet's cosmetics market. This proportion is constantly rising. The shift in the global cosmetics market is happening right now. The consumption of cosmetics products will follow population trends.

This is a unique opportunity for L'Oréal's development over the next 20 years.



“I am convinced we are at the dawn of a new phase of expansion for L’Oréal.”

Is this the start of a new adventure?

The acceleration in the zone we now call New Markets is spectacular. Its share in the group’s sales has doubled every 10 years, reaching 33% in 2009, and it will probably represent more than half our sales in less than 10 years.

This is a fundamental change in the history of our company. For decades now, we have built our growth on a strategy of intensive penetration targeting a limited number of consumers. The emergence of new markets such as China, India and Brazil, opens up a fantastic reservoir of growth for us. We have set ourselves the target of winning over and securing the loyalty of one billion new consumers within the next 10 years, and so doubling the number of women and men who use our brands. I am convinced we are at the dawn of a new phase of expansion for L’Oréal.

What adaptations will be necessary?

Tomorrow Chinese, Indians, Brazilians and Indonesians will together form the majority of our customers, which will result in a profound change in the profile of our consumers and their expectations.

My mission today is to transform the company in a process of universalisation, by trying to understand consumers’ needs and expectations so as to meet them as effectively as possible. We already have some excellent assets. The most attractive, diversified and comprehensive portfolio of international brands, R&D centres on all continents to formulate products that are the most effective and the best suited to the needs of these consumers, together with the marketing, industrial, logistical and commercial power we need for the full-scale development of our businesses in all these countries.

Has consumer behaviour changed?

It has not been fundamentally transformed, as some had feared. The resilience of the market furthermore demonstrates the strength of consumers’ attachment to beauty products. On the other hand, consumers pay more attention than before to value-for-money, strengthening the relevance of the accessible innovation strategy we have implemented.

What do you mean by accessible innovation?

Innovation, more than ever, because cosmetics is a supply-driven market, and innovation is what moves it forward. Accessible, to find the “right price”, which is by no means a synonym for “low price”.

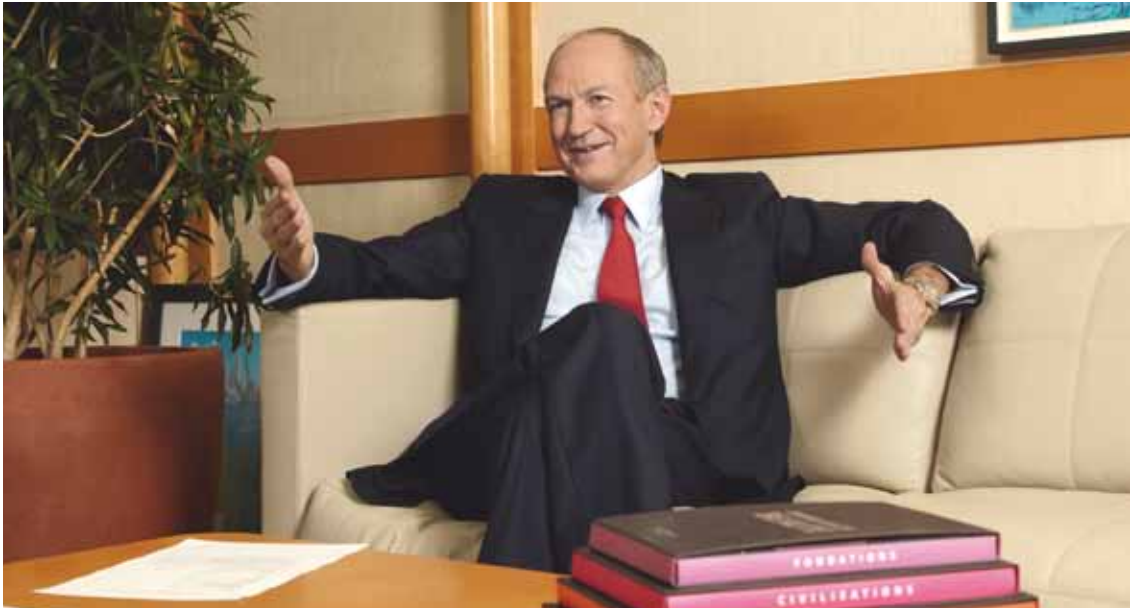
Accessible innovation forms part of our mission and our fundamental purpose, which is to offer women and men the world over the best quality, most effective, safest cosmetics, and thereby satisfy all their beauty needs and desires in all their infinite diversity.

It is this fundamental credo, this universal project, which we have been pursuing for 100 years, and which we will continue to pursue for the next 100 years.

It is also this project which underpins our strategy of broadening the consumer base, through accessible innovation, the conquest of new product categories that we had somewhat neglected in recent years, such as deodorants, and the acceleration in our internationalisation which I spoke of earlier.

How do you intend to re-accelerate growth?

In addition to our strategy of broadening our customer base, we have decided to proactively increase our R&D investments, as we are convinced that our company will stand out through its innovation and the quality, efficacy and safety of its products. Tomorrow’s beauty is being invented in L’Oréal’s laboratories, which are attuned to the desires of consumers all over the world.



 loreal2009.com
See Jean-Paul Agon's
video message.

We are also increasing our investments in advertising and promotion to strengthen support for our brands and products, to kick-start the dynamism of organic growth, and to support our conquest of new markets.

Has the crisis led you to reconsider the way you are organised?

Yes, it was a real catalyst, just like our centenary, which made us think not only about the fundamental components of our business model, but also about everything we must reinvent to adapt to this new world. These reflections have led us to undertake or accelerate profound transformations of the company to streamline and simplify it, making it more flexible, productive and efficient.

We have thus continued our industrial and logistical transformation, which has enabled us to have a positive impact on our gross profit. We have accelerated our organisational changes to optimise our structures and our operational processes, pooled support services, and thus significantly reduced our costs.

This full-scale effort is preparing L'Oréal to tackle the future more effectively.

What are your challenges in terms of sustainable growth?

The first is of course to ensure the total satisfaction of our consumers, by being constantly focused on their needs, and earning their confidence through the quality, efficacy and safety of our products. They are the foremost players in ensuring the group's sustainable success. The second challenge, inseparable from the first, is for L'Oréal to become a model corporate citizen and to make a genuine contribution to the world around us. In this field as well, we have intensified our efforts with the active participation of all the employees.

We are already acknowledged to be one of the most cutting-edge companies in the world in the fields of sustainable innovation, diversity and ethics. In environmental matters, our requirements and our standards have always been ahead of their time, and we have just made a formal commitment to go even further, and reduce by half between 2005 and 2015 our CO₂ emissions, our water consumption⁽¹⁾ and the waste⁽¹⁾ we generate.

(1) Per unit of finished product.

In practical terms, what do you mean by "making a contribution to the world"?

Being exemplary in all aspects of responsible social behaviour. This commitment is perfectly reflected in the way we chose to celebrate our centenary: by encouraging each of our subsidiaries to support a citizen project. In all, 100 projects involving employees all over the world were rolled out to provide practical and effective help and support for disadvantaged communities. This is one example. I would like to mention another example which marked the year. Our Foundation supported the publication of a landmark reference work on the history of beauty, *100,000 Years of Beauty*. The aim is to show the decisive role of personal care in civilisations from the origins of time. Proof that our market, beauty, is eternal.

What is the outlook for 2010 and beyond?

2010 is the first year of a new phase of expansion for L'Oréal, bolstered by a new strategy and a historic opportunity: the shift of the cosmetics market towards the new markets. We have everything it takes to succeed in this new adventure: the industry's number 1 R&D force, the most outstanding portfolio of international brands, and talented, committed and enthusiastic teams. We are emerging from this year of crisis stronger, but also feeling more energised. We have adapted and transformed ourselves. Our drive and our ambition have been renewed. 2010 marks the first year of a new century for L'Oréal when it will be possible to exercise all our ambitions.

BOARD OF DIRECTORS

Composition at December 31st, 2009

Sir Lindsay Owen-Jones⁽¹⁾

Age: 63. British. Joined the L'Oréal group in 1969. After starting his career in France, he was Chief Executive Officer of L'Oréal in Italy from 1978 to 1981 and President (CEO) of L'Oréal USA from 1981 to 1984. He was appointed Chief Executive Officer of L'Oréal in 1984, then Chairman and Chief Executive Officer in 1988, non-executive **Chairman** of the group since April 25th, 2006. L'Oréal Board member since 1984 (term of office renewed in 2006). Director and Chairman of the L'Oréal Corporate Foundation. Board member of Sanofi-Aventis and Ferrari (Italy).

Jean-Paul Agon

Age: 53. Joined the L'Oréal group in 1978. Following his international career as General Manager of Consumer Products in Greece, and of L'ORÉAL PARIS in France, International Managing Director of BIODERM, Managing Director of L'Oréal in Germany, Managing Director of the Asia zone, President and CEO of L'Oréal USA, appointed Deputy Chief Executive Officer of L'Oréal in 2005 and then **Chief Executive Officer** in April 2006. L'Oréal Board member since 2006. Board member of the L'Oréal Corporate Foundation.

Jean-Pierre Meyers⁽²⁾⁽⁴⁾⁽⁶⁾

Age: 61. L'Oréal Board member since 1987 (term of office renewed in 2009⁽⁷⁾),

Vice-Chairman of the Board.

Nestlé SA (Switzerland) Board member.

Peter Brabeck-Letmathe⁽²⁾⁽⁴⁾

Age: 65. Austrian. With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Officer of Nestlé SA (Switzerland) in 1997, Vice-Chairman of the Board in 2001 and Chairman in 2005. L'Oréal Board member since 1997 (term of office renewed in 2009), **Vice-Chairman of the Board.** Vice-Chairman of the Board of Crédit Suisse Group (Switzerland), Board member of Roche Holding (Switzerland) and Delta Topco Limited (Jersey).

Liliane Bettencourt⁽²⁾

Daughter of Eugène Schueller, the founder of L'Oréal. L'Oréal Board member since 1995 (term of office renewed in 2007).

Françoise Bettencourt Meyers

Age: 56. Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2009).

Werner Bauer

Age: 59. German. With the Nestlé group since 1990, appointed General Manager in 2002. L'Oréal Board member since 2005 (term of office renewed in 2009⁽⁷⁾). Board member of Alcon (Switzerland).

Francisco Castañer Basco⁽²⁾⁽⁶⁾

Age: 65. Spanish. With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board member since 1998 (term of office renewed in 2006). Board member and Vice-Chairman of Alcon (Switzerland).

Charles-Henri Filippi⁽⁵⁾

Age: 57. French civil service from 1979 to 1987. Worked for CCF (which became HSBC France in 2000) from 1987 to 2008. Chief Executive Officer of CCF in 1995, HSBC Group Executive Committee member from 2001 to 2004, Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board from September 2007 to December 2008. Chairman of Octagones and Alfina. L'Oréal Board member since 2007⁽⁸⁾. France Telecom Board member, Supervisory Board member of Euris and Censor of Nexity.

Xavier Fontanet

Age: 61. Appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995, Chairman and Chief Executive Officer from 1996 to 2009, Chairman of the Board of Directors since January 1st, 2010. L'Oréal Board member since 2002 (term of office renewed in 2006). Board member of Crédit Agricole SA and Fonds Stratégique d'Investissement (FSI).

Bernard Kasriel⁽²⁾⁽³⁾

Age: 63. With the Institut du développement industriel from 1970 to 1975. Chief Executive Officer of Braud from 1972 to 1974. Executive Vice-President of the Société phocéenne de métallurgie from 1975 to 1977. Joined Lafarge in 1977, appointed Deputy General Manager in 1982. Assigned to the United States from 1987 to 1989, appointed Vice-Chairman and Chief Executive Officer from 1989 to 2003, and then Chief Executive Officer from 2003 to 2005. L'Oréal Board member since 2004 (term of office renewed in 2008). Board member of Lafarge, Arkema and Nucor (United States). Partner of LBO France.

Marc Ladreit de Lacharrière

Age: 69. Member of the Institut. With L'Oréal from 1976 to 1991, former Executive Vice-President in charge of Administration and Finance, Deputy Chief Executive Officer from 1984 to 1991. Chairman and Chief Executive Officer of Fimalac. Chairman of Fitch (United States). L'Oréal Board member since 1984 (term of office renewed in 2006). Board member of the L'Oréal Corporate Foundation. Board member of Renault and Casino.

Annette Roux

Age: 67. Joined Bénéteau in 1964, Chairman and Chief Executive Officer from 1976 to 2005, Vice-Chairman of the Supervisory Board thereafter. L'Oréal Board member since 2007. President of the Bénéteau Corporate Foundation.

Louis Schweitzer

Age: 67. Joined Renault in 1986, Chairman and Chief Executive Officer from 1992 to 2005, Chairman of the Board until 2009. Chairman of the Board of AstraZeneca (United Kingdom). Chairman of the Supervisory Board of Le Monde group. L'Oréal Board member since 2005 (term of office renewed in 2009). Board member of BNP Paribas, Veolia Environnement and AB Volvo (Sweden). Member of the Consultative Board of Allianz AG (Germany).

Under the Articles of Association, the length of a L'Oréal director's term of office, which is renewable, is four years or less, to enable staggered renewal of the directors' terms of office. Each director holds a minimum of 1,000 L'Oréal shares. The full list of directors' offices and directorships, in accordance with legal requirements, is included in the Report of the Chairman of the Board of Directors (Vol. 2 of the Reference Document).

(1) Chairman of the Strategy and Implementation Committee.

(2) Member of the Strategy and Implementation Committee.

(3) Chairman of the Appointments and Governance Committee and the Remuneration Committee.

(4) Member of the Appointments and Governance Committee and the Remuneration Committee.

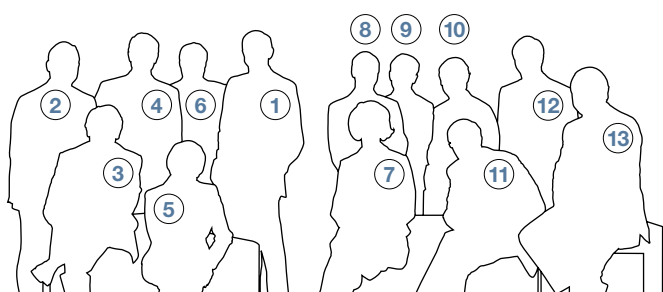
(5) Chairman of the Audit Committee.

(6) Member of the Audit Committee.

(7) The term of office of Mr Bauer and Mr Meyers was renewed for a period of three years to enable a harmonious renewal of the directors' terms of office.

(8) Mr Filippi was co-opted as a member in November 2007 and appointed in 2008 for the remainder of the term of office of his predecessor, i.e. until 2010.

EXECUTIVE COMMITTEE



1. Jean-Paul Agon
Chief Executive Officer

2. Alexandre Popoff
Managing Director
Latin America Zone and
Africa, Middle East Zone

3. Jean-Jacques Lebel
President
Consumer Products Division

4. Laurent Attal
Executive Vice-President
Research and Innovation

5. Brigitte Liberman
Managing Director
Active Cosmetics Division

6. Jochen Zaumseil
Managing Director
Asia Pacific Zone

**7. Béatrice Dautresme**

Executive Vice-President
Corporate Communications and
External Affairs

8. Geoff Skingsley

Executive Vice-President
Human Resources

9. Jean-Philippe Blanpain

Managing Director
Operations

10. Marc Menesguen

President
Luxury Products Division

11. Nicolas Hieronimus

Managing Director
Professional Products Division

12. Christian Mulliez

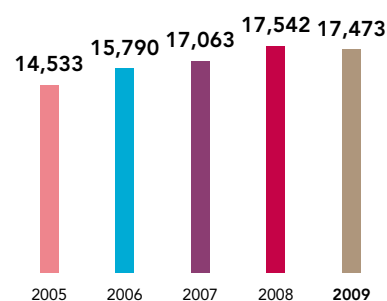
Executive Vice-President
Administration and Finance

13. Frédéric Rozé

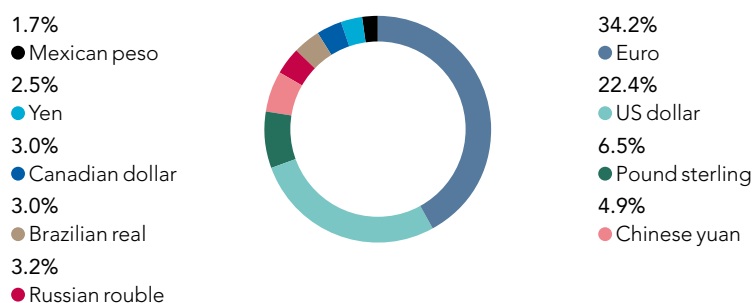
Managing Director
North America Zone

GROUP RESULTS OVER ONE, FIVE AND TEN YEARS

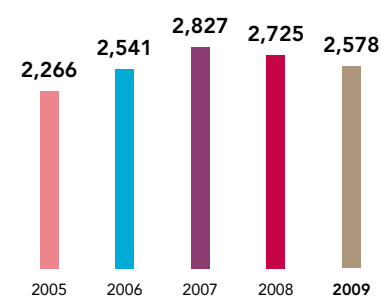
Consolidated sales
(€ millions)



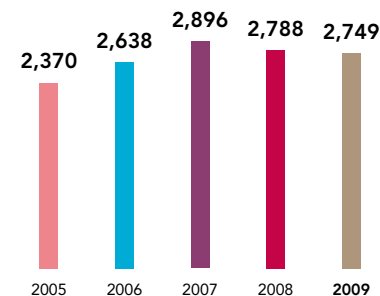
2009 consolidated sales by currency⁽¹⁾
(as %)



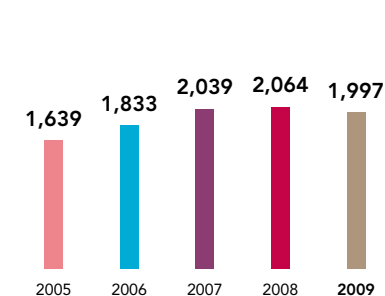
Operating profit
(€ millions)



Pre-tax profit
excluding non-recurrent items⁽²⁾
(€ millions)



Net profit excluding non-recurrent
items after minority interests⁽²⁾
(€ millions)



Breakdown by branch⁽³⁾ in 2009

Consolidated sales

	€ millions	Growth	
		Like-for-like	Published figures
Cosmetics	16,257	-1.5%	-0.6%
The Body Shop	726	+0.7%	-3.9%
Dermatology ⁽⁴⁾	489	+10.8%	+14.6%

Operating profit

	€ millions	Weight	Growth based on published sales	
				% of sales
Cosmetics	2,439	94.6%	-6.5%	15.0%
The Body Shop	54	2.1%	+48.4%	7.4%
Dermatology ⁽⁴⁾	85	3.3%	+6.3%	17.4%

(1) Consolidated sales in the main currencies in 2009.

(2) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs. See note 10 of the Notes to the Consolidated Financial Statements in Volume 2 of the 2009 Reference Document (pages 27 to 29).

(3) The group's business is composed of the cosmetics and the dermatology branches and of The Body Shop.

(4) Group share, i.e. 50%.

2009 Consolidated sales of the cosmetics branch

By division

	€ millions	Growth Like-for-like	Published figures
● Professional Products	2,388	-3.3%	-3.4%
● Consumer Products	8,555	+3.2%	+1.5%
● Luxury Products	4,080	-9.0%	-2.2%
● Active Cosmetics	1,234	-1.5%	-4.3%
Total cosmetics sales	16,257	-1.5%	-0.6%

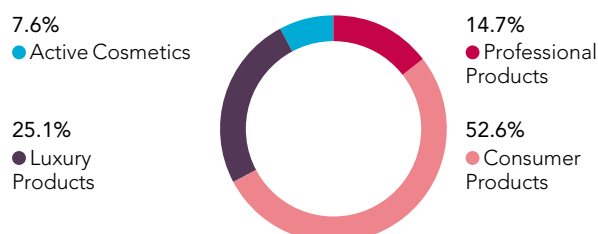
By business segment

	€ millions	Growth Like-for-like	Published figures
● Skincare	4,381	+2.5%	+2.0%
● Haircare	3,692	-1.0%	-2.6%
● Make-up	3,421	-2.2%	+1.4%
● Hair colourants	2,429	+1.4%	-0.9%
● Perfumes	1,713	-14.9%	-7.3%
● Other ⁽¹⁾	620	+5.4%	+3.4%
Total cosmetics sales	16,257	-1.5%	-0.6%

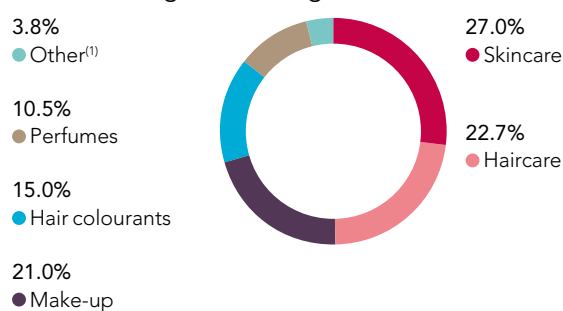
By geographic zone

	€ millions	Growth Like-for-like	Published figures
● Western Europe	7,036	-6.3%	-4.7%
● North America	3,802	-3.4%	+1.7%
● Rest of the World, of which:	5,419	+7.2%	+3.4%
Asia	2,148	+8.3%	+16.5%
Eastern Europe	1,213	+3.3%	-12.1%
Latin America	1,138	+11.2%	-1.1%
Africa, Orient, Pacific	920	+5.0%	+6.7%
Total cosmetics sales	16,257	-1.5%	-0.6%

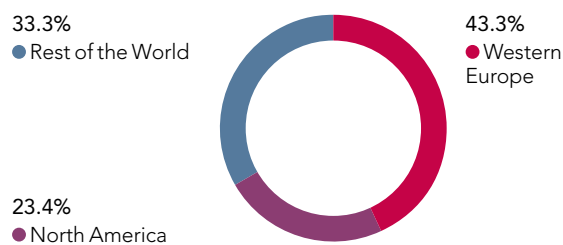
Divisions weight



Business segments weight



Geographic zones weight



(1) "Other" includes sales made by American distributors with brands outside of the group.

Operating profit of the cosmetics branch

By division	2008		2009	
	€ millions	% of sales	€ millions	% of sales
Professional Products	519	21.0%	477	20.0%
Consumer Products ⁽¹⁾	1,566	18.6%	1,577	18.4%
Luxury Products	767	18.4%	617	15.1%
Active Cosmetics	259	20.1%	250	20.2%
Cosmetics divisions total⁽²⁾	3,110	19.0%	2,921	18.0%
Non-allocated ⁽³⁾	-502	-3.1%	-482	-3.0%
Cosmetics branch total	2,608	15.9%	2,439	15.0%

By geographic zone	2008		2009	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,634	22.1%	1,470	20.9%
North America	593	15.9%	554	14.6%
Rest of the World	884	16.9%	896	16.5%
Total for geographic zones	3,110	19.0%	2,921	18.0%
Non-allocated ⁽³⁾	-502	-3.1%	-482	-3.0%
Cosmetics branch total	2,608	15.9%	2,439	15.0%

Financial ratios

	2008 ⁽⁴⁾	2009
(% of sales) Operating profit/Sales	15.5%	14.8%
(% of shareholders' equity) Net profit excluding non-recurrent items after minority interests/Opening shareholders' equity	15.3%	17.3%
(% of shareholders' equity) Net gearing ⁽⁵⁾	32.0%	14.4%
Gross cash flow/Investments	3.7×	4.4×

(1) After reclassification of the "Distance selling" activity under the Consumer Products Division heading.

(2) Includes the operating profit of the "Cosmetics miscellaneous" activity which consists mainly of the "Distance selling" activity.

(3) "Non-allocated" items consist of the expenses of functional divisions and of fundamental research, and of stock option costs, which are not allocated to the cosmetics divisions.

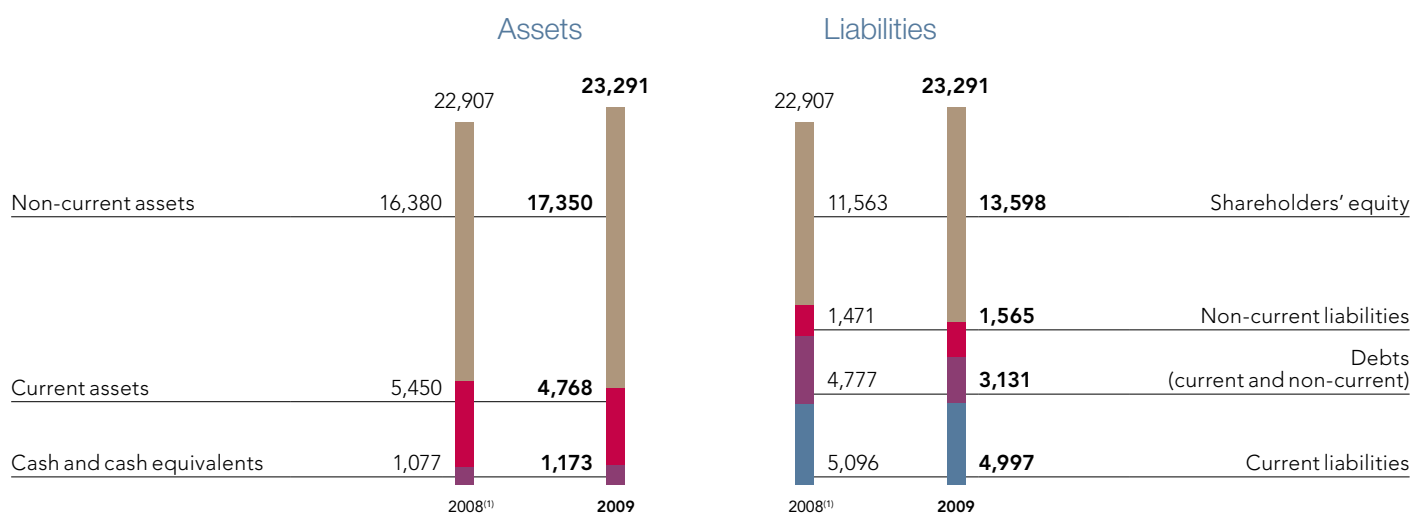
This item also includes activities not forming part of the group's core businesses, such as insurance, reinsurance and banking.

(4) The 2008 balance sheet has been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programmes and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits. See note 1.1 of the Notes to the Consolidation Financial Statements in Volume 2 of the 2009 Reference Document.

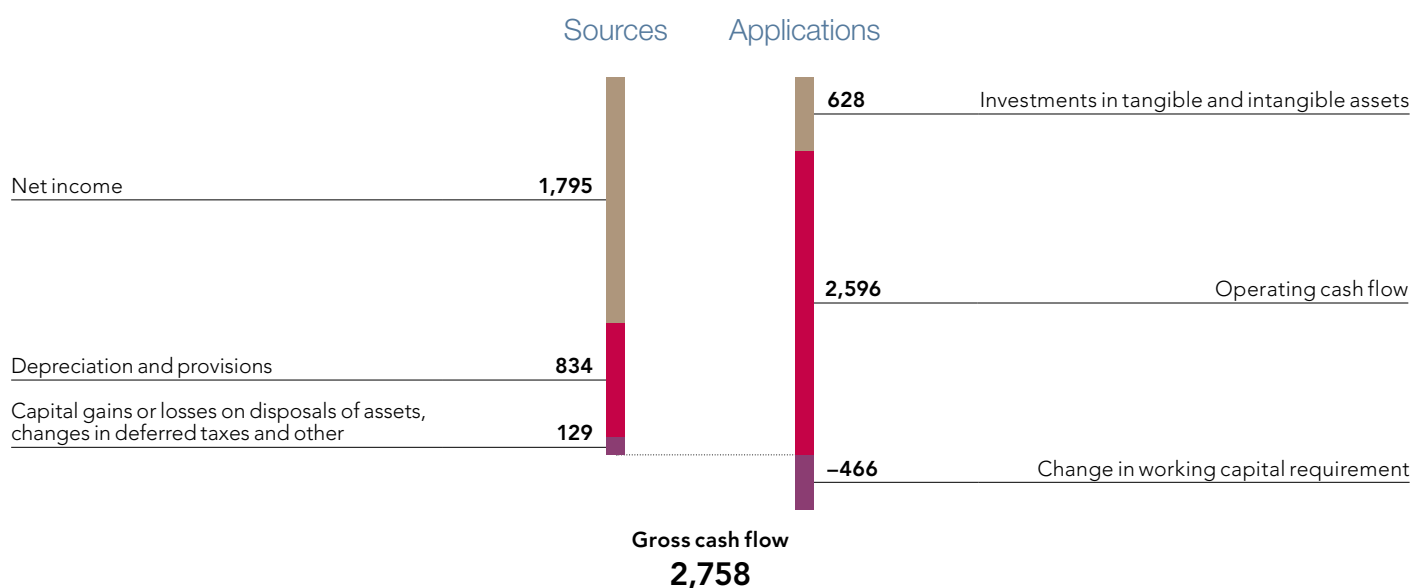
(5) Net gearing = $\frac{\text{Current and non-current debt} - \text{Cash and cash equivalents}}{\text{Shareholders' equity after minority interests}}$

Balance sheet and cash flows

Balance sheet (€ millions)



Sources and applications of funds (€ millions)



(1) The 2008 balance sheet has been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programmes and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits. See note 1.1 of the Notes to the Consolidation Financial Statements in Volume 2 of the 2009 Reference Document.

L'Oréal over 10 years

FRENCH ACCOUNTING STANDARDS (€ millions)	1999 ⁽¹⁾⁽²⁾	2000 ⁽²⁾	2001	2002	2003	2004
Results						
Consolidated sales	10,751	12,671	13,740	14,288	14,029	14,534
Pre-tax profit of consolidated companies	1,125	1,322	1,502	1,698	1,870	2,063
As a percentage of consolidated sales	10.5	10.4	10.9	11.9	13.3	14.2
Income tax	429	488	536	580	629	696
Net operational profit	833	1,033	1,236	1,464	1,661	1,659
As a percentage of consolidated sales	7.7	8.2	9.0	10.2	11.8	11.4
Net operational profit after minority interests	827	1,028	1,229	1,456	1,653	1,656
Net profit attributable to the group	787	969	1,291	1,277	1,492	3,626
Total dividend	230	297	365	433	494	554
Balance sheet						
Fixed assets	5,918	7,605	8,140	8,130	8,136	11,534
Current assets	5,139	6,256	6,724	6,843	6,876	6,645
Of which cash and marketable securities	1,080	1,588	1,954	2,216	2,303	1,981
Shareholders' equity ⁽³⁾	5,470	6,179	7,210	7,434	8,136	10,564
Borrowing and debts	1,914	3,424	2,939	2,646	1,941	2,175
Per share data⁽⁴⁾⁽⁵⁾ (€)						
Net operational profit after minority interests per share ⁽⁶⁾	1.22	1.52	1.82	2.15	2.45	2.46
Net dividend ⁽⁷⁾⁽⁸⁾	0.34	0.44	0.54	0.64	0.73	0.82
Tax credit	0.17	0.22	0.27	0.32	0.37	–
Share price at December 31 st ⁽⁷⁾	79.65	91.30	80.90	72.55	65.00	55.85
Highest share price during the year	79.80	95.30	92.10	88.30	74.85	69.90
Lowest share price during the year	54.10	60.35	64.00	60.55	50.15	51.50
Weighted average number of shares outstanding	676,062,160	676,062,160	676,062,160	675,990,516	676,021,722	673,547,541

FRENCH ACCOUNTING STANDARDS

(1) For purposes of comparability, the figures include the impact in 1999 of the application of CRC Regulation no.99-02 from January 1st, 2000 onwards. This involves the inclusion of all deferred tax liabilities, evaluated using the balance sheet approach and the extended concept, the activation of financial leasing contracts considered to be material, and the reclassification of profit sharing under "Personnel costs".

(2) The figures for 1999 and 2000 also include the impact on the balance sheet of adopting the preferential method for the recording of employee retirement obligation and related benefits from January 1st, 2001 onwards. However, the new method had no material impact on the profit and loss account of the years concerned.

(3) Plus minority interests.

(4) Including investment certificates issued in 1986 and bonus share issues. Public Exchange Offers were made for investment certificates and voting right certificates on the date of the Annual General Meeting on May 25th, 1993 (see Commission des Opérations de Bourse information note of June 3rd, 1993). The certificates were reconstituted as shares following the Special General Meeting on March 29th, 1999 and the Extraordinary General Meeting on June 1st, 1999.

(5) Ten-for-one share split (Annual General Meeting of May 30th, 2000).

(6) Net earnings per share are based on the weighted average number of shares outstanding in accordance with the accounting standards in force. In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net operational profit after minority interests, before allowing for the provision for depreciation of treasury stock, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill. At December 31st, 2004, 8.5 million subscription options have been allocated to group executives, and could lead to the issue of the same number of shares.

(7) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was listed in 1963.

(8) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.

IFRS (€ millions)	2004	2004 ⁽¹⁾ pro forma	2005	2006	2007 ⁽²⁾	2008 ⁽²⁾	2009
Results							
Consolidated sales	13,641	13,641	14,533	15,790	17,063	17,542	17,473
Operating profit	2,089	2,089	2,266	2,541	2,827	2,725	2,578
As a percentage of consolidated sales	15.3	15.3	15.6	16.1	16.6	15.5	14.8
Pre-tax profit excluding non-recurrent items	2,334	2,187	2,370	2,638	2,896	2,788	2,749
Net profit excluding non-recurrent items after minority interests	–	1,486	1,639	1,833	2,039	2,064	1,997
Net profit attributable to the group	3,970	1,439	1,972	2,061	2,656	1,948	1,792
Total dividend	554	554	659	739	843	862	899
Balance sheet							
Non-current assets	15,734	15,734	18,686	19,155	17,030	16,380	17,350
Current assets	4,075	4,075	4,537	4,847	5,015	5,450	4,768
Cash and cash equivalent	576	576	663	781	1,087	1,077	1,173
Shareholders' equity ⁽³⁾	11,825	11,825	14,657	14,624	13,463	11,563	13,598
Net current and non-current debt	1,568	1,568	2,217	3,329	2,373	3,700	1,958
Gross cash flow	1,923	1,923	2,130	2,410	2,720	2,746	2,758
Per share data (€)							
Diluted net profit excluding non-recurrent items after minority interests	–	2.29	2.60	2.98	3.36	3.49	3.42
Net dividend ⁽⁴⁾⁽⁵⁾	0.82	0.82	1.00	1.18	1.38	1.44	1.50 ⁽⁶⁾
Share price at December 31 st ⁽⁴⁾	55.85	55.85	62.80	75.90	97.98	62.30	78.00
Highest share price during the year	69.90	69.90	67.45	84.05	99.97	99.26	79.32
Lowest share price during the year	51.50	51.50	54.50	62.30	74.25	53.32	46.00
Diluted weighted average number of shares outstanding	649,598,404	649,598,404	630,892,470	615,723,220	606,012,471	590,920,078	583,797,566

IFRS

(1) For comparison purposes, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004: – by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million, – and by neutralising the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.

(2) The 2007 and 2008 balance sheet has been restated according to changes in accounting policies relating to advertising and promotion expenses, customer loyalty programmes and the immediate recognition in shareholders' equity of actuarial gains and losses linked to employee benefits. See note 1.1 of the Notes to the Consolidation Financial Statements in Volume 2 of the 2009 Reference Document.

(3) Plus minority interests.

(4) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th, 1999, where it was listed in 1963. The share capital is fixed at €119,794,482 at December 31st, 2009: the par value of one share is now €0.2.

(5) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.

(6) Dividend proposed to the Annual General Meeting of April 27th, 2010.

Sustainable Development

FOR A MORE BEAUTIFUL WORLD



Being a highly efficient company and the world leader in our business is not enough. Our ambition reflects our responsibility to be one of the most exemplary companies of the 21st century. In 2009, we made tangible progress in all aspects of sustainable development helping to make the world more beautiful.



100 YEARS 100 PROJECTS

To mark its centenary, L'Oréal wanted each of its subsidiaries to support a citizen project. 100 projects, involving employees all over the world, are now being rolled out to help and support disadvantaged communities in a tangible and effective way.

 loreal2009.com
Sustainable Development Section
See the citizen projects in pictures.

COMMITMENTS

ALL COMMITTED FOR SUSTAINABLE GROWTH

Over the last century, L'Oréal has built up a tradition of sustainable development. The group anticipates economic, environmental and societal challenges and incorporates them into the heart of its activities. From biodiversity to fair trade, from eco-design of products to eco-responsibility, from respecting values and commitments to health issues, all L'Oréal employees are committed on a daily basis to the group's sustainable growth approach.



The Parbel duty-free distribution centre in Miami (Florida, United States) won the 2009 EH&S award for dispatching centre excellence.

Find out more

Each year in June, L'Oréal publishes a Sustainable Development Report, available at www.loreal.com.

The Sustainable Development chapter provides an insight into the group's strategy and commitments for sustainable growth, and presents its tangible actions in corporate governance, ethics, environmental protection and philanthropy. Other chapters of the Annual Report consider various achievements of the group in these fields.

ESTABLISHING THE CONDITIONS FOR SUSTAINABLE GROWTH

For L'Oréal, the strategic challenge is not to arbitrate between the three spheres of sustainable development—economics, environment and society—but to create a model capable of sustainably ensuring its economic and social balance, which is not only equitable but also creates value added for all stakeholders.

This philosophy is reflected in two areas: strategically managing raw materials and enhancing the value of intangible assets.

Through the very nature of its business, which enhances human beauty, L'Oréal is fully aware of the beauty of the natural world, and thus of the importance of respecting biodiversity and the environment. In 2009, the group set itself new and highly challenging targets to reduce its impact on the environment. But L'Oréal also believes in its ability to imagine new sources of environmental innovation which can generate economic growth for the group.

In the group's view, sustainable growth also depends on the ability to innovate and to enhance the value of intangible assets, particularly in human resources (diversity of talents and leadership), intellectual property

(patents) and relations with stakeholders. The latter issue has become crucial in a globalised, multipolar and multicultural world as a company operates not only in markets, but also in various communities. To be economically efficient, it must ensure that it is accepted by the local community, by demonstrating that it is responsible, and a good corporate citizen.

VALUES DEEPLY ROOTED OVER 100 YEARS

From the outset, L'Oréal has been committed to its values of integrity, respect and excellence supported by courage and transparency. One century later, L'Oréal is reasserting the group's commitment, its ambition and its values through a rigorous scientific approach, a constant quest for innovation, a taste for challenges, and commitment to diversity and the environment. These values are the pillars of the group and the foundation of its sustainable development strategy.



SUSTAINABLE DEVELOPMENT TARGETS FOR 2015



(1) The reductions will be calculated on a like-for-like basis. Period 2005-2015.

L'ORÉAL COMMITMENTS

- 1 L'Oréal's Board of Directors attaches great importance to the quality of corporate governance, closely monitors changes in best practices in this field, and strives to ensure constant progress is achieved.
- 2 As an international group, L'Oréal is committed to ensuring value-creating growth for the largest possible number of stakeholders participating in its success.
- 3 L'Oréal is committed to reducing its environmental footprint and its use of natural resources through greater eco-efficiency, and where possible, achieving an absolute reduction in its impact, while maintaining health and safety in the workplace.
- 4 L'Oréal promotes sustainable innovation by incorporating the principles of sustainable development into its core Research and Development activities (see pages 32-33).
- 5 The group wants to foster the personal fulfilment of its employees inside a multicultural and stimulating community, rich in diversity and talents, to which everyone contributes with creativity and enthusiasm. Some initiatives to promote diversity and solidarity are presented on page 93.
- 6 L'Oréal is committed to creating long-term partnerships with its suppliers based on mutual respect, transparency, regular communication and high standards.
- 7 L'Oréal is committed to providing innovative products, guaranteeing the excellence of its products, services and advice to consumers, and marketing its products responsibly.
- 8 L'Oréal is committed to being an exemplary, responsible and corporate citizen.



Robotic tests contribute to the sustainable innovation progress.

Recognition of initiatives in 2009

L'Oréal's sustainable development initiatives received widespread recognition in 2009:

- For the third year running, L'Oréal has been ranked one of the 100 most sustainable enterprises in the world by the *Corporate Knights* magazine.
- L'Oréal is one of the top 10 companies most committed to reducing climate change according to Climate Counts, which each year assesses 90 consumer goods companies.
- L'Oréal was awarded the title of "Leader in the Personal and Household Goods sector" by the Forest Footprint Disclosure Project (FFD) for its role in the responsible use of wood fibres.
- The WWF ranked L'Oréal one of the top 10 companies for the responsible use of palm oil.
- In its Brand Emissions Ratings, the University of Edinburgh ranked L'Oréal in the top 3 consumer goods companies for its efforts to reduce greenhouse gas emissions.
- The United States government agency EPA (Environmental Protection Agency) has recognised the measures taken by the L'Oréal plant at Piscataway in the United States to reduce its environmental impact.

ETHICS AT THE HEART OF L'ORÉAL COMMITMENTS

All employees, all entities, all brands contribute to implementing the group's ethical commitments, set out in "The L'Oréal Spirit", in their everyday actions. The group's *Code of Business Ethics* provides guidance to employees on how to behave. The group's Director of Ethics, who reports directly to the Chief Executive Officer, is both a reference—providing advice and the appropriate resources to help employees meet these commitments—and a guarantee if concerns arise. The "Open talk" policy encourages dialogue to identify and deal with all questions raised with regard to respecting these commitments.

Ethics day

All the group's employees were able to chat online with L'Oréal's Chief Executive Officer about the *Code of Business Ethics*. There were approximately 10,000 connections and nearly 900 questions asked. L'Oréal organises an Ethics Day every year to ensure continuity in internal communication on this issue.

Ethics correspondents

Eighteen Ethics correspondents have been appointed in the group's main countries, to help country managers to roll out L'Oréal's ethics programme.

"L'Oréal for Ethics" Excellence bursary

This corporate bursary, unique in Europe, aims to support students who have chosen to include the study of business ethics in their vocational training.

ISO 9001 certification

The Office of the group Director of Ethics obtained the international quality management system ISO 9001 certification.

Appraisal

Two ethical competencies—"Act/Lead with human sensitivity" and "Obtain results with integrity"—are now included in the annual appraisal system of all employees worldwide.

CORPORATE GOVERNANCE

AN INDEPENDENT, AVAILABLE AND VIGILANT BOARD OF DIRECTORS

The L'Oréal Board of Directors is a collegial body which collectively represents all the shareholders, and is bound by obligation to act in the best interests of the company in all circumstances. At the end of 2008, the Board of Directors considered that the recommendations of the Afep-Medef Code of December 2008 were in line with L'Oréal's corporate governance approach. This Code is therefore used by the company as its reference when drawing up the Chairman's Report on the conditions in which the Board's work is prepared and organised.

BALANCED ALLOCATION OF ROLES AND RESPONSIBILITIES

In 2006, the Board of Directors decided to separate the roles of Chairman and Chief Executive Officer, with a clear definition of the responsibilities of each of them, described in the Internal Rules of the Board (see the 2009 Reference Document, from page 130).

During its meeting on Monday, February 15th, 2010, the Board decided to continue this separation and renew the tenure of Sir Lindsay Owen-Jones as Chairman and that of Mr Jean-Paul Agon as Chief Executive Officer at its meeting to be held at the end of the Annual General Meeting of April 27th, 2010, subject to the renewal of their terms of office as directors. The Board chose this course of action after noting, during the annual evaluation of its *modus operandi*, that the separation of the two functions has proven entirely satisfactory.

DIRECTORS WITH A COMPLEMENTARY RANGE OF EXPERIENCE

The directors of L'Oréal come from different spheres; they complement each other in respect of their diverse professional experience and expertise, and they have a good knowledge of the company. The directors are present, active and closely involved. These are all assets for underpinning the quality of the Board's deliberations and the preparation of its strategic decisions. The directors are independent in their thinking, have a duty of vigilance, and exercise complete freedom of judgement. This freedom of judgement enables them in particular to participate in a totally independent way in the decisions and work of the Board and its Committees.

The Board of Directors of L'Oréal comprises 14 members: the Chairman and the Chief Executive Officer, six directors from the

majority shareholders, three of whom represent Mrs Bettencourt's family group, and three of whom represent Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent directors: Annette Roux, Charles-Henri Filippi, Xavier Fontanet, Bernard Kasriel, Marc Ladreit de Lacharrière and Louis Schweitzer. Mr Ladreit de Lacharrière has been a director of L'Oréal for more than 12 years, but his professional experience and his freedom of judgement, combined with his good knowledge of the company, make a considerable contribution to the Board's discussions and decisions.

SYSTEMATIC ANNUAL SELF-EVALUATION

Every year, the Board reviews its composition, organisation and *modus operandi*. It considers the avenues of possible progress and makes any improvement that it considers appropriate. The Board met six times in 2009, with an average attendance rate of approximately 92%. The directors all attended the Annual General Meeting. In 2009, the Board of Directors devoted one whole day to analysing various strategic aspects. The presentations which were made and the ensuing discussions, in the presence of several senior managers, were followed by visits to a L'Oréal plant within the framework of the group's industrial strategy, and to a shopping centre to be able to judge the presence of the group's brands in all distribution channels.

Further progress has moreover been noted in the functioning of the Board Committees, whose preparatory work is increasingly extensive and thorough. Finally, in 2009 the Board was provided with regular information on the group's business activities, and, at the end of the year, the directors made new proposals for subjects to be discussed at their meetings in 2010.

Find out more

See also Volume 2 of the Reference Document:
– Corporate governance (with the separation of the roles of Chairman and Chief Executive Officer): chapter 3, pages 106 and 107,
– Remuneration of the corporate officers: chapter 2, from page 77,
– Regulated Commitments: chapter 2, pages 81 and 82.

Breakdown of shareholding structure at December 31st, 2009



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

ACTIVELY INVOLVED COMMITTEES PREPARE FOR THE BOARD MEETINGS

The Board's Committees act strictly within the framework of the remit given to them by the Board. They are actively involved in preparing the Board's work, and make proposals, but do not have any decision-making powers.

The Strategy and Implementation Committee

This Committee clarifies, through its analyses, the strategic orientations submitted to the Board, and monitors the implementation and advancement of significant operations in progress. It ensures that the main financial balances are preserved. In this context, the Committee reviews the main strategic lines of development, options and projects presented by the General Management, together with their economic and financial consequences, acquisition opportunities, and financial transactions that may significantly change the balance sheet structure.

The Committee met five times in 2009. Along with the constant and close review of the group's business activity and the analysis of markets and competitors, the Committee noted at the start of 2009 the economic contraction, and took note of the strategic decisions taken at a very early stage to tackle the difficult economic environment. On the proposal of the Committee, the Board encouraged the General Management to continue to introduce more accessible innovation, create major products, win market share in the field, and control industrial, administrative and commercial costs. Increased investment in research and advertising and promotion expenses, which are essential business drivers for the support and long-term development of the brands, was validated.

The Audit Committee

Without prejudice to the authority of the Board of Directors, this Committee is in particular responsible for monitoring the process of preparing financial information, the effectiveness of internal control and risk management systems, the auditing of the annual and consolidated financial statements by the Statutory Auditors, and the independence

of the Statutory Auditors. Mr Charles Henri Filippi, L'Oréal director and a financial expert, is the Chairman of the Committee.

The Committee met four times in 2009, each time in the presence of the Statutory Auditors. The necessary documents were provided to it prior to the meeting concerned. The Committee considered that the work by the Internal Audit Department and the Internal Control process put in place, which it reviewed on several occasions particularly with regard to the risk aspects, are continuing to improve in quality. The Committee also reviewed the main items of the profit and loss accounts and the balance sheets, and the conditions of application of the Eighth Directive on Statutory Audit. In this respect, it noted that its *modus operandi* was in keeping with the text of the order of December 2008. The Committee also carried out hearings of the Statutory Auditors in connection with the renewal of their term of office in 2010.

The Remuneration Committee

The main remits of the Remuneration Committee, in the context of the work of the Board of Directors, are to make proposals with regard to the remuneration of the Chairman of the Board and the Chief Executive Officer, to the amount of attendance fees to be submitted to the Annual General Meeting and the method of distribution of such fees, and to the implementation of long-term incentive plans, such as those providing, for example, for distributions of stock options or for free grants of shares.

The Committee met four times in 2009 to consider all these matters. After the closing of accounts it made proposals to the Board of Directors with regard to the remuneration of the corporate officers and the implementation of a plan relating to stock options and conditional allocations of shares to employees concerning a large number of people. The Board approved the Committee's proposals.

The Appointments and Governance Committee

In addition to the complementary remits entrusted to it at the end of 2009 (see box below), the Appointments and Governance Committee's other remits consist of making proposals to the Board on the choice of directors, expressing an opinion on the Chairman's proposals for the appointment of the Chief Executive Officer, ensuring the implementation of a procedure preparing the succession plans for the corporate officers in the event of an unforeseen vacancy, and conducting the reflection process with regard to the Committees in charge of preparing for the Board's work.

The Committee met three times in 2009. As in 2008, it proposed that the Board should review the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria set out in the Afep-Medef Code. In the 2009 Reference Document, the independent directors are clearly identified as such, in light of the criteria adopted by the Board. Furthermore, the Committee continued its work of very thoroughly studying the concurrent employee and corporate officer status of the Chief Executive Officer. It made a recommendation on this matter to the Board of Directors in early 2010. Lastly, the Committee considered the best way of providing for the regular renewal of the Board of Directors, and it proposed a new scheme for staggering the terms of office which was accepted by the Board, and which led to an amendment to the Internal Rules.

THE APPOINTMENTS COMMITTEE TAKES CHARGE OF GOVERNANCE

The growing proportion of governance issues on the agenda for the Appointments Committee meetings has led the Board of Directors to rename it the Appointments and Governance Committee. The Committee's role in this capacity is to provide guidance to the Board for its decisions on the way in which the General Management's functions are exercised, and on the status of corporate officers, to discuss the basis of qualification for independent director status which is reviewed each year by the Board, and to prepare for the Board's decisions concerning amendments to its Internal Rules. The Rules were amended at the end of 2009 to incorporate the new recommendations of the Afep-Medef Code and the provisions of the Eighth Directive on Statutory Audit, particularly with regard to the functioning of the Audit Committee.

ENVIRONMENT

REDUCING OUR IMPACT ON THE PLANET

L'Oréal is committed to an eco-responsible approach in its activities, and aims for excellence in the realm of environmental performance. In 2009, L'Oréal announced three highly challenging targets: to cut by half the greenhouse gas emissions, water consumption⁽¹⁾ and waste⁽¹⁾ generated in its factories and distribution centres between 2005 and 2015⁽²⁾. In 2009 some very tangible advances were also made.



The Mexico City distribution centre has significantly reduced its electricity consumption by installing 1,000sq.m. of solar panels.

CLIMATE CHANGE: SIGNIFICANT RESULTS

In order to achieve its objectives, the group is taking numerous initiatives to limit its greenhouse gas emissions. In Belgium, the Libramont plant now uses 100% green energy, and is neutral in carbon emission terms (see page 88). Furthermore, the North Little Rock (Arkansas) plant in the United States now meets all its energy needs thanks to a nearby hydroelectric dam. It has thus succeeded in reducing its CO₂ emissions by 80% compared with 2008. L'Oréal has also introduced many measures in the transport field. Wherever possible, the group gives preference to transport by rail and river, rather than by road and air. L'Oréal has set itself the target of reducing the share of air transport in the total transport of merchandise to 10%. Overall in 2009, the group's direct CO₂ emissions were reduced by 1.3% per finished product and 3.3% in absolute value.

RENEWABLE ENERGY: SOLUTIONS IN EACH REGION OF THE WORLD

A programme is in place to increase efficiency in energy consumption, limit CO₂ emissions and significantly cut operating costs. L'Oréal is developing the use of several renewable energy sources. In China, the Beauty Tech plant has installed 2,000 solar tubes to pre-heat process and cleaning water, which should reduce its CO₂ emissions by more than 5.3 tonnes a year. In India, the Pune plant decided to take advantage of the local high level of sunlight, and now uses

solar energy to reduce diesel fuel consumption: the 320 solar panels heat 32 cubic metres of water a day, saving 125 litres of fuel and cutting CO₂ emissions by 93.7 tonnes a year. The group's total energy consumption increased by 0.5% in 2009 (as a result of the acquisition of the YSL Beauté factory and atmospheric conditions) and has declined by 5.8% over the last five years.

WATER: BETTER MANAGEMENT

As of 2003, L'Oréal introduced a strict water saving programme, enabling the achievement of significant advances. In 2009, a new "Better utility for sustainability" working group was set up to identify best practices in cleaning operations, in order to cut water consumption, formalise them, and roll them out in all divisions. All the factories and distribution centres are taking measures, such as sterilising with steam rather than hot water, reusing some wash water from manufacturing tanks, and using rainwater for gardens and green areas. In 2009, the group's total water consumption was reduced by 0.8% per finished product.

WASTE: NEW PACKAGING TECHNOLOGIES

In the long-term, L'Oréal intends to stop all landfill disposal of its waste. To achieve this

objective, the group is taking various initiatives to reduce waste generation, and to reuse or recycle waste. Nearly half the production and distribution sites have achieved the zero landfill target, and aggregate recycling, energy recovery and reuse rates have reached around 95% worldwide. The group has introduced a policy on packaging: it requires the use of cardboard made with pulp sourced from sustainably managed forests. In Canada, the Saint-Laurent plant was given a special honourable mention by the Quebec authorities in recognition of its waste management efforts. The highest distinction was awarded to the "Here We Recycle" programme which involves the use of packaging shuttles. In 2009, total transportable waste (excluding packaging shuttles) was cut by 1.4% per finished product at group level.

Change in environmental indicators

(group factories and distribution centres)

	2008	2009	Change
(In thousands of cubic metres) Water consumption	2,915	2,841	-2.5%
(In millions of kWh) Energy consumption	785.5	789.4	+0.5%
(In %) Waste recovery index	95%	95%	-

(1) Per unit of finished product.
(2) Reductions calculated on a like-for-like basis.

Waste by disposal method in 2009

(group factories and distribution centres)



ENVIRONMENTALLY COMMITTED BRANDS

Certified organic product ranges

Across the group, more than 400 raw materials are Ecocert certified, including 170 sourced from organic farming, and this has already enabled the marketing of more than 70 certified products.

For the Professional Products Division, L'ORÉAL PROFESSIONNEL has launched its first-ever Ecocert certified organic shampoo in its Série Nature range. The Consumer Products Division is having its first successes with certified organic products launched in France: Mixa and Ushuaïa.

In the Luxury Products Division, BIODERM launched Deo Pure: a paraben-free and aluminium salt-free deodorant, 100% sourced from raw materials of natural origin, 25% of which are organically farmed.

In the Active Cosmetics Division, the Sanoflore organic laboratory, in conjunction with the Bio Partenaire association, was awarded the "Bio Solidaire" label in 2009 for dozens of raw materials. As well as requiring organic farming certification, this system applies principles and criteria to promote "North-North" fair trade.

Lastly, in 2009 The Body Shop committed itself to organic products with its NutriGanics™ range of certified, anti-ageing facial skincare products.



Kiehl's: sustainable luxury

In 2009, KIEHL'S launched Açai Damage-Repairing Skincare, using a formula of 100% natural origin with açai berries, which have remarkable anti-oxidant properties. This Ecocert certified organic skincare product has been granted the Cradle to Cradle Gold label, one of the most widely recognised certifications in the United States in terms of respect for the environment.



Garnier, a pioneer in packaging reduction

In 2008, GARNIER became the only cosmetics sector brand to sign the ANIA⁽¹⁾ ILEC⁽²⁾ ECO-EMBALLAGES Convention. It is thus committed to a 15% reduction in the average weight of its packaging by 2012.

For more than 10 years, GARNIER has been minimising the environmental footprint of its packs whenever possible.

In 2009, following in the footsteps of Fructis, further plastic weight reductions were achieved with 250ml PE (polyethylene) packs of Ultra Doux shampoo and 250ml/400ml PP (polypropylene) body milk bottles.



In partnership with Eco-Emballages, GARNIER raises consumer awareness of the importance of refuse sorting with this label on the back of Fructis shampoo bottles.

(1) ANIA: Association nationale des industries de l'alimentaire.

(2) ILEC: Institut de liaison et d'étude des industries de consommation.

BIODIVERSITY: A PRIORITY FOR THE GROUP

Since 2005, L'Oréal researchers have been focusing efforts on enhancing biodiversity and meeting the targets of the Biological Diversity Convention.

Today, 40% of the group's raw materials are plant-based, and are derived from 300 species, evaluated for their potential impact on biodiversity preservation. Close collaboration with suppliers also minimises impact in the supply chain. Fair trade is another central consideration in L'Oréal's approach, as zones with rich biodiversity are often located in the poorer regions of the world.

In 2009, L'Oréal was ranked by WWF as one of the 10 most responsible companies amongst the members of the Roundtable on Sustainable Palm Oil (RSPO), which promotes the use of palm oil sourced from sustainable plantations, ensuring respect for both people and forests.

Inseparable from sustainable growth

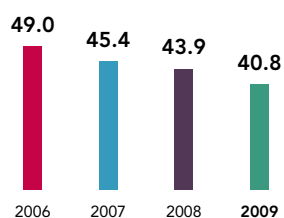
For L'Oréal, biodiversity is a major challenge, and is inseparable from the issues of climate change, access to water and energy sustainability. Its enhancement and protection are key commitments for the group, alongside irreproachable safety, and acknowledged efficacy and quality for all products.

By ensuring a fair return in price terms, the argan oil programme enables cooperatives to gradually achieve economic empowerment, while preventing biopiracy.



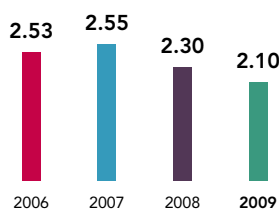
Total CO₂ emissions in grams per finished product⁽³⁾

(group factories and distribution centres)



Number of accidents resulting in sick leave

per million hours worked for L'Oréal personnel (group factories and distribution centres)

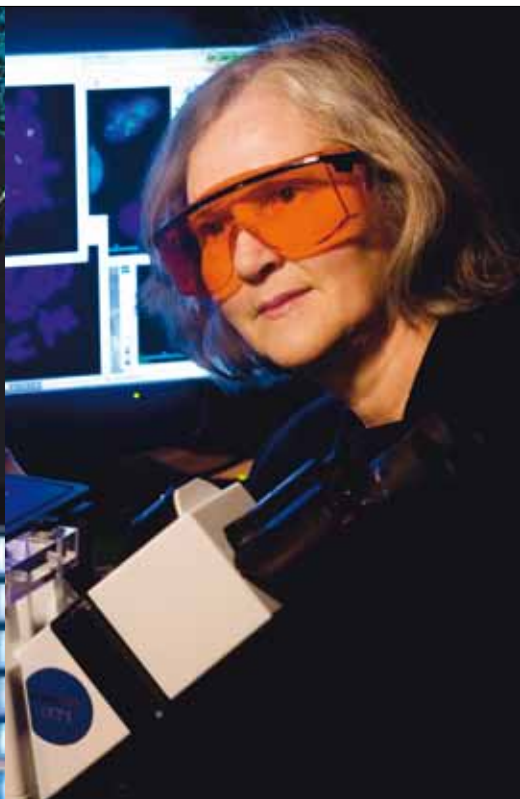


(3) Including both direct CO₂ emissions from on-site fossil fuel use (scope 1) and indirect CO₂ emissions from electricity use (scope 2).

PHILANTHROPY GIVING MEANING TO BEAUTY

Every day, L'Oréal is committed to helping to make the world a more beautiful place. Its Corporate Foundation, created in October 2007, is the second largest in France with a multiannual budget of 40 million euros. In 2009, it continued to implement its emblematic programmes, and laid the cornerstone of a vast new programme of research in human sciences by supporting the book *100,000 Years of Beauty*.

Ada Yonath, Nobel Prize for Chemistry 2009 (on the left), and Elizabeth Blackburn, Nobel Prize for Medicine 2009 (on the right), both received the L'ORÉAL-UNESCO "For Women in Science" award in 2008.



The L'Oréal Foundation develops major global programmes alongside pilot projects in France, and is committed to three fields of intervention: promoting scientific research and the role of women in science, helping people made vulnerable because of a change in their appearance to regain self-esteem and fit back into society, and facilitating access to education. Its vocation is to lend greater strength and continuity to the group's commitment as a corporate citizen. In addition, L'Oréal subsidiaries in different countries are actively involved in local philanthropic initiatives to help disadvantaged communities.

TWO "FOR WOMEN IN SCIENCE" WINNERS RECEIVE NOBEL PRIZES

Through the "For Women in Science" programme, L'Oréal and UNESCO have been actively supporting the cause of women scientists over the last twelve years. Each year the programme puts the spotlight on highly eminent researchers and on young, talented fellows, while encouraging girls to take up scientific careers. Over the twelve years, more than 900 women have been awarded. Today they form an extremely dynamic network throughout the entire world.

Very recently, Professor Ada Yonath and Professor Elizabeth Blackburn, winners of the L'ORÉAL-UNESCO awards in 2008, respectively received the

Nobel Prizes for Chemistry and for Medicine. Recognition of the excellence of these two women scientists by such a prestigious institution is a tremendous encouragement for the L'Oréal Foundation and UNESCO to continue their commitment.

BEAUTY FROM THE HEART

Caring for people's appearance is at the heart of the group's businesses. Because beauty and self-confidence are closely linked, the L'Oréal Foundation has just created the "Beauty from the Heart" programme. To help people made vulnerable by illness or negative life experiences, products are donated and socio-aesthetic care is provided through partners such as Les Restaurants du Cœur, Samusocial, La Maison de Solenn, and L'Agence du Don en Nature. Through the use of cosmetics, the women and young people concerned gradually regain confidence and control of their self-image. The Foundation is also committed, alongside Médecins du Monde, to supporting and developing "Opération Sourire". This vast programme of reconstructive surgery helps bring back a smile to people who have been disfigured by disease, malnutrition or war.

AIDS PREVENTION EDUCATION

Education is another cause to which the Foundation lends its support, for example through the "Hairdressers against AIDS" programme. This preventive educational programme has mobilised the efforts of the hairdressing profession to raise awareness about this terrible disease. Launched in 2005 in partnership with UNESCO, the programme is now in place in 26 countries. It is based on the training expertise of L'Oréal, which has a network of 3,000 instructors and 190 training centres worldwide. Each year the awareness of over 400,000 hairdressers is heightened on the risks of the disease and ways to protect against it. In 2009, the programme was powerfully rolled out in Russia, with 340 seminars held across the country, training for more than 4,700 hairdressers, and an exceptional level of salon involvement in World AIDS Day.

 loreal2009.com
Sustainable Development Section

Find out more about the group's philanthropic initiatives.



100 citizen projects for the centenary

L'Oréal was determined to make its centenary an expression of its role as a responsible corporate citizen. Each subsidiary thus participated in a solidarity project to provide practical and effective support for disadvantaged communities around the globe. The projects launched to mark the company's first hundred years encompassed L'Oréal's specific philanthropic fields: Science, Education and Solidarity. They embody long-term commitments, and are designed to facilitate the involvement of employees in each country.

The citizen project of L'Oréal USA is based on the active involvement of employees in disadvantaged communities, particularly in primary schools.

THE ETERNAL QUEST FOR BEAUTY

The L'Oréal Corporate Foundation has initiated thinking about appearance and beauty-related issues. The first tangible result of this ambitious human sciences research programme is an unprecedented body of work, *100,000 Years of Beauty*, published by Gallimard in October 2009. It is a true exploration of mankind's quest for beauty, from prehistoric times to the present day, which looks ahead to the rest of the 21st century.



The quest for beauty has been crucially important since the dawn of mankind. Yet this subject has been left largely unexplored, or has not been granted the serious attention it deserves. This is why the L'Oréal Foundation set itself the task of gaining deeper knowledge about beauty. This ambition has led it to undertake a vast reflection on human sciences, a programme whose first tangible result is *100,000 Years of Beauty*, a book applauded by the public as an authoritative work of reference. Combining aestheticism with scientific rigour, this multi-disciplinary five-volume book is the culmination of the largest project ever carried out in human sciences about beauty and the role of appearance in societies. In its 1,300 pages it brings together the work of 300 contributors of 35 nationalities, who are artists or experts in 20 fields, including history, anthropology, philosophy and sociology.

The work of these researchers and authors reveals that concern about appearance has been a constant feature in all civilisations. Each one throughout the world, from the most primitive to the most sophisticated, has asserted aesthetic choices and passed them on to us as a legacy. From prehistoric times onwards, human beings have sought to embellish themselves, using their appearance as a social language, a sign of belonging, a symbol of their beliefs or a way of perpetuating the species and distinguishing themselves from the animal kingdom.

Rebuilding self-esteem

Today, more than ever before, appearance plays a decisive role in our relations with other people. Care and respect for one's own appearance are not necessarily linked to a desire to appeal to others. Sociologists, doctors and psychotherapists are exploring this avenue as a way for people to rebuild

their self-esteem and sense of dignity which may have been affected by adverse life experiences.

A source of inspiration

Reflecting on one's profession also means imagining what its future will be. By combining its approach with the visionary perception and works of a large number of internationally renowned artists, the Foundation's wish was for *100,000 Years of Beauty* to also be a source of inspiration for everyone, an opportunity to imagine what the beauty of the future may be. Beauty in all its plurality, beauty in which longer life expectancy, greater concern for the body and health, and the pre-eminence of the individual, will be accompanied by a constantly renewed palette of resources for the care and transformation of the body. All these prospects prove that beauty is a liberating force and a way of asserting one's difference.



Research and Innovation

OPENING UP A NEW COSMETICS ERA

For 100 years, scientific research has been at the heart of all L'Oréal's major innovations. Our ability to innovate while anticipating the expectations of consumers all over the world has never been stronger. In 2009, we entered a new era of cosmetics.





LEADING THE WAY IN THE COSMETICS OF THE FUTURE

In 2009, L'Oréal Research innovated on all fronts, inspired by advances in biology and bioinformatics, the geographical diversity of consumers, and ethical and environmental aspirations.



“From Génifique to Inoa, 2009 was a great year for innovations. From fundamental research to attentiveness to consumer needs, with a blend of breakthroughs and continuity, our teams are anticipating the beauty of tomorrow.”

Jean-François Grollier

Executive Vice-President, Research and Development



At the Rio research centre, the teams are developing products adapted to the specific properties of Brazilian hair.

VAST ANTI-AGEING PROSPECTS

L'Oréal has always been quick to secure its position in the field of life science advances: skin reconstruction 30 years ago, stem cells as early as the 1990s, and genomics, transcriptomics and proteomics 10 years ago, thanks to external collaborations. The new disciplines of modern biology are opening up immense prospects in correcting the signs of ageing, and leading to a new generation of anti-ageing skincare products in 2009.

Revelations about stem cells

More than 10 years ago, in collaboration with nine internationally renowned teams, L'Oréal's Advanced Research laboratories set out to understand the role of stem cells in the renewal of skin and hair. Following the discovery of two reservoirs of stem cells in the hair follicle in 2001, they published another major new discovery in 2009: epidermic stem cells do not diminish with age, it is their environment which changes, and thus their functionality. This gave rise to Absolué Precious Cells by LANCÔME, a new skincare line which protects the stem cells'

environment, optimising the skin's remarkable potential for regeneration.

Gene science for the advance of beauty

Researchers have monitored the expression of genes in young and mature skin, and the dynamics of their response to different stress factors. The results enable the characterisation, at the skin's surface, of specific proteins of young and mature skin and the selection of active ingredients capable of changing these signatures. The first product to benefit from these advances is Génifique by LANCÔME.

This research could not have led to actual products without the contribution of reconstructed skin. The skin reconstruction expertise that L'Oréal has acquired over 25 years (see box on page 33) is one of the keys to understanding skin physiology, evaluating skin tolerance and selecting active ingredients which can provide innovative breakthroughs. Beauty in the 21st century will be preventive and tailored to the individual.

Intra-Cylane™, a molecule that creates body



Materials sciences, like life sciences, are constantly advancing. Bringing both disciplines together has led to the emergence of materials used to repair the body (for example, osseous prostheses and artificial hearts). In the beauty field, L'Oréal laboratories have created Intra-Cylane™. This molecule penetrates into the hair fibre and solidifies as it dries. Incorporated in Volumorphose by KÉRASTASE, it provides body and suppleness to hair which lacks volume.

Regionalised research

With 18 research centres and 13 evaluation centres on all continents, the group has developed a veritable science of observing beauty rituals and customs around the world. This geocosmetics approach ensures that products match consumers' expectations perfectly and sometimes provides the source of inspiration for new products.



11 in France

Aulnay, Chevilly-Larue, Clichy (2 centres), Gignors-et-Lozeron, Lassigny, Lyon, Nice, Paris, Sophia Antipolis, Tours



3 in the United States

Clark, Chicago, Princeton



3 in Asia

Kawasaki, Tokyo (Japan), Pudong (China)



1 in Latin America

Rio de Janeiro (Brazil)



In China, at the Pudong research centre, three years of meticulous study of Chinese hair, together with analysis and interpretation of a local custom using dry wash shampoo led to the creation of a range of shampoos and hair-care products ideally suited to local hair types and cultural traditions, focusing on fragrance, gloss and the "curtain" shine effect.



In Asia, women take particular care of their skin. For them, the laboratories have developed this non-woven mask containing an anti-ageing product, which stretches to ensure perfect adhesion to the contours of the face.

QUESTIONING ESTABLISHED WAYS

After a century marked by major improvements every 10 to 20 years, oxidation hair colourants offer a high level of satisfaction. However, there are still some inconveniences: the smell of ammonia and sometimes slight discomfort while the dye is left on the hair before rinsing. Can these drawbacks be eliminated? Can hair be coloured in a different way? Breaking with their customary ways of thinking, L'Oréal's researchers re-examined the science of emulsions.

An odour-free hair colourant

They developed a system—ODS (Oil Delivery System)—which modifies the ratio between the oil and water phases, enabling the replacement of ammonia by another alkaline ingredient which is odour-free, without losing any of the colourant's habitual properties. Seven years of research were required to develop hundreds of formulas, file patents, evaluate harmlessness and efficacy, through thousands of head tests, with hundreds of hairdressers, and finally to industrialise the new process. Inoa from L'ORÉAL PROFESSIONNEL is the first hair colourant to benefit from this technological boost.



More than 100 researchers developed the ammonia-free hair colourant Inoa.



Natural cosmetics is an incomparable reservoir of innovation, and can now claim to offer proven efficacy.

3D VIEWING INSIDE THE SKIN

Used by L'Oréal researchers for the first time in 2009 to demonstrate the efficacy of the active ingredients of an anti-ageing product, 2-photon microscopy makes it possible to view tissue organisation *in vivo* (particularly for collagen and elastin). It provides a virtual biopsy of the skin.



A PIONEER IN SUSTAINABLE INNOVATION

The invention in 1909 of “safe” hair dyes was a visionary development. Since then, L'Oréal Research stands out as a pioneer taking decisions long before they were made compulsory by regulations, such as removing CFCs⁽¹⁾ from aerosols in 1986, ending animal testing for finished products in 1989, and creating an ecotoxicology laboratory in 1995 to study the impact products have on the air, water and soil. Major societal and environmental issues have been taken on board in the laboratories, discussed with suppliers and have inspired our innovations. This was made possible by major investments, the adoption of integrated predictive evaluation strategies based on the group's heritage of expertise, and the use of powerful mathematical models to predict risks and behaviour. The group's anticipatory approach enables it to comply with the Euro-

(1) Chlorofluorocarbons, or CFCs, are a subclass of fluorinated gases which destroy the ozone layer.

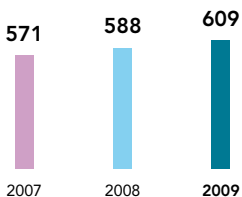
pean regulatory deadlines set out in the 7th Amendment to the Cosmetics Directive and REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals).

21st century toxicology, green chemistry and eco-responsibility—choosing raw materials on the basis of environmental impact—are everyday realities. Preserving biodiversity, respecting raw material supply chains from the grower to the consumer, selecting new ingredients to ensure that tomorrow's products are eco-designed—these are just a few tangible examples of how this is achieved. L'Oréal was recently named as one of the world's 10 most responsible companies for palm oil sourcing by WWF, an independent environmental organisation.

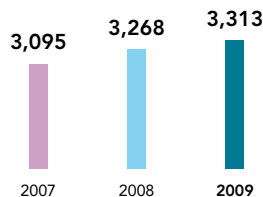
EVALUATION, THE MIRROR OF PRODUCT PERFORMANCE

As the world leader in cosmetics, it is our duty to offer high quality products which are safe and effective. The evaluation of a product's efficacy must be considered the mirror image of its performance, such as it will be perceived by the

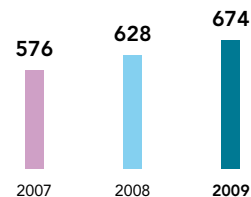
Research and innovation budget (€ millions, including 50% of Galderma research expenses)



Research employees (including 50% of Galderma research employees)



Number of patents (cosmetics and dermatological research)





“Tomorrow’s beauty will be active and global, but also ethical and responsible. Our innovation must be sustainable, that is to say based on performance gains and respectful of health and the environment. Our challenge—that of global research which is open to the world—is to ambitiously push back the performance frontiers of our products to create the beauty of the future.”



Laurent Attal

*Executive Vice-President,
Research and Innovation
from January 1st, 2010*

customer. This challenge requires batteries of tests: *in vitro* tests first of all, on cell cultures, reconstructed skin or hair in test tubes, followed by *in vivo* tests, using objective instrumental methods such as imaging and tests on heads, and finally clinical tests under dermatological control. Yet the more globalised the business becomes, the more the diversity of sensoriality’s subjective dimensions needs to be taken into account: the definition and volume of eyelashes, for example, are concepts which are appreciated in very different ways by women of different ethnic origins. The same applies to complexion homogeneity or the way hair feels to the touch. This is the challenge for the evaluation teams, who have to design machines and protocols which mimic actual conditions of use and predict perceptions.

PATHS FOR THE FUTURE

With the contribution of the latest scientific advances, L’Oréal Research has entered a new era: it is not only concerned with products applied on the surface, but has for many years focused on biological cosmetology and created research departments in oral, instrumental, natural and organic cosmetics. In a changing world, the beauty of the future will combine ethics, eco-design, openness to the outside world, and attentiveness to consumers. We are talking of an individualised concept of beauty, respectful of the planet, transforming today’s dreams into tomorrow’s reality.

21ST CENTURY TOXICOLOGY

At the 7th World Congress of Alternative Methods in Rome in September 2009, L’Oréal unveiled its evaluation strategy, based on predictive methods. Twenty years of investment and research in partnership with all sectors of industry (including chemicals, pharmaceuticals and food) have led to the invention of 21st century toxicology. The basic principle is to exploit the cosmetic performance potential of ingredients selected on the basis of comprehensive safety. Strategies of this type are essential if innovation is to be preserved without making any concessions on safety, while limiting animal experiments. Over 20 years, the group has invested 600 million euros in developing alternatives to animal testing. Since 2006, more than 12,000 ingredients have been evaluated using reconstructed tissues.

Key dates

1989

- L’Oréal ends animal testing for finished products.

1995

- ECVAM/COLIPA *in vitro* phototoxicity validation study.
- Amalthee prize of alternative methods (OPAL).

1997

- Acquisition of Episkin SNC, industrial centre for cutaneous engineering.
- Introduction of Langerhans cells in reconstructed skin (EU 4th Framework Programme).

1999

- Colipa guidelines on *in vitro* percutaneous absorption.

2005

- Participation in SENS-IT-IV assessment of alternatives for allergens (EU 6th Framework Programme).

2006

- Founder member of the EPAA (European Partnership on Alternative Approaches to Animal Testing).
- Acquisition of SkinEthic.

2007

- Episkin validated for skin irritation.

2008

- SkinEthic RHE validated for skin irritation.

2009

- At the 7th World Congress of Alternative Methods in Rome, L’Oréal unveiled its strategy, based on predictive methods.

Businesses

OFFERING
THE BEST OF
BEAUTY
IN ALL DISTRIBUTION
CHANNELS

Thanks to our exceptional spectrum of international brands and our presence in all distribution channels, we are the only cosmetics group able to meet all beauty expectations, at all prices, for all lifestyles, in all regions of the world. In 2009, L'Oréal confirmed its position as the world leader in beauty.

Hair salons

Mass market

Department stores,
perfumeries

Pharmacies,
dermatologists



PROFESSIONAL PRODUCTS⁽¹⁾

- L'ORÉAL PROFESSIONNEL • REDKEN •
- KÉRASTASE • MATRIX •



CONSUMER PRODUCTS⁽¹⁾

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



LUXURY PRODUCTS⁽¹⁾

- LANCÔME • GIORGIO ARMANI •
- YVES SAINT LAURENT • BIOTHERM •
- RALPH LAUREN • KIEHL'S • SHU UEMURA •
- HELENA RUBINSTEIN • CACHAREL • DIESEL •



ACTIVE COSMETICS⁽¹⁾

- VICHY • LA ROCHE-POSAY •
- INNÉOV • SKINCEUTICALS •



THE BODY SHOP⁽¹⁾

(1) International brands with annual sales of more than 50 million euros.





PROFESSIONAL PRODUCTS

The privileged partner of hairdressers, the Professional Products Division distributes its products in hair salons all over the world. It supports them in every facet of their development, and offers them high-level education. Its portfolio of differentiated brands meets the needs of all kinds of salons.

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- L'ORÉAL PROFESSIONNEL •
 - REDKEN • KÉRASTASE • MATRIX •
 - PUREOLOGY • SHU UEMURA ART OF HAIR •
 - MIZANI • KÉRASKIN ESTHETICS •

HISTORIC YEAR FOR SALON GAINS AND INNOVATION

Faced with an exceptional contraction in its market, the Professional Products Division actively stepped up its initiatives. A record year for conquering new hair salons, 2009 demonstrated the validity of the division's worldwide leadership strategy based on its portfolio of highly complementary brands, the force of its innovations and hairdresser training.



“In an extremely difficult context, we achieved a record year for salon recruitment, and a historic year for innovation with Inoa hair colourant. We are thus laying the foundations for our future expansion.”

Nicolas Hieronimus

Managing Director, Professional Products



In a hairdressing market which was strongly impacted by the economic context, the Professional Products Division significantly strengthened its number 1 position, and accelerated in the second half to end the year at -3.3%⁽¹⁾.

SEVERAL GROWTH LEVERAGES

In 2009, the many initiatives introduced enabled the conquest of a record number of 25,000 hair salons for the division's brands, placing it in a position of strength for an upturn in sales. Retail has been bolstered by an ambitious plan to teach hairdressers how to stimulate sales, and by promotional offers.

Furthermore, the division implemented an unprecedented innovation programme, particularly for technical products with high added-value for professionals. The flagship launch of the year in Europe was Inoa, the first ammonia-free permanent hair colourant to feature the Oil Delivery System. A new technology designed by L'ORÉAL PROFESSIONNEL, which is reinventing the salon hair colour experience and attracting new consumers to the channel.

A PORTFOLIO OF HIGHLY COMPLEMENTARY BRANDS

In 2009, the complementarity of the brand portfolio again proved effective in winning over salons across the world in all their diversity. MATRIX, the accessible professional brand, continued to expand outside the United States, particularly in the growth-relay countries. REDKEN, a true “business booster”, proved extremely resilient in North America. KÉRASTASE maintained its position thanks to its innovations, and L'ORÉAL PROFESSIONNEL took major initiatives, accelerating at the end of the year and strengthening its leadership.

In Western Europe, the division won market share in many countries, particularly in Germany, Austria and the Scandinavian countries. In North America, sales were affected by a sharp decline in the market, but the division accentuated its leadership, thanks in particular to REDKEN. The Rest of the World zone maintained its dynamism with real success stories in Brazil (+13.4%⁽¹⁾), India (+27.9%⁽¹⁾) and China (+10.0%⁽¹⁾), where the division stepped up its educational efforts to build the professional markets of the future.

(1) Like-for-like.

Consolidated sales by geographic zone

€ millions	2008	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published figures
Western Europe	1,002.6	930.7	39.0%	-5.5%	-7.2%
North America	830.3	825.2	34.5%	-5.1%	-0.6%
Rest of the World	638.8	632.6	26.5%	+3.0%	-1.0%
TOTAL	2,471.7	2,388.5	100%	-3.3%	-3.4%

loreal2009.com
Find out more about the world of Professional Products, and the highlights of the division showcased in a hair salon.

A NEW ERA IN HAIR COLOUR WITH INOA

In its centenary year, L'Oréal heralded a new era in salon hair colourants with Inoa, a breakthrough innovation from L'ORÉAL PROFESSIONNEL.

To offer women a new level of comfort and optimal respect for hair fibre⁽¹⁾, while ensuring optimal colour quality, L'Oréal researchers rethought their formulation approach and invented a new process: the Oil Delivery System. A new oil-rich base drives the active colour ingredients into the core of the hair fibre. The innovative formulation system uses an active alkaline ingredient instead of ammonia, offering unprecedented lightening performances at this level of concentration.

Infinite colour potential

Inoa represents a huge qualitative leap for hairdressers and for women. For the first time, a permanent oxidation colourant with the ODS system, not only ammonia-free but odourless, can lighten by up to three levels and cover up to 100% of grey hair, while ensuring optimal scalp comfort. A major broadline professional colourant, Inoa enables hairdressers to deliver a wide range of shades and extremely precise colour results.

loreal2009.com
Professional Products Section

Watch the Oil Delivery System film, and interviews with hairdressers in different countries.

(1) Respect the hair's natural essential amino acids and lipid balance.

Presented at the L'ORÉAL PROFESSIONNEL Inspiration Paris symposium in June 2009, Inoa was launched worldwide from September onwards. The outstanding start it made in Western Europe enabled L'ORÉAL PROFESSIONNEL to win over many new salons.



HIGHLIGHTS

Brazil, India and China are the three main growth drivers

In 2009, sales in these countries were boosted by specific product initiatives and hairdresser education efforts.



Record salon recruitment

More than 25,000 new salons chose to work with one of the division's brands in 2009.

Matrix accessibility proves a winner in Asia

With Opti-Straight (long-lasting straightener), Opti-Thermic Curl (perm) and Sensoria Care (haircare), MATRIX responded to hairdresser expectations in Asia and India, both in service and price terms, and won over large numbers of salons.

Acquisition of three distributors in the United States

Idaho, Maly's Midwest and Marshall Salon Services were added to the distribution network, which now covers 80% of the United States under the SalonCentric brand. This strategic initiative ensures a direct link with salons, improving the profitability of the division's brands.

Pureology launched in Europe

The zero sulphate Californian haircare brand for colour-treated hair, acquired in 2007, won over salons and professional colourists in Western Europe.



Consolidated sales by business segment

€ millions	2008	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published figures
Hair colourants	876.5	846.8	35.5%	-2.3%	-3.4%
Styling and textures	350.5	323.3	13.5%	-7.6%	-7.7%
Shampoos and haircare	1,244.7	1,218.4	51.0%	-2.7%	-2.1%
TOTAL	2,471.7	2,388.5	100%	-3.3%	-3.4%

INVENTING THE HAIR SALON OF THE FUTURE

In June 2009, the Professional Products Division brought together some 4,000 hairdressers from all over the world at the Zénith concert hall in Paris. It was a tremendous moment and the opportunity to share its vision for the future of the profession.

"The beauty of tomorrow will be professional. Over the coming years, services and interpersonal relations will make the difference. In their growing quest for tailor-made services, women and men will turn to beauty professionals," said Nicolas Hieronimus, Managing Director, Professional Products, at the global symposium.



He then presented six visions for the future of professional beauty in the form of six hair salon concepts: Lab Salon, Hair Book, Mobile Salon, Ultimate Creativity, Total Experience and Green Salon. The Green Salon attracted a great deal of attention, with its eco-responsibility stance. Complying with the strictest ecological requirements, it stands out with its 50% reduction in water and energy consumption, its purified air and waste recycling. Particularly attentive to the health and comfort of its employees, the Green Salon will be open to everyone, and adapted to cater for the disabled. A number of salons inspired by this concept should open from 2010 onwards.



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Professional Products Section

See more pictures of the salons of the future.



Italian hairdresser Aldo Coppola taking part in the hairdressing show at the Global Symposium organised by the division in June 2009.

L'Oréal Professionnel

Creativity and innovation

A premium brand featuring the most advanced technologies, L'ORÉAL PROFESSIONNEL is the privileged partner and the source of inspiration of top hairdressers all over the world.

MAJOR INITIATIVES

In 2009, despite the difficult context, L'ORÉAL PROFESSIONNEL continued its conquest in terms of both market share and new salons. In hair colourants, the year was dominated by September's strategic launch of Inoa, a highly innovative, odourless and ammonia-free colourant which offers respect and comfort while guaranteeing optimal hair colour power. In the space of a few months, this major technological advance was enthusiastically received by hairdressers and their customers, and opened a new era in hair salon colourants (see box on page 39).

In haircare, L'ORÉAL PROFESSIONNEL proved extremely resilient to the crisis in salon product sales. Série Expert increased its worldwide market share thanks to a dynamic innovation policy, in particular with the launch of Force Vector, a range of reinforcing care for brittle hair.

ORGANIC AND COSMESTYLING BREAKTHROUGHS

The new range Série Nature continued its worldwide breakthrough, strengthening its unique positioning with the launch of Pureté Naturelle, one of the very first organic professional shampoos to be certified by Ecocert.

In styling, alongside the Tecni.Art and Play Ball ranges, L'ORÉAL PROFESSIONNEL continued to roll out Texture Expert, particularly in Europe. This cosme-styling range is taking advantage of the growing trend for blow-dry styling and for longer hair observed around the world.

To mark the centenary of L'Oréal in June 2009, the division brought together some 4,000 hairdressers at its Inspiration Paris symposium. It was an exceptional event which enabled L'ORÉAL PROFESSIONNEL to share its values of innovation and inspiration with its major customers.



Force Vector nourishes and fortifies the hair fibre

Série Expert innovated with the launch of Force Vector, a range of reinforcing care for brittle hair. Its new formulation means that five times more ceramide can penetrate into the hair compared with a conventional shampoo.

At the heart of the success of MATRIX in China, the launch of accessible products such as Opti-Straight, sold to hairdressers in large formats for a lower cost per application.



Matrix

Out to conquer the world

MATRIX accelerated its international expansion. The strong growth in the BRIC countries (Brazil, Russia, India, China) is offsetting the downtrend in the North American market, due to the economic climate and anti-diversion efforts.

AN ACCESSIBLE HIGH-TECH BRAND

Biologie confirmed its global success with the launch of Rejuvatherapie for mature hair, and Delicate Care. This range offers new shine care for sensitised colour-treated hair, and includes an organic oil certified by Ecocert. Hair colourant sales results rose, thanks to the restage of SoColor in North America and the continuing growth of Wonderbrown in Asia, India and the Middle East. In styling, the new Design Pulse range, featuring

inspiring cuts and techniques, drove growth, while multi-dose Opti-Straight pouches were added to complete the texture category in Asia.

The brand's new slogan—"Matrix, Imagine All You Can Be"—was adopted by hairdressers all over the world. It renews the brand's professional commitment by focusing on delivering accessible professional products and training.

 loreal2009.com
Professional Products Section

Take a look at the MATRIX success story in the emerging countries.

Redken

is gaining ground

In 2009, REDKEN won market share around the world by stepping up its programmes to train hairdressers on how to stimulate sales, and by launching new technical in-salon services. The oxidation colourant Cover Fusion which delivers 100% grey hair coverage, Chemistry System professional haircare and the Color Extend haircare range enhanced the professional service offer. Furthermore, REDKEN's partnership with studio stylist Guido Palau put the brand at the heart of international fashion shows with cutting-edge styling products.



REDKEN, Russia.

Kérastase

strengthens its leadership

In 2009, KÉRASTASE showed good resilience to the crisis, thanks largely to the weight and dynamism of markets outside of Europe, particularly in Asia and South America. The brand strengthened its position as the leader in professional haircare by combining service and performance.

HIGH PERFORMANCE AND TAILOR-MADE

Launches such as Volumorphose, which injects texture inside the fibre of fine hair, and Oleo-Slim, which reduces the volume of hard-to-manage hair, again proved the brand's ability to create high performance products exclusively for salon use. A tailor-made response was available for the buoyant seniors market with the Age Premium range, which combines calcium derivatives and hyaluronic acid to revitalise mature hair. At a time of slower consumer spending, KÉRASTASE stepped up the number of high-quality promotional offers, successfully highlighting the accessibility of its products.



Age Premium

A line dedicated to mature hair

To meet the needs of hair made fragile by time, KÉRASTASE created Age Premium, the brand's first range for mature hair. It combines calcium derivatives and hyaluronic acid to enable seniors to nourish and strengthen their hair.



CONSUMER PRODUCTS

The Consumer Products Division offers the best in cosmetics innovation at accessible prices in all mass-market retailing channels (hypermarkets, supermarkets and drugstores) on every continent.

- L'ORÉAL PARIS
- GARNIER
- MAYBELLINE NEW YORK
- SOFTSHEEN·CARSON
- CLUB DES CRÉATEURS DE BEAUTÉ



ACCESSIBLE INNOVATION FOR EVERYONE

In a context of markets that are resilient but growing at a slower rate, the Consumer Products Division is stepping up its innovation effort, developing new product categories, offering ranges which are even more accessible, and accelerating its moves into new markets. A strategy which is enabling it to improve its global positions.



“In 2009, our division grew faster than its market. Garnier and Maybelline New York performed very well, partly because of their accessible positioning, and L’Oréal Paris stepped up its innovation programme. All the brands are in a good position to tackle 2010.”

Jean-Jacques Lebel
President, Consumer Products

loreal2009.com
Find out more about the world of Consumer Products, and the highlights of the division showcased in a supermarket.



GROWTH IN STRATEGIC SEGMENTS

With sales growth of +3.2%⁽¹⁾, the Consumer Products Division strengthened its global positions.

First of all thanks to major innovations, enabling it to advance in what are traditionally its main segments. Skincare thus recorded a growth rate of +5.6%⁽¹⁾, boosted by good performances in Asia and North America. Haircare (+0.9%⁽¹⁾) produced high scores in Latin America and Russia, and made a high-profile entrance on the Chinese market with L’ORÉAL PARIS. Hair colourants recorded a growth rate of +3.6%⁽¹⁾ in a buoyant market. Make-up also had a satisfactory year: MAYBELLINE NEW YORK grew on every continent, and after a difficult start L’ORÉAL PARIS recovered at the end of the year.

ACCELERATION IN NEW CATEGORIES

In 2009, the division consolidated its positions in the product categories it has entered more recently, such as men’s skincare, and also moved into a new market, deodorants, with GARNIER, in Latin America and Eastern Europe.

To boost its drive to win over new consumers, the division created more accessible ranges such as Garnier Essentials and L’Oréal Triple Active Day which offer very attractive entry-level prices.

STRONG GROWTH IN NEW MARKETS

Lastly, the year was marked by strong growth in new markets, where the division significantly strengthened its positions: in Eastern Europe, where its dynamism returned at the end of the year; in Latin America, where it recorded substantial sales growth, thanks in particular to haircare and deodorants. Its performance in Asia was particularly impressive: China grew by +23.9%⁽¹⁾; Japan, in a very negative context, grew by +4.2%⁽¹⁾ thanks to MAYBELLINE NEW YORK; the ASEAN countries⁽²⁾ grew by +10.0%⁽¹⁾. India achieved growth of +32.7%⁽¹⁾. The division’s brands are now available in three new countries: Kazakhstan, Pakistan and Egypt.

In Western Europe, the division coped with inventory reductions by distributors, which returned to normal at the end of the year. In North America, in a stable market, it very slightly increased its positions thanks to its skincare and haircare performances⁽³⁾.

(1) Like-for-like.
(2) Association of South-East Asian Nations.
(3) Source: IRI panel, 2009 value.

Consolidated sales by geographic zone

€ millions	2008 ⁽¹⁾	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published figures
Western Europe	3,731.3	3,583.5	41.9%	-2.8%	-4.0%
North America	1,851.6	1,943.1	22.7%	+0.5%	+4.9%
Rest of the World	2,843.1	3,028.6	35.4%	+13.3%	+6.5%
TOTAL	8,426.0	8,555.2	100%	+3.2%	+1.5%

(1) After reclassification of the “Distance selling” activity.

NEW LASH PRODUCT INSPIRED BY HAIRCARE RESEARCH

Thanks to a new decoding of the life cycle mechanisms of eyelashes by the group's research teams, L'ORÉAL PARIS launched a product delivering exceptional results, originating from experimental collaboration between the haircare and make-up laboratories.

From hair to lashes

The knowledge gained in haircare enabled L'Oréal Research to decode the life cycle of eyelashes, and to invent a new kind of product, originating from a transfer of the biological and physical knowledge of haircare to make-up: a renewal serum. This serum provides the energy necessary for everyday lash care. A fully-fledged care product, the serum's formula is composed of a cocktail of benchmark active ingredients, including arginine, an amino acid used in haircare and anti-hairloss products, to increase lash density. The result is stunning: right from the first month, the lash line seems thicker and the lashes stronger.

Benchmark active ingredients

The formula includes several active ingredients which contribute to good lash growth: reinforcing the lash fibre (ceramide R), improving growth by providing energy (arginine, citric acid, provitamin B5), and having anti-hairloss properties (madecassoside extracted from Centella Asiatica). Clinically and

ophthalmologically tested, Renewal Lash Serum is an innovation in lash care which enhances beauty. Available on its own or as part of a double-wanded mascara with Double Extension mascara, it has a dual role—lash repair and a make-up base.



The innovative Renewal Lash Serum by L'ORÉAL PARIS (on the left) is also available as a double-wanded mascara with Double Extension Renewal Serum Inside Mascara (on the right).

 loreal2009.com
Consumer Products Section

Watch the commercial for
Renewal Serum by L'ORÉAL PARIS.

HIGHLIGHTS

More accessible products

The division launched very accessible priced ranges such as Garnier Essentials at under five euros, and in Western Europe, Franck Provost shampoos in large volume bottles.

Garnier chose India to launch its first-ever men's skincare line

Success was immediate, and the brand extended the marketing of Garnier Men into Asia.



Technology boosted growth

L'ORÉAL PARIS launched several high-tech products in the haircare segment, such as Ever Pure, the first ever sulphate-free shampoo, in the United States, and a very high quality shampoo and haircare line in China. Finally, it marketed in Europe its Total Repair 5 range, which was launched last year in Latin America.



Success of the Garnier Mineral Deodorant line in Eastern Europe

After having launched its bi-o deodorant range in Latin America in 2008, GARNIER moved into Eastern Europe by successfully introducing Garnier Mineral.



Consolidated sales by business segment

€ millions	2008 ⁽¹⁾	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published figures
Hair colourants	1,574.0	1,582.3	18.5%	+3.6%	+0.5%
Haircare and styling	2,276.0	2,241.2	26.2%	+0.9%	-1.5%
Make-up	2,333.6	2,380.3	27.8%	+1.4%	+2.0%
Skincare	1,952.7	2,023.0	23.6%	+5.6%	+3.6%
Other	289.7	328.4	3.8%	+18.0%	+13.4%
TOTAL	8,426.0	8,555.2	100%	+3.2%	+1.5%

(1) After reclassification of the "Distance selling" activity.



L'Oréal Paris

A force for global innovation

The division's premium brand, the world's number one mass-market beauty brand, felt the impact of the economic environment in the first half, but recovered in the second half thanks to a major programme of innovations in all categories. It recorded major successes in emerging countries, particularly in China (+25.5%⁽¹⁾) and Brazil (+16.6%⁽¹⁾).

HAIRCARE SUCCESSES

L'ORÉAL PARIS achieved its strongest growth in haircare, thanks to an extremely rich programme of initiatives in all regions of the world. Boosted by its success in Latin America, the Total Repair 5 range was rolled out in Western Europe, where it quickly penetrated the market. In China, the world's number one market in volume terms, the brand launched a full range of haircare products tailored for Chinese hair, and initial results are promising. Finally, the first sulphate-free shampoo, Ever Pure, launched in the United States, was very well received. Hair colourants proved very resilient. Their main growth driver, Casting Creme Gloss, an ammonia-free colourant launched in 2007, continued to grow rapidly, particularly in Eastern Europe where Russia has become the franchise's number one country.

SKINCARE BOOM IN ASIA

To win over new consumers, L'ORÉAL PARIS launched a more accessibly priced skincare line, Triple Active Day, which sells for around five euros. Revitalift, the world's number one anti-wrinkle skincare range, posted spectacular growth thanks to the launch of Face Contours and Neck in Europe and Deep-set Wrinkles in the United States. L'ORÉAL PARIS recorded its strongest growth in Asia, particularly in China, which became the brand's number one country for skincare thanks in particular to Men Expert.

(1) Like-for-like.



L'ORÉAL PARIS, Russia.

Visible Lift Serum Inside Anti-ageing foundation

L'ORÉAL PARIS launched the first foundation containing an anti-wrinkle serum. It combines the best anti-ageing active ingredients (elastin, collagen, hyaluronic acid) for an immediate lifting effect. Its formula instantly produces a long-lasting effect for radiant and smooth skin.



True Match Roll'on A new make-up ritual

L'ORÉAL PARIS invented a new way to apply foundation: the True Match Roll'on sponge applicator follows the contours of the face for an incredibly even finish.





Garnier strengthens its accessibility strategy

GARNIER, an accessible brand inspired by nature, grew rapidly, thanks in particular to market share gains all over the world in skincare, very strong expansion in the growth-relay countries, and the success of initiatives in deodorants, a new category. To win over new consumers, GARNIER accentuated its accessible brand positioning with launches in several categories. In skincare, the Essentials range, already sold in Eastern Europe, was extended to Western Europe where it sells for under five euros. In haircare, GARNIER launched Ultra Doux mango and tiare flower, which enabled the franchise to continue to grow in Western Europe.

ACCELERATION IN EMERGING COUNTRIES

In skincare, where the brand recorded double-digit growth, the success of Caffeine Eye Roll-on was confirmed all over the world. The brand also launched Vital Restore anti-ageing skincare, and recorded very strong growth in China with Aqua Defense and throughout Asia with Garnier Light. In India, GARNIER achieved instant success with its first-ever men's skincare range, Garnier Men, which has already been extended to the Asian continent. Another growth driver was the brand's entry into the deodorant market. After launching its bi-o range in Latin America in 2008, GARNIER moved into Eastern Europe by launching Garnier Mineral, which rose to the top 5 in sales terms in several countries in just 10 months.

The brand is particularly well positioned in the emerging countries: GARNIER recorded growth rates of +35.1%⁽¹⁾ in India, +61.2%⁽¹⁾ in China and +44.2%⁽¹⁾ in Indonesia. Growth potential in these countries remains very high.

(1) Like-for-like.

Caffeine Eye Roll-on 15 million units sold since the launch



Launched in 2008, Caffeine Eye Roll-on by GARNIER continued its breakthrough all over the world. This roll-on with massage effect, which effectively reduces dark circles around the eyes and under-eye bags, has already become the number one eyecare product in Western Europe. It was launched in Latin America in 2009, and also in Asia and India in ranges of lightening products with Garnier Light, and moisturising products with Garnier Aqua Defense.

HerbaShine 1st hair colourant with bamboo sap

HerbaShine, a 10-minute, ammonia-free, tone-on-tone colourant. The colourant cream is enriched with bamboo extract to fortify hair during application.



Products tailored to each region of the world

GARNIER designs ranges of products inspired by the specific needs of consumers in each region of the world.



1/ Fructis Stop Caída haircare in Mexico 2/ Ultra Doux, with its new recipe for colour treated hair in Western Europe 3/ Mineral Deodorant launched in Eastern Europe 4/ Caffeine Eye Roll-on in Asia 5/ Garnier Men, a new men's skincare range in India

Fructis Style Flexihold with bamboo extract

GARNIER strengthened its accessible brand positioning with Fructis Style Flexihold with bamboo extract: a range of ultra-fine microspray hairsprays for a perfect finish.





In Japan, MAYBELLINE NEW YORK performed well in foundations with Pure Mineral.

Maybelline New York

Creativity on every front

The American brand MAYBELLINE NEW YORK, world number 1 in make-up, grew all over the world: in the United States, its traditional market, as well as in Japan, China and Europe. In the United States, the new lipstick Color Sensational was a runaway success, just like SuperStay foundation and Lash Stiletto mascara. In Japan, MAYBELLINE NEW YORK bolstered its leadership in

the eye segment with Eye Studio gel eyeliners, and Volum' Express Cat Eyes and Colossal mascaras. The brand also performed well in foundations with Pure Mineral. In China, the brand was successfully launched in the skincare market, and bolstered its position in foundations with the Pure Mineral range.

EUROPEAN POSITION BOLSTERED

In Europe, the market share of MAYBELLINE NEW YORK grew throughout the zone, and Pulse Perfection vibrating mascara performed well. The brand strengthened its trendy image everywhere, by linking up with fashion-related events.

Color Sensational A star lipstick for every woman



Color Sensational proved an instant success on its launch in the United States. With its unique formula based on honey nectar and its 19 shades, the latest lipstick from MAYBELLINE NEW YORK guarantees comfort, moisturising and gloss to give women star-status lips at an accessible price.



Lash Stiletto

A patented formula for seductive length

Lash Stiletto by MAYBELLINE NEW YORK is a mascara with outstanding performance for a more intense look. Its patented formula, enriched with provitamin B5, strengthens the lashes for the ultimate glossy shine. The Stretch & Set brush covers each lash, ensuring maximum lengthening.



SoftSheen·Carson

strengthens its moisturising expertise

In 2009, SOFTSHEEN·CARSON confirmed its position as number 1 in the ethnic haircare products market, with new initiatives in three major categories. In hair relaxers, the brand upgraded the Dark and Lovely range with a more moisturising formula, richer in shea butter than the other hair relaxers on the market. In hair colourants, ammonia-free Dark and Lovely Colour Confidence Haircolor was launched with three care levels to provide maximum grey hair cover, and maximum protection of relaxed or natural hair, leaving hair healthy and shiny.

COMBINING CARE WITH PERFORMANCE

The new range of natural haircare products Roots of Nature combines green tea and shea butter to repair, moisturise and nourish damaged hair.



Dark and Lovely Body

From haircare to bodycare

SOFTSHEEN·CARSON set out to conquer the skincare market in South Africa with Dark and Lovely Body. A line of body milks enriched with vitamin E and glycerine, which provide long-lasting hydration and the answer to the problems encountered by all skin types.

Club des Créateurs de Beauté

A successful year

100% integrated into L'Oréal since 2008, CLUB DES CRÉATEURS DE BEAUTÉ (CCB), which specialises in distance selling of cosmetics products, achieved a very good year in 2009, recording like-for-like growth of +9.3%. CCB expanded well in Japan, and recorded double-digit growth in France.



In 2009, major launches galvanised sales. b.b. cream from Agnès b, an accessible, multi-functional product which combines skincare and foundation. Shorty slim, a textile cosmetics product which continuously diffuses anti-cellulite ingredients to combat the "orange peel" effect; the Cryo-Tenseur by Professeur Christine Poelman, a cryocosmetics appliance which, thanks to a temperature of 4°C, firms and decongests the skin and under-eye bags; and Huile de soin fabuleuse by Jean-Marc Maniatis, a dry oil spray to make hair glossier, softer and silkier. Internet is at the heart of CCB's new business model, which is proving highly effective. In France, the number of visitors to the ccb-paris.fr site doubled, the fastest growth rate in the market⁽¹⁾. In international markets, CCB also focused on Internet sales through agents. Russia and Taiwan launched their websites in the fourth quarter.

(1) Source: Independent panel.





LUXURY PRODUCTS

The Luxury Products Division brings together a unique set of brands, focusing mainly on three major business segments: skincare, make-up and fragrances. Its brands are sold through selective distribution not only in department stores, perfumeries, and travel retail outlets, but also in free standing stores and through e-commerce websites.

- LANCÔME • GIORGIO ARMANI •
- YVES SAINT LAURENT • BIOTHERM •
- RALPH LAUREN • KIEHL'S • SHU UEMURA •
- HELENA RUBINSTEIN • CACHAREL • DIESEL •
- VIKTOR & ROLF • ROGER & GALLET •
- BOUCHERON • YUE SAI • STELLA MC CARTNEY •
- ERMENEGILDO ZEGNA •

A YEAR OF STRATEGIC CONSTRUCTION

In the context of a negative market trend, the Luxury Products Division built the base for its future expansion: a portfolio refocused on the strategic brands, a strong capacity for scientific innovation, particularly in skincare, the acceleration of the development of YVES SAINT LAURENT, the continuing global roll-out of tomorrow's luxury brands, such as KIEHL'S and DIESEL, and a highly creative policy to win over consumers through alternative channels.



“Clarifying our brands’ policy, concentrating our efforts on our major global brands, making leading innovations in skincare, continuing our conquest in Asia and alternative sales channels, and successfully integrating Yves Saint Laurent: we have emerged stronger than before from 2009.”

Marc Menesguen

President, Luxury Products

loreal2009.com
Discover the world of Luxury Products and the division's highlights showcased in a department store.



The combination of a contracting market, particularly in fragrances, and exceptional inventory adjustments by distributors worldwide, hampered the division's activity. Its sales declined by -9.0% like-for-like and -2.2% based on published figures, with the consolidation of YSL Beauté. The division held on to its market share and was once again number 1 worldwide in the luxury beauty market⁽¹⁾.

REFOCUSING ON FLAGSHIP BRANDS

The division's prime leverage opportunity was to strengthen its strategic brands. LANCÔME won worldwide market share⁽¹⁾, due in particular to two major technological breakthroughs in anti-ageing skincare, Génifique and Absolué Precious Cells.

YVES SAINT LAURENT consumer sales accelerated sharply at the end of the year, reflecting the success of its fragrances La Nuit de L'Homme and Parisienne. Number 1 worldwide in men's fragrances, GIORGIO ARMANI stepped up its presence in the women's market with its new fragrance Idole d'Armani and the acceleration in make-up. KIEHL'S posted very strong growth, boosted by its globalisation, and became a new pillar of the division. Lastly, the worldwide success of Only the Brave made DIESEL an alternative brand with strong potential, and the Polo by RALPH LAUREN franchise produced a strong performance at the end of the year in the United States.

In 2009, sales were driven by the Rest of the World zone, particularly Asia, where the division's growth rate was almost twice as fast as the market⁽¹⁾, thanks to LANCÔME, GIORGIO ARMANI and KIEHL'S, together with a rebound in travel retail. In Western Europe, the division saw sales accelerate in the northern countries at the end of the year, while the south felt the strong impact of inventory reductions by distributors. In North America, where there was a downward trend in the market, the division won market share in skincare and make-up⁽²⁾.

DESIGNING THE LUXURY OF TOMORROW

In 2010, the division should take full advantage of its strategic refocusing on its main flagship brands—LANCÔME, YVES SAINT LAURENT, GIORGIO ARMANI, RALPH LAUREN and BIODERMA—and on the luxury brands of tomorrow, such as KIEHL'S, SHU UEMURA and DIESEL. It will continue to step up the development of YVES SAINT LAURENT. Its capacity for innovation and the impetus of the successful launches in 2009 should drive growth. Growth will also be galvanised by a policy to win over new consumers, focusing on accessibility and the development of alternative channels. Lastly, the division will continue its management efforts to increase resources and profitability.

Consolidated sales by geographic zone

€ millions	2008	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published figures
Western Europe	1,929.6	1,829.6	44.8%	-13.6%	-5.2%
North America	954.2	923.3	22.6%	-10.0%	-3.2%
Rest of the World	1,285.9	1,326.8	32.5%	-0.9%	+3.2%
TOTAL	4,169.6	4,079.6	100%	-9.0%	-2.2%

(1) Sell-out. Retail sales.

(2) Source: NPD USA, Retail panel, 2009 market share-value.

THE POWER OF GENES FOR FUTURISTIC SKINCARE

LANCÔME, the anti-ageing skincare specialist, has ushered in the future of cosmetics. Génifique Youth Activator, the product of ten years of research, was an instant hit with women all over the world.

Since its launch in March 2009, the Génifique anti-ageing skincare product has been selling at a rate of four units every minute. By combining for the first time two complementary tools, transcriptomics and proteomics, Génifique demonstrated the brand's remarkable ability to innovate. L'Oréal laboratories demonstrated that gene activity changes with age, and identified the proteomic signatures of young and mature skin, and the dynamics of their responses to aggression.

Protected by seven patents

This new knowledge led to the invention of a resolutely innovative skincare line, protected by seven patents. Génifique modulates the expression of certain genes, and stimulates the production of proteins which are characteristic to young skin.

Boasting a new generation texture which illuminates the features, Génifique Youth Activator is far more than a serum: it is a revolutionary skincare product, tailored to suit all women, and set to become the essential first step in their daily beauty rituals. Génifique was awarded the *Marie-Claire Prix d'Excellence de la Beauté* for 2010.



 loreal2009.com
Luxury Products Section
Watch the Génifique commercial.

HIGHLIGHTS

Leadership strengthened in men's fragrances

The launches of Only the Brave by DIESEL and La Nuit de l'Homme by YVES SAINT LAURENT, and the acquisition of YSL Beauté enabled the division to significantly strengthen its position in the worldwide men's fragrance market.

Division continues Asian conquest

The division continued to record fast growth in this strategic market, with GIORGIO ARMANI's rising prominence in the beauty segment, the success of LANCÔME, already number 1 in the Chinese market, and the performance by KIEHL'S. A new pillar of the division in skincare around the world, KIEHL'S grew strongly, particularly in Asia, with the opening of sales outlets in China and Japan, and unrivalled success in South Korea.



Yves Saint Laurent accelerates in the United States

Boosted by the successful launch of the fragrances Parisienne and La Nuit de l'Homme, together with Singulier mascara, YVES SAINT LAURENT sales grew by +17.1% like-for-like in the United States, where the brand has very substantial growth potential.

Accessible luxury

In 2009, the Luxury Products Division made accessible innovation its credo. New products with the right price positioning, small-format perfume bottles and entry-level skincare prices, etc. For example, LANCÔME Génifique prices start at 78 euros, and BIOTHERM offers its legendary Body Milk in 400ml bottles.



Consolidated sales by business segment

€ millions	2008	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published figures
Skincare	1,443.5	1,473.3	36.1%	-0.2%	+2.1%
Perfumes	1,781.9	1,653.7	40.5%	-15.0%	-7.2%
Make-up	944.2	952.7	23.4%	-10.1%	+0.9%
TOTAL	4,169.6	4,079.6	100%	-9.0%	-2.2%



Lancôme

High performance beauty

Number 1 worldwide in the selective beauty segment, LANCÔME continued its development, with strong growth in Asia and major innovations.

SUCCESSFUL TECHNOLOGICAL INNOVATIONS

Génifique Youth Activator became a flagship in the high performance skincare segment, with more than two million units sold worldwide in 2009. Number 1 in serums in France⁽¹⁾, the franchise continued its conquest with the launch of a day cream and eye concentrate. Another major innovation, Absolué Precious Cells is drawing on 20 years of stem cell research, and is extending the Absolué line for women over fifty. In make-up, Ôscillation Powerbooster, the first vibrating mascara to promote lash growth, hit



the headlines in the United States, and Hypnôse Drama mascara has been number 2 in Europe⁽²⁾ since its launch in August.

The ambassador of the Trésor fragrance, actress Kate Winslet is now the face of the L’Absolu Rouge line, which is amongst the top 3 best-selling lipsticks in a number of European countries⁽³⁾, and Rénergie, the legendary pillars of the brand. Julia Roberts becomes the ambassador of LANCÔME in 2010.

REVEALING TALENT

Convinced that education plays a key role in the development of young talents, LANCÔME committed itself to supporting the Carla Bruni-Sarkozy Foundation. Its “Révélations Lancôme” programme sets out to help final-year secondary students in France to gain admission to prestigious art schools.

(1) Source: NPD France.

(2) Source: NPD France, IRI Germany, NPD Italy, NPD Spain and Nielsen Spain aggregate figure.

(3) Source: NPD France, NPD Italy, NPD Spain, IRI Germany.

Absolué Precious Cells protects the stem cell environment

The first-ever LANCÔME skincare line designed to restore the stem cell environment and their lineage and help stem cells trigger the skin’s self-regeneration potential.

Hypnôse Drama Instant intense volume

In the same tradition as the emblematic mascara Hypnôse, LANCÔME created Hypnôse Drama, which is now the brand’s most volume-boosting mascara, thanks to its innovative oversized brush and its jet-black formula with high wax concentration.



Hypnôse Senses Contemporary chypre

The modern expression of sensual and ethereal femininity, the Hypnôse Senses fragrance is worn like a second skin, revisiting one of the great notes of perfumery: floral chypre. Its ambassador is the top model Diara Werbowy.



Yves Saint Laurent

The scent of success

In 2009, YVES SAINT LAURENT strengthened its position as a global brand operating in three beauty segments.

Two high value-added launches confirmed its position as a major fragrance player. La Nuit de L'Homme, launched in March, is exploring a new facet of YVES SAINT LAURENT masculinity, embodied by Vincent Cassel. This fresh Oriental fragrance featured regularly in the top 5 men's eaux de toilette in France⁽²⁾ since its launch, and was one of the top 10 bestsellers in the United States in October⁽³⁾. Parisienne, launched in September, paints the portrait of an incredibly free-spirited woman embodied by Kate Moss. A major floral fragrance with woody notes, Parisienne was number 1 in the sales rankings in France in September⁽²⁾, and made the top 10 in several European countries one month after its launch.

NEW MAKE-UP IMAGE

In make-up, YVES SAINT LAURENT continued to strengthen its positions thanks to major new products: Teint Resist, the brand's first long-lasting foundation, and winner of the *Prix d'Excellence Marie-Claire* 2010; Mascara Singulier, a new way of beautifying lashes; and Gloss Volupté, the first gloss lipstick with tangy colours and a super-smooth texture. A new visual identity, capturing moments in the life of YVES SAINT LAURENT women, is enhancing the make-up's appeal.

Lastly, the skincare range was refocused on its two core products: Temps Majeur, the premium line, and Top Secrets, a unique line of "expert skincare for make-up lovers", directly inspired by the techniques of professional make-up artists.

Parisienne

Number 1 in new women's fragrances in France⁽²⁾



Embodied by Kate Moss, Parisienne celebrates an incredibly free-spirited woman, who loves and lives life to the full. It has been one of the top 10 best-selling perfumes in France⁽²⁾ since its launch.

La Nuit de l'Homme

Tension between light and shadow



La Nuit de L'Homme is the fragrance of a seductive and mysterious man, embodied by Vincent Cassel. It was the number 1, new men's fragrance in France and Italy⁽¹⁾.

Mascara Singulier

A multi-effect formula

Thanks to the perfect combination of its multi-effect formula and its new brush for an even more stunning make-up effect, Mascara Singulier signed a new, attractive look for the eyes where each lash is groomed to create a sweeping fringe.



(1) Source: NPD France and Italy, Retail panels, 2009 market share-value.
 (2) Source: NPD France, Retail panel, 2009 market share-value.
 (3) Source: NPD United States, Retail panel, 2009 market share-value.

LUXURY PRODUCTS



Idole d'Armani
An ode to femininity



An opulent floral fragrance, Idole d'Armani is a stunning combination of Oriental inspiration and timeless Italian elegance. To showcase its new signature fragrance, GIORGIO ARMANI chose the actress Kasia Smutniak.

Eyes to Kill Mascara
Seductive weapon



With its exclusive volume-boosting formula and its Micro fil™ texture, Eyes to Kill Mascara is the ultimate weapon to awaken the temptress lying within every woman.

Giorgio Armani charms women

The world leader in men's fragrances with the major classics Acqua di Gio and Code for Men, GIORGIO ARMANI strengthened its presence in women's fragrances with the launch of Idole.

PROMISING START FOR IDOLE

Symbolising timeless elegance, glamour and Italian sensuality, Idole is a vibrant and sensual fragrance, sealed in an Art Deco-inspired bottle. Launched in September, it made the top 10 in women's fragrance sales in several West European countries on its launch, with top 5 scores in

Northern and Eastern Europe, and was number 2 in new products in October in the United States⁽¹⁾.

STARRING ROLE IN ASIA

2009 also marked the rise of Giorgio Armani Beauty with three star products: Rouge d'Armani, an ecstatic burst of colour sheathed in a lacquered black case designed by GIORGIO ARMANI; Eyes to Kill Mascara, "the Armani look", the ultimate seductive weapon for the eyes; and Lasting Silk UV, a unique foundation that combines perfect coverage with freshness. The strongest advances for Giorgio Armani Beauté in 2009 came in Asia, particularly with the opening of counters in Greater China and South Korea.

(1) Source: NPD United States, 2009 value.

Cacharel Back to its roots



For 30 years, CACHAREL has accompanied every stage of young women's lives. Amor Amor has made its mark as the fragrance for young women in Europe, and continued its expansion in Latin America and Eastern Europe. 2009 marked CACHAREL's return to its romantic origins with the launch of Scarlett, a feminine and audacious fragrance for today's young women.

Biotherm The best of advanced biology at an accessible price



Skin Vivo, the first-ever reversible anti-ageing care line for dual DNA + gene action.

In 2009, BIODERM strengthened its historic mainstays, with notable successes in the moisturising and slimming segments, thanks in particular to lines such as Celluli Laser Intensive Night, a concentrate of chrono-biological technology. In Asia, the brand maintained its positions in lighteners with high scores in China and South Korea. BIODERM continued its conquest of the anti-ageing segment with the launch of Skin Vivo. This anti-ageing care line concentrates its flagship ingredient—pure thermal plankton—in a record dose, and marks the brand's entry into the field of DNA and genomics.

In the selective men's cosmetics market, BIODERM confirmed its leadership with the strong positions of Aquapower in Western Europe, a product designed to convince men of the importance of moisturising. Moving ever closer to its consumers, BIODERM introduced a wide range of initiatives to offer them the best of advanced biology at accessible prices, with emblematic offers such as "25 years, 25 euros" for men, and large-volume bottles for its traditional franchises, Aquasource and Body Milk.



For the first time ever, KIEHL'S opened a store in a railway station. This boutique, at Shibuya station in Japan, features the codes of a New York street scene.

Kiehl's Success of an original brand

KIEHL'S SINCE 1851 confirmed its role as a growth-relay and entry-level brand for the selective channel, with sales increasing by +27.8%⁽¹⁾ and more than 70 sales outlets opening in 2009. The brand is now present in 34 countries. Growth was particularly strong in Asia.

Asia now accounts for a substantial proportion of its sales, driven by South Korea where KIEHL'S was number 2 in department store sales⁽²⁾. 2009 saw the opening up of the two largest Asian markets,

(1) Like-for-like.

(2) Source: Department store aggregate figure.

China and Japan, with extremely encouraging results. In its two Chinese sales outlets, opened in department stores in Beijing and Shanghai, the brand has ranked number 1 since September⁽²⁾.

AMAZONIAN INSPIRATION

The year was marked by the spectacular launch of two skincare lines. Açai Damage-Repairing provides an innovative solution to combating the first signs of ageing linked to environmental stress, thanks to certified organic formulas using açai berries hand-picked in the Brazilian Amazon: these berries have incredibly powerful antioxidant properties and clinically-proven efficacy. Rare Earth Pore Minimizing Lotion provides a very effective solution for visible skin pores, thanks to fair trade white clay sourced from the small Amazonian island of Marajo.

THE POTENTIAL OF ALTERNATIVE CHANNELS

The division's brands launched initiatives in alternative sales channels, which are acting as true growth-relays.

The division's brands again stepped up their efforts in marketing and digital communications. In China for example, LANCÔME was the number 1 selective brand in online beauty product sales. It attracted more than one million comments a year on its community site Rosebeauty, where consumers can exchange their views on beauty and LANCÔME products. Furthermore, some brands continued their policy of opening brand boutiques, such as KIEHL'S which set up its first-ever railway station outlet, at Tokyo Shibuya in Japan. The boutique proved highly successful, and enabled the brand to reach male customers. Finally, LANCÔME—a pioneering brand in the selective channel—experimented with TV home shopping, with encouraging results in the United States and in Japan, where YVES SAINT LAURENT and SHU UEMURA also built up their sales in this way.

Ralph Lauren Backing its classics

In 2009, RALPH LAUREN concentrated its strategy on its two traditional franchises. Polo put two of its fragrances into the top 10⁽⁵⁾ men's lines in the United States in December, thanks to new print and TV campaigns, and new 30ml and 200ml formats. Polo became the number 1 men's fragrance franchise in the United States⁽⁵⁾. Romance celebrated its 10th anniversary with the launch of Romance Always Yours, enabling it to maintain its positions in North America and to register strong growth in Asia.

(5) Source: NPD United States, 2009 value.



Only the Brave: iconic, pop, arty, the height of DIESEL masculinity.

Diesel banks on Only the Brave

In 2009, DIESEL launched Only the Brave, with the aim of remaining the most alternative, innovative and entertaining brand on the market. Only the Brave is the embodiment of the masculine values of DIESEL: force, energy, rebellion, pushing back the limits. The fist-shaped bottle is a direct reference to urban culture, and to the artists, musicians and sporting icons who have marked history.

A 360-degree communications programme was rolled out in numerous countries: street marketing with dancers, graffiti competitions, and limited editions customised by artists.

Ranked one of the four top-selling fragrances in the United States at its launch⁽³⁾, Only the Brave was a major success, and became number 1 in Great Britain⁽⁴⁾.

(3) Source: NPD USA, Retail panel, 2009 market share-value.

(4) Source: NPD UK, Retail panel, 2009 market share-value.





ACTIVE COSMETICS

The Active Cosmetics Division distributes its products worldwide in all types of health channel, primarily through pharmacies, drugstores, medi-spas and, in some countries, dermatologists. Its unique portfolio of five brands covering all consumers' health and skincare needs, and its privileged partnership with health professionals, have made the division world number 1 in dermocosmetics.

• VICHY • LA ROCHE-POSAY •
• INNÉOV • SKINCEUTICALS • SANOFLORE •

CLOSER LINKS WITH HEALTH

In a context of slower market growth, the Active Cosmetics Division reinforced its world leadership thanks to a portfolio of highly complementary beauty/health brands, and the acceleration of its globalisation, particularly in the second half in the new markets. With an even stronger commitment to pharmacists and dermatologists, the division is being driven by a health trend with strong potential.



“Our brands, which are highly complementary in their approach to health, our innovations in all product categories and at all price levels, our investments in training and our new services in pharmacies, have reinforced our position as the market leader in dermocosmetics.”

Brigitte Liberman

Managing Director, Active Cosmetics

loreal2009.com
Find out about the world of Active Cosmetics and the division's highlights showcased in a pharmacy.



LEADERSHIP REINFORCED

The Active Cosmetics Division reinforced its number 1 position in a context of slower growth across all zones. The sales trend in Western Europe was negative (-3.3%⁽¹⁾), reflecting inventory reductions by wholesalers and parapharmacies, and the decline in sales of seasonal products for VICHY and INNEOV. LA ROCHE-POSAY and SKINCEUTICALS achieved strong growth rates in all countries. In North America, the division made a significant advance (+4.2%⁽¹⁾) thanks to the good resilience shown by SKINCEUTICALS in a recession-hit professional market, and the rise in prominence of VICHY and LA ROCHE-POSAY in American drugstores. In the Rest of the World zone (+0.2%⁽¹⁾), Latin America achieved double-digit growth and made significant market share gains. Eastern Europe was hampered by substantial distributor inventory reduction. Asia recorded double-digit growth⁽¹⁾ in the second half, bolstered by powerful product initiatives.

HEALTH CHANNELS PROVE RESILIENT

In 2010, the Active Cosmetics Division should be able to draw on three key assets. Its portfolio of unique and complementary brands enables it to tap into all consumption trends which combine beauty and health, from organic to high tech, across all prices and categories, including eau de toilette and soap, as Roger & Gallet joins the division in 2010. Its growth potential is considerable, particularly in the United States, Asia, Latin America and the Africa, Orient, Pacific zone. Health channels are confirming their strong resilience around the world, with the growth in healthcare spending. Pharmacies have succeeded in holding on to consumer confidence, by offering effective and accessible products, and high quality advice.

(1) Like-for-like.

Consolidated sales by geographic zone

€ millions	2008	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published
Western Europe	716.7	692.8	56.2%	-3.3%	-3.3%
North America	103.3	110.2	8.9%	+4.2%	+6.8%
Rest of the World	469.4	430.7	34.9%	+0.2%	-8.2%
TOTAL	1,289.3	1,233.8	100%	-1.5%	-4.3%

SKINCARE INSPIRED BY TISSUE ENGINEERING

In 2009, VICHY launched Neovadiol Gf, a skincare line inspired by tissue reconstruction techniques. A major scientific advance for the number 1 anti-ageing brand in pharmacies.

For some thirty years, L'Oréal researchers have been working to reproduce in the laboratory, the biological tissue that we know as skin, from human cells. This tissue engineering expertise has enabled an understanding of the key role of the skin's cellular communication factors in its renewal process. Routinely generated by all the cells of the skin itself, communication factors are powerful tissue reconstructors. They ensure the natural and structured growth of all the skin tissues in which they are stored.

Major menopause challenge

These advances in tissue engineering have enabled the selection of an active ingredient which promotes the synthesis of certain cellular communication factors and their storage in skin tissue. The active

ingredient has been formulated in VICHY's new skincare product, Neovadiol Gf. It is aimed primarily at menopausal women whose skin tends to lose firmness and density. After 10 days, this skincare product has a deep impact on the visible effects of the menopause: the cheekbones are resculpted, the neck slimmed, and the facial contours redefined. These results have been clinically verified by dermatologists on menopausal women in several countries. This advance was well received by consumers, enabling the Neovadiol range to record strong market share gains in all the countries where Neovadiol Gf was launched in 2009, and VICHY to strengthen its position as world number 1 in dermocosmetics.



loreal2009.com
Active Cosmetics Section

Watch the Neovadiol Gf commercial.

Consolidated sales by business segment

€millions	2008	2009	% of 2009 sales	Growth 2009/2008	
				Like-for-like	Published
Skincare	993.5	968.8	78.5%	+0.3%	-2.5%
Haircare	109.9	98.9	8.0%	-5.4%	-10.0%
Make-up	94.2	85.6	6.9%	-6.7%	-9.2%
Other	91.6	80.5	6.5%	-9.4%	-12.1%
TOTAL	1,289.3	1,233.8	100%	-1.5%	-4.3%

HIGHLIGHTS

La Roche-Posay accelerates in Asia

Its sales increased by +16.9% like-for-like thanks to close collaboration with local dermatologists and pharmacists.



Anti-ageing innovation is a winner for Vichy

Its new skincare products enabled the brand to confirm its number 1 position in pharmacies, in this market of the future.

The division continues to win market share in Latin America

This advance reflects the success of the new VICHY and LA ROCHE-POSAY products and INNEOV's successful entry into Brazil and then Mexico.



Significant advance in the United States

Sales of SKINCEUTICALS to aesthetic doctors and to premium spas, hit hard by the crisis, proved resilient, while VICHY and LA ROCHE-POSAY ramped up their sales in American drugstores.

INVENTING THE PHARMACY OF TOMORROW

For more than 10 years, the Active Cosmetics Division has been training its pharmacist partners in dermocosmetics, by sharing with them its keen insight into consumers and its management expertise. In 2009, the 2nd International Convention of "Pharmacy Managers" marked a major step forward.



300 opinion-leading pharmacists from 15 countries in Europe gathered in Berlin to focus on innovation. The aim was to explore growth leverage for the pharmacy of the future, and reflect on how to develop dermocosmetics through consumer service and advice. The three-day event proved hugely successful with the pharmacists taking part, who were able to take stock of worldwide beauty and health trends, exchange views about their best practices, and discover the Active Cosmetics concept for the pharmacy of the future. Several "pharmacy of the future" projects are currently being rolled out in Italy, Germany, France, Spain and Ukraine. In 2010, a new Pharmacy Manager Executive training course will be launched in Europe. It will enable pharmacists to assess their business projects and determine the best development strategy.



LiftActiv Retinol HA, active textures with immediate effect: a new generation of Retinol products for visible results after only four days on three types of wrinkle (permanent, reversible and incipient).



Vichy

The solidity of the world number 1

In 2009, the VICHY brand, world number 1 in cosmetics sold in pharmacies, captured new market share in facial skincare.

FLAGSHIP ANTI-AGEING INNOVATIONS

Market leader in the anti-ageing segment, VICHY's growth continued, thanks in particular to the renewal of Novadiol as Neovadiol Gf and the launch of LiftActiv Retinol HA day and eye creams, a new generation of active textures with an immediate and lasting anti-wrinkle effect, in highly innovative packaging with an ultra-protective diffu-

sion system. After a difficult first half, the Normaderm franchise for skin imperfections rolled out a new communication campaign and a solid promotional plan which boosted sales in the second half.

ACCESSIBLE TO THE WIDEST RANGE OF PEOPLE

In Asia, the Bi-White Reveal range of lightening products continued to bolster the brand. The outstanding efficacy of its star product Essence and the launch in October of day and night creams with instantly visible effect generated, from the first month in China, strong sales growth compared with 2008.

The new VICHY entry-level range, Essentielles, with five hypoallergenic paraben-free products, received a particularly enthusiastic welcome from pharmacists and consumers with lower income levels.

Essentielles

Vichy beauty for every woman



To make the efficacy and safety of pharmacy products accessible to all women, whatever their income, Laboratoires Vichy teamed up with pharmacists to create Essentielles, a range of five comprehensive paraben-free and hypoallergenic skincare products for the face and body, at under €10.



In China, the 6th largest market for LA ROCHE-POSAY, the brand's sales increased by +21%⁽¹⁾, with major successes for Effaclar, Tolériane, Anthélios and Uvidéa.

La Roche-Posay strengthens its worldwide presence

Synonymous with advanced dermatology, LA ROCHE-POSAY offers a comprehensive range of skincare and make-up products adapted to all skin types, including the most sensitive.

GROWTH ACROSS ALL REGIONS

Supported by more than 25,000 dermatologists in some 60 countries, and by pro-active advice in pharmacies, the brand again recorded dynamic growth in 2009 in all regions of the world: Western Europe (+2.3%⁽¹⁾), Asia (+16.9%⁽¹⁾), Latin America (+9.2%⁽¹⁾), and North America (+7.1%⁽¹⁾). Sales accelerated particularly strongly in the second half following the launch of three major innovations: Effaclar Duo, corrective and unclogging anti-imperfection care; Derm Aox, multi-corrective day care to smooth away wrinkles and generate new found radiance; and Lipikar Baume AP, a

(1) Like-for-like.

lipid-replenishing anti-irritation body balm for very dry skin with atopic tendencies.

EVEN MORE COMMITTED TO DERMATOLOGISTS

In 2009, LA ROCHE-POSAY entered into a commitment with dermatologists' associations in 22 countries to carry out national campaigns to promote education, awareness-raising and screening for skin melanomas and cancers. More than 68,000 screenings took place, and 3,900 skin cancers were identified, preserving the lives of a large number of people.



loreal2009.com
Active Cosmetics Section
Watch the melanoma
screening campaign film.

SkinCeuticals Strong acceleration in Europe



The pioneering cosmeceutical brand had a good year in 2009, thanks to a strong acceleration in Europe, and growth in an American market weakened by the crisis affecting premium spas and aesthetic doctors.

In pharmacies as well as in medical and professional channels, growth was driven by the success of technological innovations in the fields of anti-oxidants (Phloretin CF) and anti-ageing correction treatments (Retexturing Activator and AGE Interrupter).



Sanoflore

A new generation of organic cosmetics

The expert in organic essential oils, Laboratoire Sanoflore is committed to the health of both consumers and their skin. In Europe, the brand grew faster than the pharmacy market, thanks to a new generation of organic cosmetics products which combine proven efficacy, attractive textures and fragrances, and respect for sensitive skin.

Innéov

Conquering markets in Latin America

A joint venture resulting from collaboration between L'Oréal and Nestlé research teams, INNÉOV strengthened its leadership in Europe and continued its geographic expansion in Latin America. In Europe, INNÉOV stimulated the market with strong growth in the anti-hairloss segment and the launch of Imperfections D-tox in September. In Latin America, INNÉOV successfully moved into Mexico where it became number 1 in nutritional supplements for beautiful hair.



THE BODY SHOP

Founded in 1976 in the United Kingdom by Dame Anita Roddick, The Body Shop is well known for its strong ethical commitment and its products based on natural ingredients. More than 65% of them contain Community Trade ingredients, sourced primarily from suppliers in disadvantaged communities, representing a unique approach in the cosmetics industry. The Body Shop has a network of 2,550 stores in 63 countries.

ETHICAL INNOVATION

In 2009, The Body Shop proved resilient in a difficult environment. To win over an ever wider range of customers, the brand continued its highly dynamic innovations policy and introduced a growing number of ethical initiatives. 2009 was a year of active innovation for The Body Shop, which reorganised its operations to boost its responsiveness and agility, and ensure that its growth remains sustainable.

 **loreal2009.com**
The Body Shop Section

Discover the highlights showcased in a store.

In a retail market severely affected by the economic crisis, The Body Shop proved resilient. Its like-for-like sales grew by +0.7%. Total retail sales⁽¹⁾ grew by +1.0%. With a comparable store base⁽²⁾, sales were down by -0.6%. The brand recorded solid growth in most of Asia, the Middle East and mainland Europe, particularly in Sweden, Denmark, Portugal and France. However, the economic climate continued to hamper customer footfall in the United Kingdom and North America. At the end of 2009, the brand had a total of 2,550 stores in 63 countries, following the opening of its first store in Vietnam.

Furthermore, The Body Shop carried out a thorough reorganisation to boost its dynamism and efficiency. These measures brought a significant improvement in profitability in 2009. The new organisational structure has three aims: to increase the focus on customers, to put greater emphasis on the network of stores, and to boost the strategic creation of global products.

A YEAR OF INNOVATION

To boost its visibility and attract new customers into its stores at a time when the retail context was challenging, The Body Shop applied a policy of major products launched throughout the world. The highlight of the year, Nutriganics™ is the first-ever organic skincare range for The Body Shop. In addition, to appeal to consumers who are increasingly looking for good value-for-money, the brand launched the "originals collection", which includes 11 iconic products of The Body Shop, sold in 100%-recycled plastic bottles at attractive prices. The collection immediately generated very lively customer uptake both in stores



NUTRIGANICS™, THE ORGANIC ALTERNATIVE

To meet consumer demand for certified organic products with clinically proven anti-ageing efficacy, The Body Shop launched its first-ever certified organic skincare range, Nutriganics™.

The seven products in this high performance skincare regime—moisturising, smoothing and revitalising—all have luxurious textures.

More than 95% of ingredients are of natural origin, including 15 active organic ingredients, such as Community Trade virgin cold-pressed coconut oil from Samoa and Community Trade babassu oil from Brazil.

Even the packaging is eco-responsible

The cardboard packaging for the products has been designed using materials from sustainably managed forests certified by the FSC (Forest Stewardship Council). Positioned at competitive prices for certified organic products, initial launch results indicate that the Nutriganics™ range will be a pillar of The Body Shop's skincare portfolio.



Sales

€ millions	2009	2009/2008 like-for-like growth
Retail sales ⁽¹⁾	1,230.0	+1.0%
Retail sales with a comparable store base ⁽²⁾	1,080.1	-0.6%
Consolidated sales	726.3	+0.7%

Retail sales by geographic zone

€ millions	2008	2009	% of 2009 sales	2009/2008 like-for-like growth
Western Europe	518.0	518.1	42.1%	0%
North America	202.5	176.8	14.4%	-12.7%
Rest of the World	497.1	535.1	43.5%	+7.6%
TOTAL	1,217.7	1,230.0	100%	+1.0%

(1) Total sales to consumers through all channels.

(2) Total sales to consumers by stores which operated continuously from January 1st to December 31st, 2009 and over the same period in 2008.



Launched in September, Love Etc...™ includes Community Trade alcohol made from organic sugar cane.

and on the Internet. The third major innovation, Love Etc...™ is the first internationally available fragrance to include Community Trade alcohol made from organic sugar cane. Inspired by the values of The Body Shop founder Anita Roddick, this “feel good” fragrance was supported by a strong viral marketing campaign. Launched in September, Love Etc...™ became the brand’s number 1 fragrance in a number of countries, alongside The Body Shop’s other star perfume, White Musk. The

brand also moved into new distribution channels for the first time, with 24 retail points opened in airports in Asia, Europe and Latin America, and introduced a selection of products on board more than thirty airlines.

REASSERTING ETHICAL LEADERSHIP

As a long-standing campaigner for human rights issues, The Body Shop launched a major new campaign to “Stop Sex Trafficking of Children and Young People”, alongside NGO partner End Child Prostitution and Trafficking (ECPAT). This campaign, which represents a three-year commitment, aims to bring this fast growing issue to public attention, and to inspire those with decision-making power to take effective measures. The campaign product “Soft Hands Kind Heart” is a protective hand cream, for which all profits after tax will go to ECPAT and its partner organisations. The Clinton Global Initiative welcomed the campaign as an “exemplary approach to addressing a specific global challenge”.



The Body Shop launched the “Stop Sex Trafficking of Children and Young People” campaign as seen in the window of a New Zealand store.

Number of stores

	At December 31 st , 2008	At December 31 st , 2009	Variation in 2009
Company owned stores	1,069	1,089	+20
Franchisees	1,481	1,461	-20
TOTAL NUMBER OF STORES	2,550	2,550	-

COMMUNITY TRADE PROGRAMME ACCELERATES

Since 1987, The Body Shop has directly sourced its fairly traded Community Trade ingredients from growers in marginalised communities, as part of its Community Trade programme which is constantly being extended.

At present, some 30 suppliers in 22 countries across four continents participate in this programme, which improves the living conditions of more than 25,000 people worldwide. In addition to the brand’s long-standing policy of ethical trade, the Community Trade programme requires all direct suppliers to sign up to an extremely strict code of conduct, which ensures good working conditions at each point in the supply chain.

In 2009, The Body Shop introduced new Community Trade ingredients in its products: high-grade cold-pressed virgin coconut oil, made by the Samoan co-operative WIBDI (Women In Business Development Inc.), which provides a stable market for over 200 people, and tea tree oil from Kenya, hand-harvested by members of the Kenya Organic Oil Farmers Co-operative Association.

The Body Shop works closely with other L’Oréal brands for the supply of Community Trade ingredients.



loreal2009.com
The Body Shop Section

Find out more about the brand’s community trade work.

GALDERMA

DEFINING THE FUTURE OF DERMATOLOGY

Galderma is a leading global speciality pharmaceutical company focused exclusively on dermatology. With Epiduo™ and Oracea®, two of the top 4 fastest growing products in dermatology in 2009, Galderma recorded the highest underlying demand growth in the dermatology industry, achieving a record 7.2% market share⁽¹⁾.



SOLID GROWTH WORLDWIDE

Sales reached €978 million, a +10.8% increase⁽²⁾, with solid growth in the United States and double-digit growth elsewhere in the world. In Western Europe, sales grew +11.3%⁽²⁾ with strong performance from France, the United Kingdom and Germany. Sales grew +11.5%⁽²⁾ in Latin America with significant contributions from Brazil, Venezuela and Mexico. In Asia, sales grew +23.1%⁽²⁾, with notable growth in South Korea and Japan, where Differin® 0.1% gel continued to gain ground in the topical acne market one year after its launch. In the United States, where an adjustment of distributor inventories impacted sales in the third quarter, demand remained strong. Galderma ended 2009 with a record 12.1% market share⁽¹⁾ in the United States. Over the year, sales increased by +9.5%⁽²⁾ in North America.

REFERENCE PRODUCTS

Galderma made important advancements in bringing its products to more patients around the world. Epiduo™ (acne) was approved in a growing number of countries, from Australia to Brazil, South Korea to Switzerland and, as a result, was ranked as the fastest growing product in dermatology in 2009. The adapalene molecule, which was discovered in Galderma's laboratories and serves as the foundation for Epiduo™ and Differin®, continued to grow market share worldwide as the leading topical treatment for acne. Oracea® (oral treatment for rosacea), ranked the fourth fastest

growing product in the worldwide dermatology market⁽¹⁾, was approved in Europe, together with Clobex® Shampoo (treatment of scalp psoriasis), and Azzalure® (glabellar lines). Vectical®, which is marketed under the Silkis® brand name elsewhere, was approved in the United States and rapidly adopted as an important component in the topical treatment of psoriasis.

INNOVATION, GLOBALISATION

2009 was a year of important advances in research. The company invested 20.8% of sales to discover and develop new products, and access innovative technologies. To protect its discoveries, Galderma filed a record number of nearly 60 patents.

Galderma's success in 2009 has provided the foundation for continued growth in 2010. The company expects to follow up on the successful launch of Azzalure® with the introduction of the Emervel® range of dermal filler products for the corrective and aesthetic dermatology segment. Epiduo™ and Oracea® are expected to be launched in more countries, while in targeted markets, Vectical®, Differin® and Clobex® will gain further acceptance and provide additional growth.

AZZALURE® FULFILLING EXPECTATIONS IN EUROPE

The most widely anticipated event of the year was the market introduction of Azzalure®. This botulinum toxin type A, with its specific manufacturing process and unit measure, was developed for the temporary correction of the appearance of glabellar lines. With robust scientific and clinical data, this product garnered significant interest from doctors and patients. To support the launch, Galderma trained healthcare professionals to help optimise injection techniques and patient outcomes.



Consolidated sales by geographic zone⁽³⁾

€ millions	2008	2009	% of 2009 sales	Growth 2009/2008 Like-for-like	Published
Western Europe	196.6	215.2	22.0%	+11.3%	+9.4%
North America	492.0	580.4	59.3%	+9.5%	+18.0%
Rest of the World	165.2	182.6	18.7%	+14.5%	+10.6%
TOTAL	853.8	978.2	100%	+10.8%	+14.6%

(1) Source: IMS at end of December 2009 – MAT data – class D + class J1A oral antibiotics used for acne and rosacea + class J2A oral antifungal treatments used for onychomycosis.

(2) Like-for-like.

(3) 100% of Galderma's sales.

International

DOUBLING OUR CONSUMER BASE

The globalisation of the cosmetics market is only just beginning. Although we are already present on every continent, we are still only reaching one-fifth of the planet's population. By accelerating the globalisation of the company and the conquest of new markets, we are aiming to double our consumer base.





MARKETS

POTENTIAL OF THE EMERGING COUNTRIES

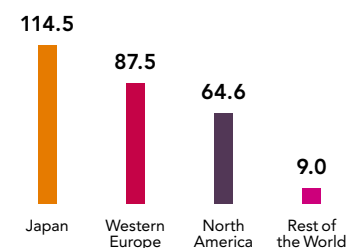
In 2009, the shift in the global cosmetics market towards the new markets accelerated. The emerging countries advanced strongly, confirming their impetus as a global growth relay. This solid development potential is underpinned by two other trends: the growth in the number of seniors and the upsurge in the men's market.

“The shift in the world cosmetics market towards new markets constitutes a historic opportunity. Our goal is to double our consumer base from 1.2 billion to 2.5 billion customers.”

Jean-Paul Agon

Chief Executive Officer

Per capita cosmetics consumption⁽¹⁾
(in euros)



(1) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on a world market updated in 2009. Source: L'Oréal estimates, manufacturer selling prices.



The shift in the worldwide cosmetics market towards the new markets is taking place before our eyes. Between 2020 and 2025, countries in the Rest of the World zone⁽²⁾ may represent more than 50%⁽³⁾ of the total cosmetics market. Within the same timeframe, Asia, excluding Japan, may have the same weight⁽³⁾ as Western Europe. The Africa, Orient, Pacific zone meanwhile may overtake⁽³⁾ Japan. Latin America may represent 80%⁽³⁾ of the North American figure, and Eastern Europe half the total⁽³⁾ of Western Europe.

ALMOST UNLIMITED POTENTIAL

Today, people living in emerging countries consume on average 10 times fewer cosmetics products than those in developed countries. With a constantly growing GDP,

this level should increase very quickly. In China for example, the strong increase in per capita income is a substantial reservoir of future growth.

THE CHALLENGE OF DIVERSITY

L'Oréal today reaches some 1.2 billion consumers around the world, but most of them are in the developed world. This figure may double over the coming years through the winning over of new customers, primarily in the emerging countries. These new markets are different in the diversity and richness of their social representations of beauty. Winning consumers over in these countries is at least as much of a technological challenge as a question of sensitivity and openness.

(2) Countries excluding North America, Western Europe and Japan.
(3) L'Oréal estimates.



Focus on India and its beauty rituals

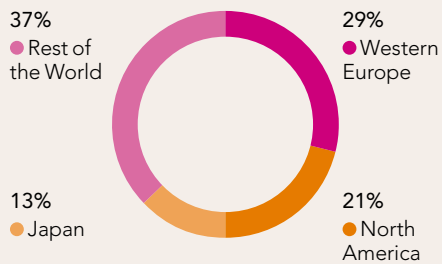
For an Indian woman, a beautiful face is clear and radiant. The skin must be smooth and soft, without blemishes, and the complexion must be even. This is a beauty ideal which is difficult to achieve in a country where the hot and humid climate combines with high levels of urban pollution, making the skin oily and dark. Traditional facial skincare routines, a legacy from Ayurvedic techniques, are sophisticated and involve the use of natural ingredients such as talc, lemon, rose essence, honey and coconut oil. Keeping the skin perfectly clean is a constant concern: women wash their faces in water up to eight times a day! These beauty routines are gradually incorporating cosmetics, as women recognise their usefulness and efficacy: creams to unify the complexion are already used by some 78%⁽³⁾ of young urban women consumers. This market, underpinned by solid skincare habits, has huge potential, particularly for facial skincare combining anti-ageing and anti-blemish properties with sun protection.

(3) U&A L'Oréal study – GfK Mode – 4,185 Indian women – 18-55 years – Cities – December 2007.

A SOLID WORLDWIDE COSMETICS MARKET

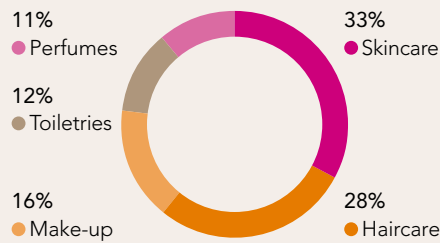
In 2009, the worldwide cosmetics market proved resilient, despite the economic crisis. It reached a total of 117.3 billion euros⁽¹⁾, representing an increase of around 1%⁽¹⁾. Over the last fifteen years, it has grown on average by +3.9% a year, excluding currency effects.

Breakdown of market by geographic zone (as %)



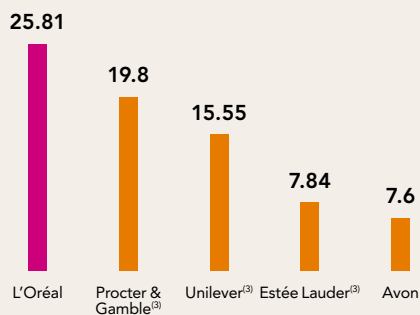
The Rest of the World zone already accounts for some 37% of the global cosmetics market, and the bulk of its growth in 2009. The Asian continent, and China and India in particular, should be amongst the largest contributors to the market's growth over the next ten years.

Breakdown of market by product category (as %)



Of the five cosmetics market business segments, the skincare category was the most dynamic in 2009, particularly in Asia. In China, facial skincare sales grew by +11% on average over the year. Each year, the boundaries between these business segments are moving, in response to new beauty expectations. Foundations and lipsticks are thus being inspired by technologies developed for facial skincare, to offer women with the most exacting requirements, highly innovative anti-ageing make-up.

Main worldwide players⁽²⁾ (billions of US dollars)



(1) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates, manufacturer selling prices. (2) Source: "Beauty Top 100" WWD, September 2009, 2008 sales. (3) Estimates.

Seniors take up the challenge of ageing well

In 2025, more than one billion women across the world will be over 50 years old. The ageing of the population is already visible in developed countries, but will affect emerging countries too, such as India and China. In fifteen years' time, 31% of the population of Shanghai will be over 60 years old.

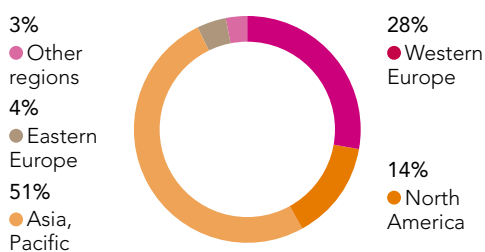


Living longer, but at the same time being fit and healthy. That is the challenge for this new generation of seniors. It is also a challenge for cosmetics, which have a key role to play: to help everybody, whatever their age, to feel at ease with themselves and with other people.

A men's market driven by Asia

The market for men's cosmetics is growing three times faster than the global cosmetics market. Asia is the largest market in the world for men's facial skincare. Europeans and Americans remain discreet consumers, but the younger generations are showing considerably more interest than their elders.

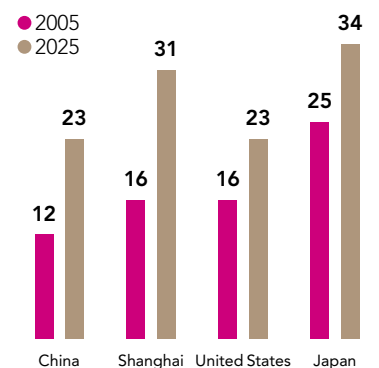
Breakdown of the worldwide men's skincare market by geographic zone⁽⁴⁾ (as %)



(4) Source: Euromonitor, 2008 market – MSP market share – € millions – 2008 fixed exchange rates. Men's cosmetics scope as defined by Euromonitor, excluding soap and razors.



Proportion of population aged over 60⁽⁵⁾ (as %)



(5) Source: Global Demographics (2008).

WESTERN EUROPE

MARKET SHARE GAINS IN THE UNITED KINGDOM

In a market which continued to grow despite the difficult economic situation, L'Oréal achieved +1.0%⁽¹⁾ sales growth in the United Kingdom and continued to win market share. Flashback to the major successes in the mass-market and luxury segments.

In response to the recession, GARNIER offered British consumers its ground-breaking innovations at very accessible prices and introduced a vast promotional campaign "Great Innovations, Great Prices" at a number of sales outlets. Launched in 2008, Caffeine Eye Roll-on is now number 1 in the eyecare market⁽²⁾, and its success is continuing. With one product sold every 15 seconds and total sales of around two million units since its launch, Caffeine Eye Roll-on has truly become a cult product. The brand also scored a major styling success when it launched new Fructis Style Flexihold hairspray enriched with bamboo. These successes enabled GARNIER to grow almost twice as fast as its market in 2009⁽²⁾.

TAILOR-MADE HAIRCARE

A recent Internet survey of 3,000 consumers identified five of the most common concerns British women have about the condition and appearance of their hair, which they described as fragile, lacklustre, dull, lifeless or straw-like. To meet their needs, L'ORÉAL PARIS launched in 2009 a formula specially adapted to British hairwashing habits and hair types, Elvive Full Restore 5. Thanks to an advertising campaign featuring Cheryl Cole and a full-scale sampling campaign, Full Restore 5 enabled Elvive to bolster its position in the haircare segment.

A BIG YEAR FOR LUXURY

In a dynamic market, the Luxury Products Division achieved double-digit sell-out growth in perfumeries and department stores⁽³⁾ thanks to three best-sellers. LANCÔME scored a major success with Génifique, which enabled the brand to make a leap of +32%⁽³⁾ in sell-out terms in the key anti-ageing category. In perfumes, DIESEL carried out the biggest launch ever in the United Kingdom with Only the Brave, a concept and a name which were an immediate hit with British consumers. It was the leader in male perfumes across the whole year. YVES SAINT LAURENT recorded exceptional growth thanks to the +38%⁽³⁾ increase in its perfume sales, spurred on by the successful launch of Parisienne.



Full Restore 5, embodied by Cheryl Cole, has enabled Elvive to bolster its position in the haircare segment in the United Kingdom.

(1) Like-for-like.

(2) Source: Nielsen, Retail panel, 2009 market share-value.

(3) Source: EPOS, Retail panel, December 2009 value.

Inoa

The magic is already at work

Launched in Western Europe from September 2009, Inoa—the new hair colourant from L'ORÉAL PROFESSIONNEL—was taken up very quickly by a record number of hairdressers, won over by its innovative formula and its outstanding benefits, both for themselves and their customers. In the space of three months, more than 36,000 salons switched to the new benchmark for professional oxidation hair colourant, which enables them to enhance the value of their salon colour services and thus improve their profitability.

To speed up the roll-out of Inoa in the top European salons, the brand organised more than 3,500 training sessions in a single quarter for some 80,000 hairdressers. The buzz on the Internet and in women's magazines, spread by an unprecedented advertising campaign in the national daily press, also generated an increase in customer footfall to L'ORÉAL PROFESSIONNEL hair salons.



The new hair colourant Inoa by L'ORÉAL PROFESSIONNEL has already been chosen by 36,000 European hair salons.



France

Parisienne—a success for Yves Saint Laurent

Launched in September 2009, Parisienne—the new women's fragrance from YVES SAINT LAURENT—is already making headlines in several Western European countries, particularly in France, where it benefits from magnificent showcasing in the major partner department stores, an extremely powerful media campaign featuring Kate Moss, and street marketing. Since the launch, these initiatives have lifted Parisienne—ranked best launch of the year in its category—into the top 5 women's perfume sales in 2009⁽¹⁾. Its success, and that of men's fragrance La Nuit de l'Homme, together with the launch of innovative products such as Mascara Singulier, enabled YVES SAINT LAURENT to strengthen its positions in the selective market in most countries, particularly in France, where the brand has broken into the top 5 selective brands⁽¹⁾.

Maybelline New York galvanises make-up sales

With +8.0% sell-out growth in Western Europe, MAYBELLINE NEW YORK was the fastest-growing make-up brand in 2009, fuelling the market's expansion⁽²⁾. The main driving force behind this robust health was the support provided by the brand's flagship products through major innovations: Colossal strengthened the number 1 position of Volum' Express in the mascara range, and the liquid foundation Dream Satin Liquid reinforced the leadership of Dream Matte Mousse in this segment. The new lipstick Color Sensational, already extremely popular in America, made a very promising start. The other driving force was the ongoing improvement of the brand's image. By becoming the official make-up brand for Fashion Week in Germany and for young designers' catwalk shows in the United Kingdom, MAYBELLINE NEW YORK stressed its fashion-conscious and trendsetting profile. Lastly, the brand reaped the benefits of a very close partnership with retailers, and saw its shelf space increase substantially.



(1) Source: NPD France, Retail panel, 2009 market share-value.

(2) Source: Nielsen, Retail panel, Europe Total, 2009 value.

(3) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates.

REVIEW

OF THE WESTERN EUROPEAN ZONE

Annual performance came out at -6.3% like-for-like. The group's trend was favourable in the United Kingdom, while Italy, France and particularly Spain and travel retail weighed on performances in this zone. The impact of inventory reductions by distributors, which was particularly significant in Luxury Products, gradually declined.

The Professional Products Division won market share in many countries including Germany, Austria and the Scandinavian countries.

The Consumer Products Division's trend was slightly less rapid than the market, whose trend remained positive. MAYBELLINE NEW YORK recorded strong growth.

The Luxury Products Division finished the year in line with market trends. It saw sales accelerate in the northern countries at the end of the year, while the south felt the impact of inventory reduction. The Active Cosmetics Division suffered due to inventory reductions by wholesalers and parapharmacies, as well as the difficulties of VICHY and INNÉOV with their seasonal products.

 loreal2009.com
International Section

See the zone's review in pictures.

€7,036.6
million of consolidated
cosmetics sales

20.7%
market share⁽³⁾

43.3%
of group cosmetics sales

EASTERN EUROPE

L'ORÉAL WINS OVER UKRAINIAN WOMEN



loreal2009.com
International Section

See the Garnier Mineral commercial.

In most Eastern European countries, GARNIER is featured in the top 5 women's deodorant brands.

Having settled in Ukraine five years ago, L'Oréal continued its conquest of the market with +30.3% like-for-like sales growth in 2009 despite the economic recession. Its breakthrough in deodorants with Garnier Mineral, and in hair colourants with Casting Crème Gloss by L'ORÉAL PARIS, enabled the group to significantly strengthen its positions in this country of 46 million inhabitants.

Already number 1 in facial skincare, GARNIER gained a foothold in the highly promising deodorant market in April 2009. Taking advantage of its attractiveness to Ukrainian women and the minerals trend in cosmetics, the brand moved into this new segment with the Garnier Mineral range and its innovative active complex, offering consumers an unprecedented dual promise: effective for a record 48 hours whilst letting the skin breathe. A major advertising campaign and massive presence in sales outlets enabled GARNIER, in just a few months, to take fourth place in the women's deodorant market, and third place in roll-on deodorants⁽¹⁾.

OUTPERFORMING THE MARKET

Another success was Casting Crème Gloss hair colourant from L'ORÉAL PARIS, the first ammonia-free, tone-on-tone colourant in the market, enabling the brand to triple hair colourant units sold in two years. L'ORÉAL PARIS has now exceeded 30% market share in this segment in the mass-market outlets where Ukrainian women prefer to buy their beauty products.

For MAYBELLINE NEW YORK, the +69% growth rate of the Volum' Express Mascara franchise, thanks in particular to Colossal mascara, enabled the brand to continue to gain ground in the Ukrainian make-up market. This success story completed that of Affinitone foundation which offers innovation at an affordable price and played a major part in establishing the brand's image in the country.

The Professional Products Division also strengthened significantly its positions. By holding more than 1,000 seminars at its academy in Kiev and at training centres, where over 7,000 hairdressers were trained, the division actively contributed to the artistic training of local hairdressers and to the expansion of their businesses.

MEETING CONSUMERS

In this flourishing market, L'Oréal took many initiatives to build closer relationships with consumers in all types of sales outlet—pharmacies, supermarkets, drugstores—and to sharply increase brand recognition through street marketing and even going into universities.

(1) Source: Nielsen, Retail panel, 2009 market share-value.



Kazakhstan

Creation of a L'Oréal subsidiary

In 2009, the group set up a subsidiary in Kazakhstan to take over direct management of the Consumer Products Division's three brands L'ORÉAL PARIS, GARNIER and MAYBELLINE NEW YORK, previously distributed through a representative office.

In this country of more than 15 million people, GARNIER is the most widely distributed of the brands. Its top-selling item, Color Naturals hair colourant, continued to grow very rapidly, with sales up by +23% in 2009.

Matrix

Strengthened implantation throughout the zone

Launched in Bulgaria, MATRIX continued its roll-out in the countries of Eastern Europe, where the brand proved highly successful. In a sharply contracting market, its sales grew by +13.7% like-for-like across the zone.

It achieved spectacular success in Russia, moving into 1,400 more salons, and in Ukraine where it grew very quickly by winning over new salons, and strengthening its positions in existing ones. MATRIX is now available in more than 22,000 salons in all East European countries.



In Russia, Vichy strengthens its positions in anti-ageing skincare

Despite the destocking in pharmacies and a severe drop in the dermocosmetics market in 2009, VICHY—already by far the number 1 dermocosmetic brand in Russia—strengthened its positions in anti-ageing skincare. First of all, this is thanks to the success of LiftActiv Retinol HA, which benefited from a high-profile promotional campaign notably via a partnership with 36-6, the top Russian pharmacy chain.

The brand also successfully repeated its "Vichy Consult" campaign. It set up dermo bars in shopping centres offering consumers a skin diagnosis and advice about the skincare products best suited to their needs. In the second half, VICHY offered some of its products—Aqualia Thermal, LiftActiv CxP and Normaderm—at lower prices, selling them in tubes instead of the usual bottles. This hard-hitting campaign, backed up by press and TV advertising, enabled the brand to double the number of units of its three star products sold over the promotion period.



REVIEW OF THE EASTERN EUROPE ZONE

After a difficult start to the year for the market, sales accelerated sharply in the final quarter, with a double-digit growth rate, enabling L'Oréal to end the year at +3.3% like-for-like.

There was a very pronounced contrast: the sales trend in Hungary and the Czech Republic was still negative, whilst growth was strong in Ukraine, and Russia recorded a strong growth rate at the end of the year.

The group strengthened its positions, particularly in the Consumer Products Division which advanced thanks to L'ORÉAL PARIS hair colourants and the success of Garnier Mineral deodorants.

In a very difficult context for hair salons and luxury distribution channels, luxury product sales picked up throughout the year and the Professional Products Division gained a large number of new hair salons thanks particularly to MATRIX.

 loreal2009.com
International Section

See the zone's review in pictures.

€1,212.8
million of consolidated
cosmetics sales

12.7%
market share⁽¹⁾

7.5%
of group cosmetics sales

(1) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates.

NORTH AMERICA

LANCÔME CONSOLIDATED ITS POSITIONS IN THE UNITED STATES



In a luxury market which clearly declined in 2009, LANCÔME consolidated its position by leveraging three major initiatives: the launch of breakthrough technological innovations, a new point-of-sale concept to intensify consumer contact, and a move into alternative channels.

The first key to success was the launch of highly innovative make-up and skincare products. Following the huge success of Ôscillation Power-mascara in 2008, LANCÔME strengthened its leadership on the mascara market with the launch of Ôscillation Powerbooster in June 2009, which adds a lash-care benefit to the micro-vibrating massage. The success of this product, which ranked number 2 in mascaras when it was launched⁽¹⁾, enabled the brand to capture over 32%⁽¹⁾ of the mascara market in the United States.

HIGH-TECH ANTI-AGEING

The youth activating cream serum Génifique was released in April on the American market. It was welcomed as one of the best launches of the year by the trade press that recognised the originality of the communication campaign in magazines, on television, as well as through bloggers. Since the launch, 500,000 Génifique units have been

sold and in the fourth quarter the Youth Activating Eye Concentrate was introduced to complete the franchise. The launch of Génifique enabled LANCÔME to increase its market share in the age specialist segment by 3.2 points in 2009⁽¹⁾.

Two innovative mineral-based foundations also won over new consumers. First, Ageless Mineral, a range of two products with anti-ageing properties: a powder foundation and a loose powder. Another innovation specific to the American market is the first-ever micro-vibrating foundation—Ôscillation Powerfoundation—a technological marvel which ensures perfect product application using a vibrating velvety cushion applicator.

CHOOSING ALTERNATIVE CHANNELS

The second key to success was the new LANCÔME in-store counter concept, as seen in the Bloomingdale's department store in New York. Expert

diagnosis tools, demonstration films, and a special focus on service—everything was designed to maximise contact opportunities with the consumer and thus enhance her purchasing experience.

Finally, the brand also found new growth-relays by developing alternative channels. Already present on the Internet for several years with its own online shop, and the marketing of its products on distributors' websites, the brand achieved double-digit sales growth in this channel.

(1) Source: NPD USA, Retail panel, 2009 value.

United States

Redken gives hairdressers a boost

The Professional Products Division strengthened its position on the American market despite a difficult economic environment.

REDKEN, in particular, contributed to this performance. The brand's success was due, in part, to the renovation of the Color Extend line dedicated to color-treated hair and it strengthened its position in the hair colour category. It also launched an innovative business workshop called "\$tep UP! Fast Track to Wealth Program", designed to help stylists throughout the United States to boost their business.



United States

Kiehl's earns points with the eco-effective Açaí collection

Since its launch in September 2009, Açaí Damage-Repairing collection by KIEHL'S has been a huge success in the United States thanks to a skincare range of four products which use efficacious ingredients of natural origin with clinically proven results.

With a high concentration of açai, a super antioxidant berry from the Brazilian Amazon, the skincare range is 100% natural origin.

The collection is ECOCERT certified as an organic product, and it is also the first facial skincare range in the industry to be Cradle to Cradle Gold certified, a distinction that honours KIEHL'S for having an eco-effective product.

The Açaí Damage-Repairing collection enabled KIEHL'S to reinforce its positions on the age specialist skincare market⁽¹⁾.

Color Sensational boosts Maybelline New York

Color Sensational, a major lipstick launch in summer 2009, brought MAYBELLINE NEW YORK, a historically strong eye make-up brand, back to leadership in lip colour innovation in this market. Color Sensational, with a full range of lipsticks, liners, and gloss, was an innovation in all key categories.

The Color Sensational Tour which promoted the collection throughout the country with the participation of professional make-up artists highly contributed to the success of this launch.

Color Sensational helped MAYBELLINE NEW YORK to clearly strengthen its position in the lipstick market⁽²⁾.



REVIEW OF THE NORTH AMERICA ZONE

The improvement in sales in the 4th quarter enabled the group to end 2009 at -3.4% like-for-like. Over the full year, L'Oréal slightly outpaced the market in sell-out terms.

The Professional Products Division accentuated its leadership, particularly thanks to REDKEN. With the acquisition of three new distributors, the SalonCentric network now covers 80% of the territory of the United States.

In a market which remained stable, the Consumer Products Division's positions improved slightly, with market share gains in haircare and skincare.

In a declining market, the Luxury Products Division's trend was in line with the market, and strengthened its position in skincare and make-up. Its brands LANCÔME and YVES SAINT LAURENT grew faster than the market.

The Active Cosmetics Division continued to win market share, thanks to the good resilience of SKINCEUTICALS in a professional market in recession and the increasing presence of VICHY and LA ROCHE-POSAY in American drug-stores.

 loreal2009.com
International Section

See the zone's review in pictures.

€3,801.9
million of consolidated
cosmetics sales

15.8%
market share⁽³⁾

23.4%
of group cosmetics sales

(1) Source: NPD USA, Retail panel, 2009 market share-value.
(2) Source: Nielsen, Retail panel, 2009 value.

(3) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates.

ASIA

L'ORÉAL STEPS UP ITS PRESENCE IN CHINA

 loreal2009.com
International Section

Watch the Chinese commercial of
Men Expert Hydra Energetic
Turbo Booster.



The actor Daniel Wu, an icon for young urban Chinese men, showcases Men Expert by L'ORÉAL PARIS, the men's skincare range.



China recorded another year of strong like-for-like growth at +17.6% in 2009. Amongst the year's star performers were L'ORÉAL PARIS, which ensured its prominence in the men's market where the group is number 1, and made a high-profile entrance into the haircare segment, and GARNIER, buoyed by the success of its skincare products. Not forgetting KIEHL'S whose arrival in both Beijing and Shanghai is looking highly promising.

DOUBLE SUCCESS FOR L'ORÉAL PARIS

Three years after its launch in China, Men Expert by L'ORÉAL PARIS can be proud to have made a significant contribution to the rapid development of the men's skincare market, in a country where 74% of urban dwellers regularly use a moisturiser⁽¹⁾. This simple and comprehensive line, which sports a distinctive colour code and is showcased by actor Daniel Wu, won over young urban Chinese men with products such as Hydra Energetic. Already number 1 in its universe of department stores⁽²⁾, Men Expert moved into modern distribution, capturing second place in 2009⁽³⁾ and thus reaching a far wider target group. The brand had the fastest growth rate in this segment, in this country which is now its largest market worldwide. After hair colourants, make-up and skincare, L'ORÉAL PARIS also targeted the haircare market.

(1) Source: Research International. Men aged between 15 and 50 in seven cities.

Following an extensive preliminary study at its Pudong laboratory to deepen understanding of Chinese hair and specific haircare expectations (45,000 volunteers were consulted), in the summer, the brand launched a line of specially formulated and perfumed products, totally adapted to local haircare rituals. Initially available through 3,000 sales outlets, L'ORÉAL PARIS haircare products should soon achieve wider distribution and greater market penetration.

GARNIER ON A ROLL

GARNIER recorded sales growth of +61.2% like-for-like, driven by its skincare ranges. By doubling units sold, its Aqua Defense franchise became not only GARNIER's number 1 range, but also the leading moisturising brand amongst Chinese women⁽³⁾. The range was enhanced during the year with an eye roll-on and a toner. Its star product Aqua Defense essence, a mois-

(2) Source: CCSMR, Retail panel, 2009 value.

turiser with a unique gel texture, is a big hit with young Chinese women, and is now the leading moisturising product just ahead of Aqua Defense Eye Roll-on⁽³⁾. Building on these successes, GARNIER has just invested in the anti-ageing market with the launch of Age Lift in September, and targeted the men's market by launching Garnier Men at the end of October.

LUXURY LEADERSHIP CONFIRMED

The roll-out of KIEHL'S, the rising prominence of GIORGIO ARMANI beauty products, and the success of LANCÔME, enabled the Luxury Products Division to confirm its number 1 position in this strategic market. Since September, accessible luxury brand KIEHL'S has been ranked number 1 in its sales outlets, two department stores in Beijing and Shanghai.

(3) Source: Nielsen, Retail panel, 2009 market share-value.



South Korea

Kiehl's way of life

It was another year of very fast expansion in South Korea for the Luxury Products Division, with sales growing twice as fast as the market in sell-out terms⁽¹⁾, and in 2009, it took second place in the luxury segment in its distribution. Present in this market for five years, KIEHL'S turned in a spectacular performance this year. The brand doubled the number of its sales outlets, and saw its sales advance by +187.6% like-for-like. Its success lifted it into the top 2 brands in the department stores where it is available. At the heart of this success is KIEHL'S powerful appeal to young Koreans, who strongly identify with the values which make it a unique alternative luxury brand. In addition to its acknowledged skincare expertise and entry-level luxury market positioning, it is the KIEHL'S concept which is proving overwhelmingly popular: simple and natural products, the old-fashioned apothecary's shop atmosphere, the concern for sustainable development, very attentive service and great proximity to its customers. Above all, KIEHL'S means a community-minded ethos which is the hallmark of the brand, built up through a highly original communications strategy.

Japan

Maybelline New York makes the difference

In a make-up market clearly in decline in 2009, MAYBELLINE NEW YORK had a spectacular performance with an increase in sales of +11.6% in sell-out⁽²⁾ terms. Traditionally strong in mascaras, MAYBELLINE NEW YORK excelled this year in Japan in foundations and eyeliners. Launched last year, the Pure Mineral franchise—one of the first to move into the mineral foundation segment—brought out a liquid version in February. Its immediate success enabled the brand to double its market share in this segment in one year.

Another success was in eyeliners, an essential part of the eye make-up ritual in Japan. With a gel-liner formula developed in Japan—pleasant to apply and seen as an innovation compared to traditional eye pencils—MAYBELLINE NEW YORK was an instant hit with consumers, particularly the female bloggers of @Cosme who made the product number 1 on their recommendation list. With this gel, MAYBELLINE NEW YORK went into the top 4 in the Japanese eyeliner market⁽²⁾. In addition, the partnership with Tokyo Girls Collection secured MAYBELLINE NEW YORK'S position as one of the most trend-setting brands.



Matrix passes the 10,000 salons mark in China



The sales of the professional hairdressing brand MATRIX grew very strongly in Asia, particularly in China where the growth rate was +30.6% like-for-like in 2009. Behind this success was the launch of products which are accessible to all hair salons, particularly in texture, one of the most important markets in Asia. The brand launched Opti-Straight, a lasting hair straightener which is simple to use and is sold to hairdressers in large formats for a lower cost per application. The success of MATRIX was also linked to its enlarged presence, with initiatives which

enabled it to pass the 10,000 salon mark: collaboration with distributors in new regions, partnerships with accessible salon chains, and dynamic hairdresser training. The same strategy was successfully duplicated across the whole zone, for example in Indonesia and Thailand. In all, MATRIX is available in some 20,000 salons in Asia, 4,000 of which became customers for the first time in 2009.

(1) Source: combined department stores data.

(2) Source: Intage, Retail panel, 2009 market share-value.

REVIEW

OF THE ASIA ZONE

Acceleration in growth in the 4th quarter enabled the group to record growth of +8.3% like-for-like, in a market that was stagnant because of very depressed consumption in Japan. Outside Japan, the group's growth rate was +12.2% like-for-like. L'Oréal strengthened its positions in the three major markets in this zone—Japan, South Korea and China—and in new markets such as Indonesia.

The Professional Products Division proved highly successful in texture, one of the most important markets in Asia.

The Consumer Products Division recorded very strong growth with the L'ORÉAL PARIS and GARNIER skincare lines, and launched the hair-care range L'Oréal Hair Expertise in China. In Japan, where the market was very depressed, the division advanced thanks to the success of MAYBELLINE NEW YORK.

In the Luxury Products Division, sell-out growth was double-digit and faster than the market trend, particularly thanks to LANCÔME, GIORGIO ARMANI and KIEHL'S.

For the Active Cosmetics Division, LA ROCHE-POSAY grew rapidly thanks to a close relationship with dermatologists.

 loreal2009.com
International Section

See the zone's review in pictures.

€2,147.8

million of consolidated cosmetics sales

6.8%

market share⁽³⁾

13.2%

of group cosmetics sales

(3) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates.

LATIN AMERICA

BRAZIL CUSTOMISED BEAUTY



L'Oréal strengthened its positions in Brazil in the world's number 3 cosmetics market posting +15.0% like-for-like growth in 2009. Amongst the major successes: Elsève by L'ORÉAL PARIS consolidated its market share across the whole zone, and INNÉOV took the Brazilian dermocosmetics market by storm.

To meet Brazilian women's number 1 need—repairing hair damaged by sun exposure, frequent washing and using chemicals to straighten or relax hair—in 2008 L'ORÉAL PARIS launched Elsève Reparação Total 5, a comprehensive hair fibre repair line which continued to have unabated success.

Elsève extended its range in 2009 with the hair nutrition line Nutrição 10, whose results were also extremely promising. Thanks to this double success in the two key segments of hair repair and nutrition, Elsève consolidated its number 2 ranking in the Brazilian haircare market⁽¹⁾. The arrival of Elsève Reparación Total 5 in neighbouring countries gave Elsève's sell-out growth a +27.3%⁽¹⁾ boost across the whole zone, with

record market share in Mexico, Chile and Argentina.

GARNIER was also a success in the world's number 1 deodorant market, where Brazilian consumers were eagerly awaiting a product combining long-lasting efficacy with respect for the skin: the group moved into this market at the end of 2008 with its bi-o deodorant line, and in one year some 15 million units were purchased.

A PRESCRIPTION MARKET

Number 1 in dermocosmetics in Brazil, L'Oréal built up a close partnership with dermatologists, a powerful driving force for prescription products, whether for LA ROCHE-POSAY, VICHY OR

INNÉOV, which was launched in 2008. Innéov Firmness, a nutritional supplement which restores tissue density to the face and body, proved extraordinarily successful, thanks to strong positioning with doctors and a very high repurchase rate. At the end of 2009, Innéov Solar was rolled out in Brazil, which in one year became the brand's number 2 market and number 1 for the Firmness range.

(1) Source: Nielsen, Retail panel, 2009 market share-value.

Mexico

Innéov gets off to a good start

Number 1 in dermocosmetics in Mexico with VICHY and LA ROCHE-POSAY, the Active Cosmetics Division successfully introduced the INNÉOV brand in June 2009. The first product launched, Hair Mass, captured the number 1 position in its segment⁽¹⁾, and Firmness, released at the end of the year, also made an excellent start. The key factors behind this success: strong showcasing of INNÉOV in pharmacies, substantial investment in advice services, and medical visits to dermatologists backed up by international and local clinical studies. All these factors, together with the communication of perceptible and proven results to Mexican consumers helped establish the brand's credibility.



Mexico

Successful launch of Garnier Skin Naturals

In a large and extremely dynamic skincare market, particularly in the mass-market, the launch of the Garnier Skin Naturals range proved a resounding success in Mexico. This range of skincare products, ideally suited to Mexican women's four main needs (cleansing, clarifying, rejuvenating and moisturising), took just eight months to shoot up to number 4 in facial skincare rankings⁽²⁾.

The secrets of the success of Garnier Skin Naturals in Mexico: high visibility in sales outlets, a massive sampling initiative, billboard and television campaigns, a Garnier Bus Tour which promoted the range throughout the country, and a glamorous ambassador: Mexican actress Silvia Navarro.

Quadruple skincare success in Chile

In a highly dynamic cosmetics market, group sales in Chile rose by +13.5% like-for-like, enabling L'Oréal to strengthen its number 1 position, with each division leading its respective market. The Consumer Products Division made the most significant gains in market share, with a string of successes: the Skin Naturals range by GARNIER, launched in September, rose to number 3⁽²⁾ in mass-market skincare in just four months, enabling the group to position four brands—VICHY, L'ORÉAL PARIS, LA ROCHE-POSAY and GARNIER in the top 5 positions of the facial skincare market⁽²⁾. Elsève continued its breakthrough thanks to the very firm trend of Reparación Total 5 haircare and the successful launch of Re-Nutrición. There was also a very strong score in the selective channel, where the division strengthened its leadership thanks to the launch of Génifique by LANCÔME, which in one year became the brand's number 1 skincare product, and thanks to the very good roll-out of YVES SAINT LAURENT.

The latter asserted its high-quality image in this market, and made strong progress at the end of the year thanks to the launch of Parisienne.



(1) Source: ATV Promedio, 2009 market share-value.
(2) Source: Nielsen, Retail panel, market share-value.

REVIEW OF THE LATIN AMERICA ZONE

Sales grew by +11.2% like-for-like. All major countries recorded sales growth. Brazil accelerated, ending the year at +15.0%. Argentina and Chile posted double-digit growth. Mexico gradually improved, and resumed positive growth.

All the Professional Products Division's brands posted growth, particularly MATRIX which continued to win over new salons.

The Consumer Products Division achieved strong growth, driven by Elsève haircare products by L'ORÉAL PARIS which gained ground throughout the zone, and GARNIER's deodorants, which continued to win market share, and its successful roll-out in the skincare segment in Mexico and Brazil.

The Luxury Products Division also posted growth in sales, particularly thanks to the success of GIORGIO ARMANI and KIEHL'S.

The Active Cosmetics Division continued to gain market share with the success of new VICHY and LA ROCHE-POSAY products as well as the successful entry of INNÉOV in Brazil, then Mexico.

 loreal2009.com
International Section

See the zone's review in pictures.

€1,138.4
million of consolidated
cosmetics sales

10.5%
market share⁽³⁾

7.0%
of group cosmetics sales

(3) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates.

AFRICA, ORIENT, PACIFIC

▶ loreal2009.com
International Section

Watch the Indian commercial of
Garnier Men.

Products adapted to
the needs of young
Indian men and
the Bollywood star
John Abraham made
Garnier Men the second
best-selling men's
skincare line in just
a few months⁽²⁾.



GARNIER INSPIRED BY INDIA

L'Oréal registered a record performance in the Indian market in 2009 with like-for-like sales up by +31.5%. GARNIER drove this growth, reaping the benefits of a tailor-made strategy which made it the preferred beauty brand of Indian women in barely 15 years⁽¹⁾.

A BOOMING MEN'S MARKET

GARNIER chose India—where Garnier Men PowerLight has been on sale since May 2009—to launch its new skincare range for men. The brand took advantage of a booming market in a country where men pay great attention to their appearance. Thanks to non-greasy lightening formulas adapted to the needs of Indian men, a fairness scale to measure the result and the Bollywood star John Abraham to promote the range, GARNIER became the number 2 men's skincare brand in just a few months⁽²⁾.

SPECIALLY ADAPTED PRODUCTS

With its modern image and international reputation for quality, GARNIER has everything it takes to succeed in a culture highly receptive to natural ingredients. The brand has been adapting its product range to the specific needs of Indian women for 15 years.

As an example, the 2009 launch of Fructis Fall Fight, a shampoo that helps prevent hair loss due to breakage that occurs with the very long, brittle hair of Indian women, and of Shampoo+Oil 2 in 1, in a market where hair oil is an essential traditional beauty ritual. The skincare range Skin Naturals Light was also enormously successful and Light Eye Roll-on, which brightens eye contours, is already the top-selling product on the market in this segment.

GARNIER also offers a very wide price range to suit all budgets. In 2002, the brand brought out Color Naturals which offers GARNIER's modern hair colouring technology at very affordable prices. To benefit from the widest distribution offered by the traditional networks that still dominate in the country, GARNIER sells its shampoos and skincare products such as Garnier Light, launched this year, in 7.5ml sachets.

(1) Source: TNS Study, 2008 Brand imaging, A and B classes.

(2) Source: Nielsen, Retail panel, 4th quarter 2009 market share-value.

South Africa

Dark and Lovely broadens its expertise

The worldwide market leader in ethnic products, SOFTSHEEN-CARSON, is taking up the new challenge of making its body lotion the choice of all users of Dark and Lovely hair relaxing products. In South Africa, 98% of women use a bodycare product every day, which makes this segment the third largest in the cosmetics market. In May 2009, Dark and Lovely, the preferred haircare brand in South Africa, broadened its expertise by creating the Dark and Lovely Body line. Launched in all distribution channels including hairdressing salons, which are long-standing partners and great prescribers of the brand, this new line offers not only the promise of long-lasting moisturisation but also a specific response, unique on the market, to the problems of all skin types.



The Gulf region

Establishing SkinCeuticals

The professional skincare brand SKINCEUTICALS moved into Saudi Arabia and the Emirates. Women in these countries, who are already familiar with beauty salons for skincare and treatments, are particularly receptive to highly active skincare of this kind and to professional advice. SKINCEUTICALS is distributed through three different networks. In the pharmacies channel, a partnership agreement has been signed with the Boots chain: the brand equips each Boots outlet with a dedicated skincare cabin, offering mini-treatments to familiarise consumers with its products. SKINCEUTICALS products are also prescribed by dermatologists, whose awareness of the brand has been raised at dermatology congresses. Finally, the brand sets up skincare cabins in medi-spas, an extremely popular concept in the Gulf region.

L'Oréal creates a subsidiary in Pakistan



L'Oréal is stepping up its establishment in Pakistan by creating a multi-division subsidiary, a bridgehead for several of the group's brands. The L'ORÉAL PARIS brand, which has been distributed by an agent for several years now, is sold in the most upmarket outlets in Karachi and Lahore. Since June, GARNIER has also been selling its Color Naturals colourant. Three months later the Garnier Light face care range was launched. Finally, L'ORÉAL PROFESSIONNEL has been chosen by the country's leading hair salons. All in all, a promising market in a country with a population of 167 million inhabitants who have a wealth of beauty traditions.

REVIEW

OF THE AFRICA, ORIENT, PACIFIC ZONE

Sales increased by +5.0% like-for-like, with strong acceleration in the 4th quarter at +15.3%. The situation is contrasting:

India had a growth rate of +31.5% like-for-like, and was back on the offensive, driven by the GARNIER and MATRIX brands. South Africa recorded a high growth rate. The Gulf countries however had a very tough year because the Luxury Products Division was hit hard by the crisis in the region.

The zone's growth was driven by the Consumer Products Division which grew strongly thanks in particular to the GARNIER brand, bolstered by its successes in facial skincare such as Garnier Light Eye Roll-on as well as Garnier Men. After having opened a subsidiary in Egypt, the group created a subsidiary in Pakistan.

 loreal2009.com
International Section
See the zone's review in pictures.

€919.7

*million of consolidated
cosmetics sales*

12.8%

market share⁽¹⁾

5.7%

of group cosmetics sales

(1) Excluding soap, toothpaste and razors. 2009 provisional estimates. Based on estimates of the worldwide cosmetics market updated in 2009. Source: L'Oréal estimates.

Expertise

CONTINUING TO OPTIMISE OUR ORGANISATIONAL STRUCTURES

2009 proved that we have the ability to change and reinvent ourselves. Rethinking organisational structures to enhance performance, strengthen expertise and make sure the right talent is in the right place. With renewed energy and a sense of solidarity, the company is preparing for the challenges of tomorrow. We intend to give excellence a new meaning.





OPERATIONS

EFFICIENCY AND AGILITY STRENGTHENED

At a time of economic crisis, the group's forward planning, reflected in the transformation of its production and logistics activities⁽¹⁾, is paying off. Particularly with the choice of an organisational model based on major geographic poles. It has brought significant results in every area: improved service to customers, cost control, advances in personnel safety, packaging innovation and environmental protection.



“Our industrial network is increasingly efficient, our new supply chain organisation is proving successful, and the programmes to cut purchasing costs are accelerating. With these very encouraging results, 2009 confirmed all the potential of our strategic choices.”

Jean-Philippe Blanpain
Managing Director, Operations



Manufacturing quality surveillance, Midrand factory (South Africa).

MANUFACTURING: INCREASED EFFICIENCY

The group is pressing vigorously ahead with its programme to improve manufacturing facility efficiency, and achieving large productivity gains, despite the negative growth in volumes, and the adjustment in investments.

The specialisation of plants by technology means that production facility streamlining can continue by concentrating expertise on the major business segments, while maintaining an optimal quality level. Furthermore the worldwide efficiency improvement programme launched at the start of 2008 led to a 5.4% increase in 2009, representing an additional capacity of 240 million units using existing facilities, after an improvement of 3.6% in 2008 representing 160 million units. In addition to this further improvement in operational performance, even closer collaboration has been set up

with research teams from the product design stage, primarily to ensure better upstream integration of production constraints, for example with Inoa hair colourant, launched in September. The industrial teams are also actively involved in product innovation. Transfers of manufacturing technologies used in the food industry, such as the foaming process, have enabled the creation of a new type of styling foam. The capacity of manufacturing facilities increased by 4.6% thanks to ongoing innovation in industrial processes, particularly in haircare and make-up. The optimisation of cleaning activities and the development of cold processes are substantially reducing water and energy consumption.

ISIS, the group's shared information system, now covers 65% of production, and its control is facilitated by a worldwide server hosting centre.

Luxury Products: rising prominence of the pole of excellence

Following the acquisition of YSL Beauté in 2008, the Luxury Products Division decided to group together all its European production facilities in Northern France, creating a European pole of industrial and logistical excellence. This pole strengthens the division's technical expertise thanks to the specialisation of the three industrial sites in a limited number of technologies, and the concentration of investments. The fragrance and skincare expertise at Fapagau and Sicos, two of the division's long-established sites, together with the make-up and perfume expertise of the Lassigny plant, are a key asset for developing the brands. The pole's logistical centre, which will ultimately supply the whole world, will be opened in 2010. It will optimise logistical organisation and performance. This centre, a trailblazer in terms of sustainable development, will be built in compliance with "HEQ" and "low energy consumption building" standards. As these sites are located close to the group's suppliers, customers and research centres, responsiveness and competitiveness will be boosted, and the roll-out of innovations accelerated.

(1) L'Oréal Operations consist of seven activities: purchasing, production, quality, environment-health-safety activities, logistics, packaging and development, and real estate.

SUPPLY CHAIN: VERY ENCOURAGING RESULTS

At a time of crisis, the new supply chain integration programme announced at the start of 2008 has demonstrated its capacity to adapt to market fluctuations.

The action plan—based on the simplification of processes, the optimisation of the distribution centre network and adaptation of logistical flows to each product category—is continuing in all distribution channels. At the same time, a multi-year programme to modernise information systems ensures that the processes put in place will be locked in for the future.

Inventory level adjustments

The 2009 results are highly encouraging, in terms of service, inventory, and distribution costs. The supply chain has made a substantial contribution to the improvement in the group's cash flow, through the adjustment of inventory levels and more vigilant monitoring of customer credit. Both the "logistics costs per unit" ratio and the customer service rate have improved.

Improving customer service

The organisation of the supply chain into four geographic poles (Europe, Asia, Latin America and North America) means that specific challenges can be taken up in each region of the world, while improving the level of service provided to customers everywhere. In Europe, logistical costs are being lowered by revising current procedures both in industrial facilities and distribution. In Asia, the supply chain is being

adapted in real time to support the very strong growth rate. In India, the application of the group's forecasting processes, alongside the overhaul of the supply chain, has considerably raised customer satisfaction rates. In the United States, since 2007 and the acquisition of several distributors of professional products to hair salons, a major streamlining of the physical distribution network has been carried out, bringing substantial cost savings. In Latin America, the logistics team is continuing to modernise its physical distribution network, while introducing more stringent safety and sustainable development requirements, as shown at the Mexican distribution centre, which runs partly on solar energy.

Supply chain key figures

- 8,500 employees
- 4.4 billion products delivered
- 450,000 points of delivery
- 146 distribution centres

The supply chain must be adapted to different markets everywhere in the world, including Mexico for example.



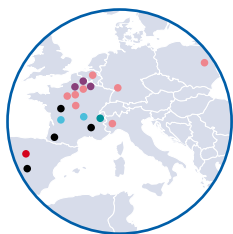
Optimised production by region throughout the world

Locating Operations teams as close as possible to markets enables the group's production sites to be more responsive, bringing success to launches which take place all over the world. Setting up teams in Asia and Latin America thus complements the teams in North America and Europe. In Russia, a plant is currently being built to

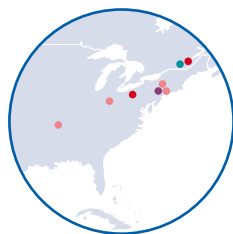
meet strongly growing demand in Eastern Europe. This tightly-knit industrial organisation enables the group to seize and exploit opportunities more effectively at any location throughout the world, and to significantly cut market access times for the group's launches in each zone.

- Consumer Products: 22 factories
- Luxury Products: 5 factories
- Professional Products: 3 factories
- Active Cosmetics: 2 factories
- Dermatology: 2 factories
- Raw materials: 4 factories

Industrial factories throughout the world



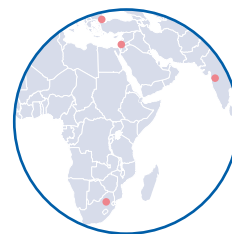
19 factories in Europe



8 factories in North America



3 factories in Latin America



4 factories in Africa, Orient, Pacific



4 factories in Asia

**LIBRAMONT:
100% GREEN ENERGY**

The plant at Libramont (Belgium) has opened a new bio-methanisation unit. The result of a three-year collaborative project with Eneco and Bio Energie Europa, the unit transforms biomass produced by local farmers and the food industry into methane. The biogas is transferred to the plant, where it is transformed, and then meets 100% of the plant's electricity needs and 80% of its heat requirements. Thanks to this technology, the plant produces more electricity than it needs, and the surplus (equivalent to the needs of some 4,000 households) is managed by the national grid. The Libramont plant now uses 100% green energy, and is neutral in carbon emission terms.

 loreal2009.com
Sustainable Development Section
Watch the Libramont film.



**Packaging: respect,
reduce, replace**

The innovation dynamics of the Packaging Department led to the registration of 85 patents in 2009, a 16% increase compared with the average over the last five years.

Minimum packaging impact

Sustainable development is at the heart of the group's Packaging & Environment policy. This is reflected in the packaging design with minimum environmental impact, for example through lightweight plastic bottles, and paper and cardboard sourced from sustainably managed forests. Under L'Oréal's influence, FSC (Forest Stewardship Council) certification is being extended to cover all the group's printers.



One of the major innovations is the packaging for Liftactiv Retinol HA by Vichy. An ultra-protective diffusion system, which involves a dual-action nitrogen pump making it totally hermetic, delivers an optimal dose of retinol while conserving the formula's efficacy. In conventional packaging, the formula would become oxidised through the infiltration of air and light.

SAFETY: ZERO ACCIDENT POLICY

Personnel safety is an absolute priority for L'Oréal. The zero-accident policy reflects the group's determination to protect its employees from all risks, even of a minor nature. Over the last ten years, the number of accidents has been divided by four, thanks to technical and organisational measures, and the enlarged frequency rate⁽¹⁾ is now 3%, representing an improvement of 23% compared with 2008.

2009 marked a turning point in the safety approach, with the worldwide roll-out of a training programme stressing the importance of the behavioural aspect of safety. It is based on structured and systematic meetings with each employee to develop risk-awareness even in the most apparently harmless situations, and strengthen the employee's ability to take individual action. More than 70 plants and distribution centres have started to use this method,

which is now one of the cornerstones of the group's commitment to excellence in safety. The training will be extended to include research centres and administrative buildings.

(1) Enlarged frequency rate: lost-time accidents and accidents resulting in assignment to light duty for employees on permanent contracts and fixed-term contracts per million hours worked.



Packaging

More recycled materials

Packaging research advances mean that it is currently possible to include recycled plastic (100% recycled PET⁽¹⁾) for Kiehl's and The Body Shop bottles, recycled PE for Biolage tubes and bottles by Matrix) while ensuring safety for both consumers and products. The group's aim is to extend this approach to materials—such as glass, aluminium and some plastics—for which recycling has not been possible up to now.

(1) PET: polyethylene terephthalate.

PURCHASING: UNPRECEDENTED PERFORMANCE

In a challenging context, implementation of the plan to transform the group's purchasing—first introduced three years ago—is accelerating, leading to a large increase in the purchasing mass, the optimisation of economic conditions for international launches, and the roll-out of a global supplier strategy. These measures led to a further increase in purchasing performance in 2009.

The organisational structure, with four purchasing centres located in different regions of the world, provides buyers with abundant opportunities to optimise costs with the most competitive suppliers through global markets.

Sustainable partnerships with suppliers

In accordance with its fundamental values, L'Oréal maintains a long-term relationship with its suppliers based on mutual respect, transparency, regular communication and high standards. Thanks to these long-term partnerships, failures of supplier companies as a result of the crisis had no impact on the group's sales in 2009. Furthermore, the "L'Oréal Buy & Care" programme was extended, and more than 2,000 labour standard audits have now been conducted by an independent company since 2002. An International Purchasing Organisation & Methodology Department has been created to increase purchasing efficiency and boost agility in negotiations. Lastly, a project to optimise the information systems available to centralised purchasing teams was launched in 2009, and will be rolled out over the next two years.

"Welcome on board"

Meanwhile, sourcing has been made more local in each of the four geographic zones, particularly in Latin America and Asia, freeing purchasing from the impact of currency exchange effects, and enabling the

recruitment of competitive new suppliers in the countries concerned. The process has been accelerated by the introduction of the "Welcome on board" supplier integration programme. The coverage of the regional purchasing centres has been strengthened in each of the six categories (packaging, raw materials, subcontracting, equipment, indirect purchasing, and advertising and promotion).

Faster negotiations

In 2009, the priority given to indirect purchasing centralisation thus led to cost reductions of between 3% and 56% depending on the expense category. The overall result is that, for all categories combined, unprecedented purchasing performance was achieved in 2009, illustrating the almost untapped potential of centralised organisation in each region, gradually extended to encompass all categories.



SUPPLIER EVALUATION

The group closely monitors the suppliers it works with, and evaluates them on the basis of five criteria:

Social responsibility



Innovation



Quality



Logistics



Competitiveness



	2007	2008	2009
(€millions)			
Cosmetics investments (production and physical distribution commitments)	248	243	188
Index (base 100: year N-1)			
Comparable product purchasing price index	97.5	99	96.3

	Cosmetics output	Cosmetics sales
Western Europe	47.7%	43.3%
North America	23.6%	23.4%
Rest of the World	28.7%	33.3%
TOTAL	100%	100%

HUMAN RESOURCES

PERPETUATING THE SPIRIT OF ADVENTURE

In a tough economic climate, Human Resources at L'Oréal achieved the right balance between L'Oréal's long-term ambitions and its short-term constraints in terms of adapting the organisation. Consequently, the teams received effective support and, boosted by our centenary celebrations, our employees have emerged ready to energetically tackle L'Oréal's second century.



“Despite the economic constraints, our long-term priorities of graduate recruitment, international mobility and dynamic careers have been maintained and reflect our determination to prepare for L'Oréal's future growth.”

Geoff Skingsley

Executive Vice-President, Human Resources



On June 4th, 2009, L'Oréal's teams worldwide celebrated the group's centenary, an opportunity for all to express their adherence to group values, and their confidence in the future.

CONFIDENCE IN THE FUTURE

In 2009, L'Oréal acted to control both headcount and expenditure which was reflected, notably, in a hiring freeze in Western Europe and North America. At the same time, the group confirmed its long-term commitments in order to secure its future vitality. The “Pépinère” management trainee scheme was maintained at practically the same level, at over 85% of the 2008 figure. The international mobility policy continued to support the group's geographic expansion. Lastly, the group retained the fundamentals of career development and stepped up the roll-out of “L'Oréal & Me”⁽¹⁾, which was launched in 2008 to enhance employee confidence in the future.

A RESPONSIBLE APPROACH

In keeping with its strategy of permanent organisational optimisation, L'Oréal continued to adapt its structures and organisation. These readjustments were carried out in a responsible manner, in the best interests of each employee and with priority being given to minimising social impact.

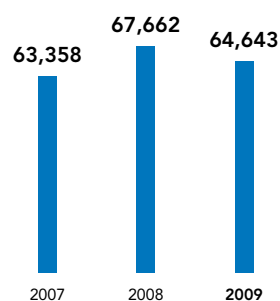
For instance, with the integration of YSL Beauté in France, the objective of redeploying staff elsewhere in the group, thus preventing redundancies and dismissals, was fully achieved.

TEAMS INSPIRED BY STRONG VALUES

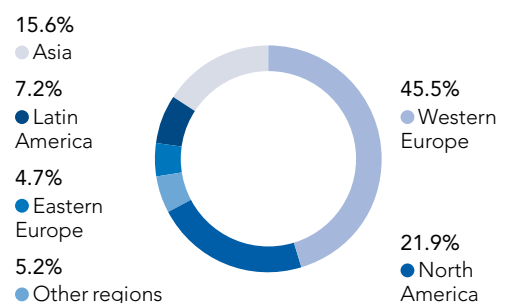
On June 4th, 2009, the group's 64,600 employees celebrated 100 years of the L'Oréal adventure. The centenary was the opportunity for each individual to express adherence to the group's enduring values which encompass daring, imagination, creative passion, the constant quest for excellence, a strong work ethic and love of challenges, the spirit of conquest, and also respect for diversity in all its forms. In a year of crisis, the centenary was also an occasion to share our confidence in the future, re-energise our teams and renew the L'Oréal sense of adventure.

(1) “L'Oréal et moi” in France.

Change in workforce



Breakdown of employees by geographic zone at December 31st, 2009



SUPPORTING THE ACCELERATION OF THE CHINESE ADVENTURE

In a country where group sales have doubled in four years and where L'Oréal already employs 2,500 people, attracting the best talents is a crucial issue. Whether in terms of recruitment, training, or career development, L'Oréal China's human resources management is a model for all the group's subsidiaries in the new markets.

Since its creation in 1997, L'Oréal China has been pursuing a very active recruitment policy. In 2009, the company recruited a record number of young management trainees across all disciplines and offered numerous internships to keep pace with its growth. Indeed, the group received the "Internship Base for Youth" award in recognition of its action in the employment of young people.

Young students eager for games

In this highly competitive recruitment market, the group ensured a strong on-campus presence and launched several business games to encourage students to discover L'Oréal and its different lines of business. Young Chinese students, in fact, made up a great number of the international participants in the "e-Strat" business game, and a Chinese team won the competition in 2009. For its first international edition, the "L'Oréal Innovation Lab" game, which gives young scientists the chance to step into the shoes of a L'Oréal researcher, was launched in China, the United States and France.

L'Oréal China is thus already planning ahead for the expansion of its Pudong laboratory research activities.

Developing local teams

In all countries, L'Oréal aims to promote local managers. In China, a certain number of the current managers have been with the Chinese company since its creation and their career development has kept pace with the growth of the business. Today, 12 of the 14 international brands present in China are headed by Asian managers, the majority being Chinese.

Another key factor: training

The group's management development centre in Shanghai offers training programmes for all managers in the Asia zone. In this country, where training is decisive, L'Oréal China is one of the foremost promoters of L'Oréal's learning culture: all L'Oréal China employees underwent a training programme in 2009.



In 2009, "L'Oréal & Me", the programme of mutual commitment between the group and its employees, was deployed in L'Oréal China where the 2,500 employees particularly appreciated the on-line appraisal facilities.

HIGHLIGHTS

L'Oréal a hit with students

According to the Universum survey of the world's "fifty most attractive employers", L'Oréal was ranked no. 14 by business students and no. 18 by future engineering students. In the category of Fast Moving Consumer Goods companies, L'Oréal was ranked 1st in Europe and 3rd worldwide.

Modernised working environment

After regrouping their teams in new headquarters in Australia, Spain, the Netherlands, Greece and Dubai in 2008, L'Oréal continued to modernise its premises by opening new ultramodern offices in Hong Kong and China, along with a second building for the headquarters of L'Oréal USA.

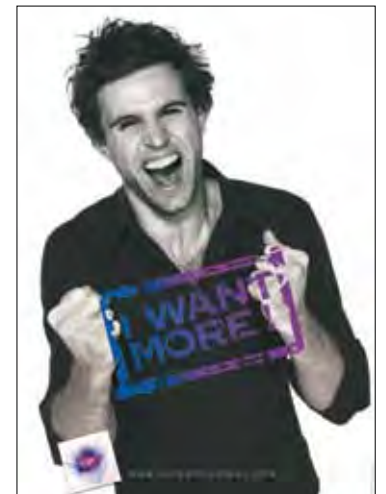


Launch of a "serious game" on hair colouring

This interactive game on hair-colouring techniques facilitates on-line learning for the marketing teams.

Success of the "I want more" recruitment campaign

This "teaser" campaign is a hit with the younger generation and guarantees L'Oréal's strong presence on social networking sites such as Facebook.



YSL Beauté

A successful integration

YSL Beauté became part of the group in 2008. As of 2009, YSL Beauté teams in 18 countries moved to join their counterparts in the Luxury Products Division, and all YSL Beauté employees benefited from a personalised induction programme.

Personalised support

In Great Britain, for instance, as part of a comprehensive programme for presenting the group to the YSL teams, each employee attended a day of seminars, and benefited from individual follow-up and the support of the Human Resources teams, and management. Each employee also received the support of a personal mentor.



Getting to know the L'Oréal culture

In Japan, individual meetings were held to attend to all questions and a series of seminars was organised to provide insight into L'Oréal's culture and way of working. Particular attention was given to the integration of beauty advisors.



The first prize of the Brandstorm game was awarded to a group of Indian students.

INVESTING IN THE FUTURE

Despite the difficult economic climate, recruitment remained a priority for the group, with strong on-campus presence in over 200 universities worldwide offering students, in particular, business games and business case studies. L'Oréal continued its policy of recruiting young management trainees and interns who will help drive the group's business growth in the years to come. L'Oréal also rolled out a number of innovative internship programmes such as "EurOpportunity". Launched in 2008, the programme offers internship opportunities to 50 students from partner universities. The internships take place in one of the group's European subsidiaries outside of the students' country of origin, representing the first step towards an international career.

CREATIVITY WITHOUT BORDERS

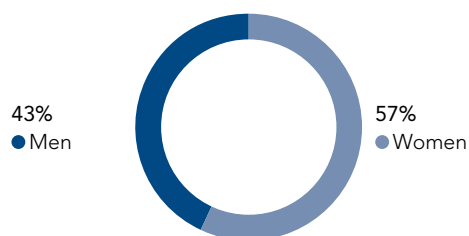
The first prize of the 17th edition of the "L'Oréal Brandstorm" business game was awarded to a team of Indian students who imagined the marketing strategy for a product from MAYBELLINE NEW

YORK. L'Oréal's business games are vital as a recruitment tool. They are a showcase for the group and, by giving students the opportunity to defend and promote their ideas, are a means of identifying new talents who are the most creative and passionate in what they do. A large number of participants in these business games come from new markets where L'Oréal's business is growing strongly.

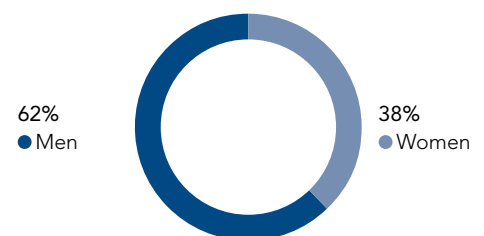


50 students go on internships outside their country of origin, in one of L'Oréal's subsidiaries.

Breakdown of female and male executives in 2009⁽¹⁾



Breakdown of female and male Management Committee members in 2009⁽¹⁾



(1) Global number of executives in the cosmetics branch, excluding YSL Beauté.

A STRENGTHENED COMMITMENT TO PROMOTE DIVERSITY

In 2009, L'Oréal's determination was marked more than ever before with initiatives promoting diversity, the employment of disabled people and raised employee awareness.

European commitment

In 2009, the group co-created the Italian Diversity Charter and was one of its first signatories. Through this initiative, L'Oréal reinforced its commitment in Europe where it has already signed Diversity Charters in Germany, Belgium, Spain and France.

Attentive to the needs of mature-age employees

In December 2009, the group signed a mature-age employment agreement with the French government. Several measures have been implemented, including periodic career assessment, mentoring, the transmission of knowledge, the proactive search for solutions with regard to telecommuting and flexible hours in the latter career stages.

"First chance" for young disabled people

In France, the Consumer Products Division kicked off the operation "Handicap

Première Chance" in partnership with the Casino hypermarket group. L'Oréal will give disabled young students a "first chance" by financing their studies for the Baccalauréat professional diploma in Business and Beauty studies and, through the Casino Group, they will have the chance to acquire their first in-store experience.

Equality in apprenticeships

In 2009, the Luxury Products Division, in partnership with LB Développement, an agency specialized in disability issues, launched an innovative project. It aims to promote the professional integration of disabled students and offers a training contract for acquiring office and administrative skills.

 loreal2009.com
Sustainable Development Section

See other group initiatives in favour of diversity.



Second "Employment and Diversity" Forum ("Diversità Al Lavoro") co-organised by L'Oréal's subsidiary in Italy.

Portrait

Musharaf Hai, The country head of Pakistan

Musharaf Hai is amongst the 38% of women on our Management Committees.



After an extensive earlier experience in the beauty industry, she began working with L'Oréal in 2008 as a business development consultant and, as Managing Director, created the group's subsidiary in Pakistan in 2009.

She now heads a pioneering team of 20 people who are rising to the exciting challenges of this vibrant country. Musharaf Hai is launching new product categories and opening up new market segments. Her first challenge is to secure Color Naturals by GARNIER in the hair colourant market.

What is it that Musharaf enjoys about her job? "I love L'Oréal's entrepreneurial spirit and the "edge" of operating in a market with immense potential," she says. "L'Oréal has a true beauty culture, strong values and a real personal touch; our managers are very approachable and know how to make their people feel empowered."

ADMINISTRATION AND FINANCE

STRONGER FINANCIAL HEALTH

The Administration and Finance Division of L'Oréal continued to pursue a balanced financial policy in 2009. The administration, management and finance teams played an active part in the operational performance of the businesses. Cash flows, which were monitored particularly closely, increased significantly, thus reinforcing the group's financial health.



“The administration, management and finance teams made a substantial contribution to the monitoring of cash flows, rigorous control of performance and the tightening up of internal control.”

Christian Mulliez

Executive Vice-President, Administration and Finance



MORE INTENSIVE FINANCIAL COMMUNICATIONS

In order to establish closer relations with all shareholders, the financial communications team intensified its activity in 2009, holding meetings with one thousand institutional investors and more than 7,000 individual shareholders. The highlight of the year was the introduction of the loyalty bonus⁽¹⁾ for holders whose shares have been held continuously in registered form for at least two years, in recognition of their long-term support of the company.

MANAGEMENT/CONSOLIDATION

The organisation of L'Oréal's management/consolidation is based on a solid, seamless decision-support information system geared to help precisely anticipate and drive economic performance. Information systems continued to be developed in 2009 to improve responsiveness in providing the very latest financial data, thus giving managers greater flexibility in running the company and adapting decisions in view of the economic environment. The management and accountability teams are constantly vigilant in cost control, and ensure that the guidelines set out by the General Management are implemented, especially in terms of allocating resources.

TAX

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

INTERNAL AUDIT CARRIES OUT CONTROL

The internal audit team carried out 45 missions in 2009. The audits mainly focused on 35 commercial businesses representing some 29% of group sales, and five plants; the plants audited represented some 10% of total worldwide production in unit terms. Following each audit mission, a report is systematically drawn up setting out the findings and associated risks, with a recommended action plan to be implemented by the entity audited. As a result of these findings some of the terms of the group's financial management standards were subsequently reviewed.

LEGAL AND INSURANCE

The Legal Department provides advice and exerts control within the divisions to ensure the protection of the roll-out of the businesses, in compliance with laws and regulations. Its missions include creating, managing and defending the group's brand heritage safeguarding the legal aspects of our business operations, and devising risk prevention, defence and litigation strategies in the event of any legal disputes.

In the insurance field, the group continued in 2009 to optimise the global programmes, particularly in third party liability, material damage and operating loss, and transport insurance.

(1) Preferential dividend of 10% for holders whose shares have been held continuously in registered form (directly or managed) for at least two years, from 2012.

ACCELERATING THE INFORMATION SYSTEMS DRIVE

A large number of global and local initiatives were started up during 2009 to assist operational teams in their activities.

In 2009, the Organisation and Information Systems Department launched a number of global projects to support the development of operational teams' activities such as purchasing, human resources and decision-making tools. Efforts were also focused on the roll-out of solutions to support commercial efficiency in many subsidiaries around the world, particularly concerning optimisation of customer relations. Lastly, the steering and coordination of all these initiatives were bolstered by the introduction of a governance tool.

Harmonisation and optimisation

The programme for streamlining and consolidating IT architectures is being stepped up, particularly for information system hosting and platform pooling. The commercial activities of YSL Beauté, consolidated on June 30th, 2008, have been integrated into L'Oréal's information systems, generating significant operational synergies in all of the subsidiaries. Lastly, the consolidation of the technical platforms hosting the group's industrial and commercial software packages is continuing. The majority of sales are now being managed with 40% fewer platforms than in 2004.



A representative from the Consumer Products Division in Moscow takes an order directly with his mobile unit. The project rolled out in 2009 provides sales representatives in the Russian subsidiary with a new sales application optimising each stage of commercial activity.

Solid balance sheet and secured debt

L'Oréal's balance sheet is solid. Financial debt is reasonable: net financial debt totals €1,958 million, or 14.4% of equity. Furthermore, the group has a financial stake of 9% in Sanofi-Aventis. The group actively continued its policy of securing its financing while strengthening its already robust balance sheet.

14.4%
Net gearing

HIGHLIGHTS

+10% on dividend for loyal shareholders

The Annual General Meeting held on April 16th, 2009 approved a modification of the Articles of Association enabling the payment of a preferential dividend of +10% for all holders whose shares have been held in registered form (directly or managed) for at least two years⁽¹⁾.



Shareholder and social responsibility award

L'Oréal received an award for its shareholder and social responsibility at the first-ever "Grand Prix des Actions" ("Shares Grand Prix"), organised by the financial magazine *Mieux Vivre Votre Argent* in partnership with Vigeo, an independent agency specialising in corporate social responsibility.

Development of mobility tools

The roll-out of communication and mobility tools has been reinforced and extended by a support plan to increase employee usage.

More explicit internal control standards

Many of the internal management standards and control procedures have been specified to facilitate communication of the group's best practices.



(1) Preferential dividend of 10% for holders whose shares have been held continuously in registered form (directly or managed) for at least two years, from 2012.

STOCK MARKET AND SHAREHOLDERS EVER CLOSER TO OUR SHAREHOLDERS

L'Oréal is building an ever closer relationship, based on confidence, with its individual shareholders. This means more comprehensive information, more frequent meetings, and a greater number of contacts, together with the introduction of a +10% preferential dividend for registered shareholders⁽¹⁾. This loyalty bonus, introduced to reward those who support the company in a long-term perspective, enhances the range of advantages offered to registered shareholders.



The financial communications team regularly organises factory visits for shareholders. On December 4th, 2009, an association of investment clubs visited a GARNIER production site.

REWARDING THE LOYALTY OF L'ORÉAL SHAREHOLDERS

Since the Annual General Meeting of April 16th, 2009, L'Oréal has been one of the few CAC 40 companies to offer a loyalty bonus. A preferential dividend of +10% is thus offered to all holders of registered shares—whether directly or managed—for at least two years⁽¹⁾, to reward those who support the company in a long-term perspective. Shares held in registered form enable L'Oréal to get to know its shareholders better, and to offer them more advantages. The number of shareholders signing up for registered shares increased very sharply up to the end of the year.

Shareholders' views

Jean-Michel P., Paris, a holder of managed registered shares since May 2009: *"When I heard that L'Oréal was offering a preferential dividend for registered shareholders, I instinctively knew that I needed to change my share type. I had already done the same with the few CAC 40 companies who offered this option. So I did the same with L'Oréal, and switching my shares to managed registered form was very simple and easy."*

Eric C., Poitiers, a holder of directly registered shares since September 2009: *"I wanted to reduce the costs linked to my shares. When I found out about directly registered L'Oréal shares, I immediately transferred my shares. Since then, I no longer pay custody fees. Furthermore, L'Oréal reimbursed me 50 euros towards the cost of transferring my shares."*

MORE THAN 7,000 CONTACTS

L'Oréal aims to establish a relationship of confidence with its individual shareholders, based on dialogue, attentiveness and close contact. The financial communications team therefore organises many events specifically for them. Some ten shareholder meetings were held in France (Aix-en-Provence, Rennes, Lyon, Annecy, Nantes, Nancy, Toulouse and Lille) and in Belgium (Antwerp, Brussels) in partnership with the FFCI (French Federation of Investment Clubs), the CLIFF (French Investor Relations Association) and a number of media. For the sixth year running, L'Oréal took part in the Actionaria fair on November 20th and 21st, 2009 in Paris. In 2009, the financial communications team met 7,300 individual shareholders.

EASILY ACCESSIBLE INFORMATION

To involve shareholders in the L'Oréal adventure throughout the year, the group provides them with three *Letters to Shareholders*, a new *Shareholder Guide*, a freephone number in France (N°Vert 0 800 666 666), and a dedicated website www.loreal-finance.com. L'Oréal also gives them the opportunity to follow the group's key financial events, with a live webcast of the meetings held to present the first-half and annual results, as well as the Annual General Meeting.

(1) The preferential dividend is subject to a limit of 0.5% of the share capital per shareholder. The first preferential dividend will be paid in 2012 on the dividend for 2011, for shareholders who have continuously held registered shares—whether directly or managed—from December 31st, 2009 until the payment date of the dividend after the Annual General Meeting of 2012.

CREATION OF THE INDIVIDUAL SHAREHOLDER CONSULTATION COMMITTEE

At the start of 2010, the group created a new Individual Shareholder Consultation Committee. The committee, a body for regular, open and in-depth dialogue between L'Oréal and its individual shareholders, will enable a clearer understanding of shareholder expectations, while constantly increasing the relevance and effectiveness of our initiatives for individual shareholders. If you would like to become a member of the committee, please fill in the application form at www.loreal-finance.com.



THE L'ORÉAL SHARE KEY FIGURES

(at December 31st, 2009)

€3.42

Net earnings⁽¹⁾ per share

€1.50

Dividend⁽²⁾ per share

€78

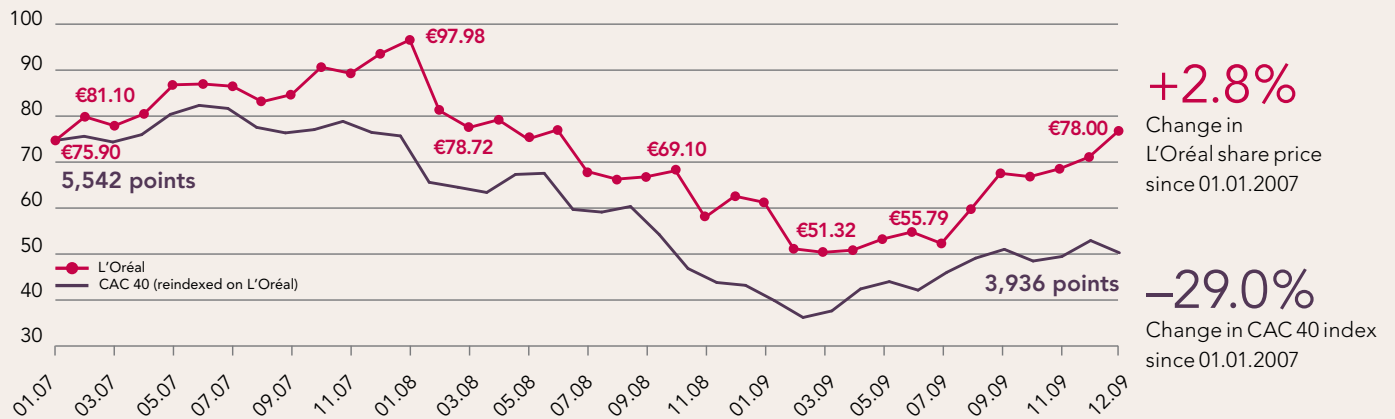
Share price

€46.72 billion

Market capitalisation⁽³⁾

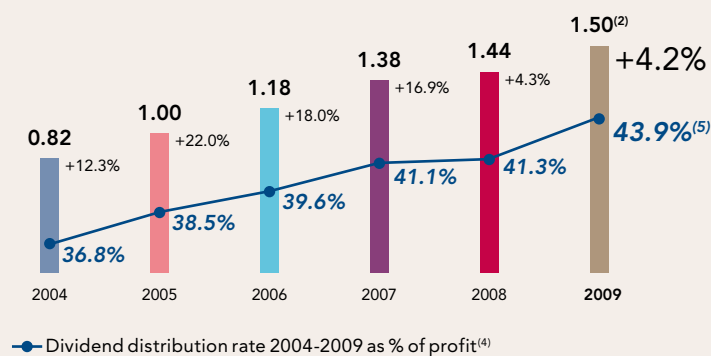
L'Oréal share price since 2007

(in euros)



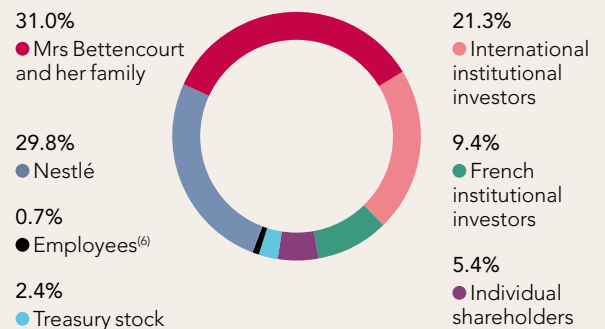
Dividend per share

(in euros)



Breakdown of share ownership

(at December 31st, 2009)



Investment in L'Oréal shares

OVER 3 YEARS

Initial capital multiplied by 1.10 in 3 years
Total shareholder return: 2.84%

During the same period, the CAC 40 decreased by -7.4% per year⁽⁷⁾

Purchase of 198 shares at €75.90⁽⁸⁾ on December 31st, 2006: €15,028.20

Valuation at December 31st, 2009, including reinvestment of dividends (211 shares at €78): €16,458

OVER 10 YEARS

Initial capital multiplied by 1.19 in 10 years
Total shareholder return: 1.08%

During the same period, the CAC 40 decreased by -1.2% per year⁽⁷⁾

Purchase of 19 shares at €796.50⁽⁸⁾ on December 31st, 1999: €15,133.50

Valuation at December 31st, 2009, including reinvestment of dividends (231 shares at €78): €18,018

OVER 20 YEARS

Initial capital multiplied by 14.93 in 20 years
Total shareholder return: 13.94%

During the same period, the CAC 40 increased by +6.5% per year⁽⁷⁾

Purchase of 20 shares at €756.91⁽⁸⁾ on December 31st, 1989: €15,138.20

Valuation at December 31st, 2009, including reinvestment of dividends (2,898 shares at €78): €226,044

(1) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interests.

(2) Dividend proposed to the Annual General Meeting of April 27th, 2010.

(3) On the number of shares at December 31st, 2009, i.e. 598,972,410 shares.

(4) Dividend distribution rate based on diluted net profit excluding non-recurrent items per share. Taking into account Sanofi-Synthelabo at the dividend level for 2004.

(5) Based on the dividend proposed to the Annual General Meeting of April 27th, 2010.

(6) In L'Oréal's employee savings plan.

(7) Reinvested dividends; source: Datastream.

(8) Non-adjusted share price.

PRACTICAL INFORMATION

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Key dates for 2010

SHAREHOLDER MEETINGS



Register for shareholder meetings at www.loreal-finance.com

FINANCIAL CALENDAR

- February 15th, 2010 2009 Annual Sales and Results
- May 5th, 2010 Payable date of the dividend⁽¹⁾
- August 25th, 2010 Half-year Results

(1) Subject to approval by the Annual General Meeting of April 27th, 2010.

Keep informed

at www.loreal-finance.com

Subscribe to e-mail alerts to be informed of the publication of news releases, *Letters to Shareholders*, the *Shareholder Guide* and all other group brochures.

INFORMATION ON THE L'ORÉAL SHARE

Market: Euronext Paris
(Compartment A)

Codes

- ISIN: FR0000120321
- Loyalty bonus code – dividend +10% in 2012: FR0010833269
- NYSE Euronext: OR.PA
- Bloomberg: OR:FP
- Reuters: OREP.PA

Index

- Share index: CAC 40
- Social responsibility index:
 - FTSE4Good
 - ASPI Eurozone®
 - Ethibel Excellence Sustainability Index

Eligible

- For the Deferred Settlement Service (SRD)
- For the PEA (share savings plan)

At Dec. 31st, 2009


- Market capitalisation: €46.72 billion
- Total number of shares: 598,972,410

Published by the Administration and Finance Division and by the Corporate Communications and External Affairs Division of L'Oréal group.

Competitive positions and market shares 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 based on the available statistical data.

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