



L'ORÉAL  
ANNUAL REPORT 2002

Founded nearly a century ago by the chemist Eugène Schueller, L'Oréal has consistently applied its policy of investing in research, ensuring that its products meet the highest possible standards of quality, safety and innovation. Today, the group contributes to the beauty of women and men all over the world, providing everyday solutions that enhance their sense of well-being.

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The L'Oréal Annual Report comprises three separate documents:

- 1 a general brochure;
- 2 the consolidated financial statements available on Thursday 3<sup>rd</sup> April 2003;
- 3 the Management Report of the Board of Directors, the L'Oréal parent company financial statements plus additional information for the Reference Document as required by law, available two weeks prior to the Annual General Meeting convened for Thursday 22<sup>nd</sup> May 2003.

# BOARD OF DIRECTORS

**Lindsay Owen-Jones CBE**

Chairman and Chief Executive Officer

**Jean-Pierre Meyers**

Vice-Chairman

**Liliane Bettencourt**

**Françoise Bettencourt Meyers**

**Peter Brabeck-Letmathe**

**Francisco Castañer Basco**

**François Dalle**

**Jean-Louis Dumas**

Director since 29<sup>th</sup> May 2002

**Rainer E. Gut**

**Xavier Fontanet**

Director since 29<sup>th</sup> May 2002

**Marc Ladreit de Lacharrière**

**Olivier Lecerf**

**Franck Riboud**

Director since 29<sup>th</sup> May 2002

**Edouard de Royère**

**Michel Somnolet**

Director up to 31<sup>st</sup> December 2002

**Auditors**

**Pierre Coll**

**Etienne Jacquemin**

**Substitutes**

**Etienne Boris**

**Jean-Paul Picard**

The presentation of the directors  
is on page 57.

# A PROFESSION FULL OF PROMISE FOR THE FUTURE

## 2002: THE 18<sup>TH</sup> CONSECUTIVE YEAR OF DOUBLE-DIGIT GROWTH

Thanks to the very strong growth in like-for-like sales, driven by a large number of successful product launches, we were able to offset an increasingly unfavourable economic environment and the negative impact of currency fluctuations.



Our sales growth, combined with greatly improved margins, brought another very strong increase in earnings with double-digit growth for the 18<sup>th</sup> consecutive year.

### ■ Innovation, the key to success

Backed up by a substantial increase in the research budget, our brands once again took a large number of product initiatives many of which proved extremely successful.

The success of products such as:

- Visible Results from L'ORÉAL PARIS,
- the GARNIER Skin Naturals line,
- Oligo 25 from VICHY,
- Majirouge Mix + colourants from L'ORÉAL PROFESSIONNEL,
- Water Shine Diamonds lipstick by MAYBELLINE,
- Juicy Tubes from LANCÔME,
- Polo Blue by RALPH LAUREN and GIORGIO ARMANI's Sensi fragrance,

made a major contribution to dynamic sales increases in a more difficult economic climate.

### ■ Strong growth all over the world

This year, the pleasant surprises came first from our traditional markets in Western Europe, where growth reached 6.1% - its highest level in four years.

In North America, after a rather slow start and against a difficult economic backdrop, the spectacular success of new products such as Polo Blue by RALPH LAUREN finally resulted in a growth level comparable with Europe.

But the most striking development was unquestionably the powerful acceleration of sales in our new markets. Our brands achieved remarkable breakthroughs in key countries such as the Russian Federation (+61%), China (+61%), Brazil (+50%) and South Korea (+30%).

After making significant commercial and industrial investments in these countries for several years, we are now beginning to reap the benefits of our efforts.

#### ■ Sharp improvement in profit margins

In 2002, our operating margin increased from 12.1% to 12.9%, one of the largest increases ever recorded.

This improvement was achieved by focusing our resources on a limited number of brands, by concentrating and specialising our industrial facilities, through global economies of scale, strict control of purchasing costs and overheads, and by effectively integrating the brands acquired in 2000 and 2001.

The resulting cost savings have enabled us to allocate more resources for the global expansion of our brands, while at the same time improving our profit margins.

This is what we call the "virtuous spiral of growth", a concept to which, as you know, we attach a great deal of importance.

#### ■ Success of Sanofi-Synthélabo

Sanofi-Synthélabo again made a strong contribution to our group. Its results confirm the tremendous success of the merger and the very bright prospects for this business.

## MANY YEARS OF GROWTH AHEAD

#### ■ Short-term challenges, but...

2003 looks set to bring opportunities and challenges in equal measure. Political uncertainties are clouding the global economic environment, and currency fluctuations will again have a substantial impact when we consolidate the sales and earnings of our subsidiaries.

However, we remain optimistic. We are fortunate to be operating in markets that are less sensitive than others to economic cycles. When the outlook is gloomy, a customer who delays the purchase of a consumer durable will continue to buy cosmetics products as they provide a sense of well-being at a reasonable price.

Furthermore, our Research and Marketing teams have prepared ambitious product initiatives spanning all market segments and in all countries to bolster demand and increase our market shares.

For many years we have also consistently applied a policy of currency hedging and a production policy that limits product transfers between Europe and North America.

Ongoing improvements in cash management have further strengthened our already strong balance sheet.

For all these reasons we are confident about our prospects in 2003.

#### ■ Excellent prospects

The concepts of beauty and well-being have always been intimately linked. To take care of one's appearance is not just to



please others; it is also and probably primarily to please oneself, to feel comfortable and confident in one's relations with others.

This is doubtless why, even in the most developed countries, our markets continue to show constant growth.

On the one hand, the use of cosmetics now covers an increasing proportion of the consumer's life span.

On the other hand, we are now seeing the emergence of increasingly young consumers who wish to assert their identity and their personality. Products for men constitute another market opportunity, which, though still in its infancy, is highly promising.

Finally, the widespread aspiration of consumers for higher quality cosmetics with better performance levels offers the prospect of greater added value for our product lines.

In view of these factors, we still have ambitious plans for Europe, and are far from having realised our potential in the United States.

### ■ Immense growth potential in new markets

As well as the above growth factors, there are also considerable future opportunities for our industry as consumer spending increases in new markets that are rapidly opening.

In Asia, where there are more potential consumers than in Europe and North America combined, our brands are already established.

Eastern Europe and Latin America offer rapid growth opportunities. In India and Africa, where we have yet to build up our operations, foundations are being laid for future development.

Together, these markets constitute immense growth opportunities for the years to come.

## A CLEAR STRATEGIC VISION FOR SUSTAINABLE GROWTH

### ■ Organic growth as a core priority

L'Oréal has always given priority to organic growth in markets with rapid development potential.

Acquisitions can supplement but can never replace organic growth. They are therefore governed by an extremely selective policy, and are targeted at promising market sectors where the group is not yet active, or towards regionally strong brands that can be linked with our existing brands to accelerate their international expansion.

### ■ Innovation to bolster the core brands

Founded by a scientist, L'Oréal has, from the outset, chosen to base its success on innovation and quality. Once again in 2002, the research budget grew faster than sales.

The efforts of L'Oréal's Research arm, which consists of over 2,800 scientists, are focused on a limited number of global brands.

Fourteen global brands now account for over 92% of our sales, forming a balanced and complementary portfolio that is evenly distributed according to distribution channels and product categories. Each brand is clearly positioned in a specific segment, reducing the risks of competition between the group's different brands.

### ■ Constant search for new opportunities

To drive the group's future growth, we must constantly look for new market segments that offer rapid expansion potential.

In 2001, we made a bold move in the field of cosmetics for consumers of African origin by acquiring Carson, thus becoming the world leader in this market. 2002 saw the rapid development of these products in Africa and the opening of a specialised research centre in Chicago.

Also in 2002, a joint venture was set up with Nestlé for the marketing of nutritional supplements with proven benefits for the skin and hair. More commonly called "beauty pills", the first products will be launched in 2003 under the Innéov brand, and will draw on the world-renowned research capabilities of both companies. In our view this is an outstanding mid-term opportunity.

### ■ A proven and shared business growth model

For the past 18 years, constant increases in global sales combined with steadily improving profit margins have enabled us to achieve double-digit earnings growth.



We believe that this goal is both necessary and achievable in the future. To this end, we expect to significantly improve our profit margins in emerging countries where the heaviest infrastructure expenditures have now been completed and the impact of economies of scale is beginning to be felt.

Furthermore, determined and ongoing efforts are directed at cutting production costs, simplifying administrative structures and procedures, and reducing overheads.

A business growth model of this type can only be implemented if employees share and believe in the goals of the company. L'Oréal's aim is to ensure that company staff participate in and benefit from the company's economic success. We are fully aware that our success stems from our teams' determination and enthusiasm and I would like to thank them for demonstrating both of these qualities once again in 2002.

### ■ A group that is aware of its responsibilities

Fully aware of its responsibilities, L'Oréal pursues its goals within strict ethical guidelines that are set out in a charter issued to every one of our employees.

We also aim to be closely involved with the communities in which we operate, to further limit the impact of our activities on the environment and to provide exemplary working conditions for our employees.

It is the combination of these economic and human ambitions that forms the backbone of the group's sustainable development and the basis of our confidence for the future.

**Lindsay Owen-Jones**

Chairman and Chief Executive Officer of L'Oréal

# MANAGEMENT COMMITTEE

■ Lindsay Owen-Jones CBE  
Chairman and Chief Executive Officer



■ Béatrice Dautresme  
Executive Vice-President  
Strategic Business Development



■ Giorgio Galli  
Executive Vice-President  
Corporate Communications  
and External Affairs



■ Jean-Jacques Lebel  
President  
Professional Products



■ Christian Mulliez \*  
Executive Vice-President  
Administration and Finance

*\* Succeeded Michel Somnolet  
on 1<sup>st</sup> January 2003.*



■ Jean-François Grollier  
Executive Vice-President  
Research and Development



■ Marcel Lafforgue  
Executive Vice-President  
Production and Technology



■ Patrick Rabain  
President  
Consumer Products



■ François Vachey  
Executive Vice-President  
Human Resources

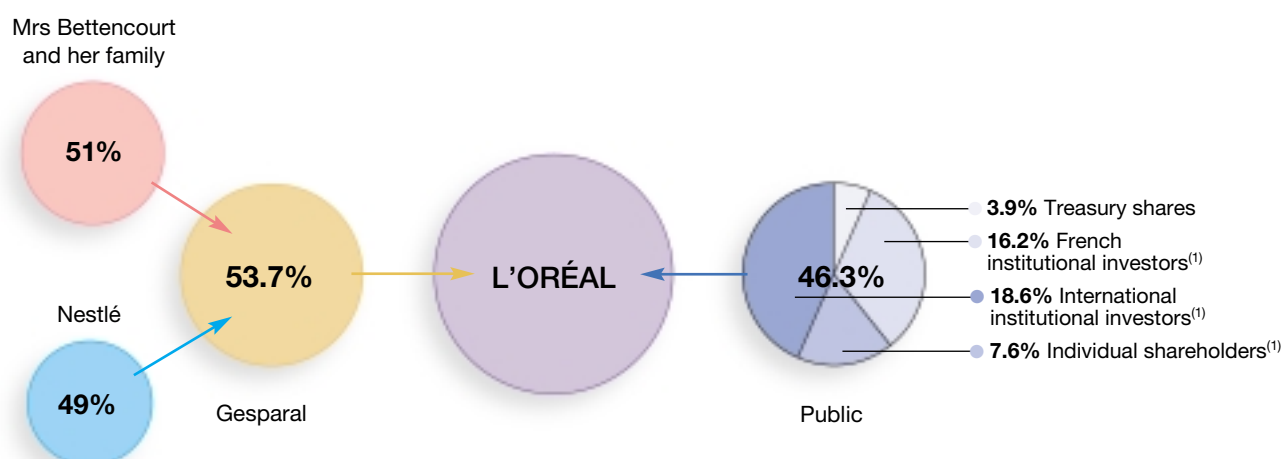


■ Gilles Weil  
President  
Luxury Products

# L'ORÉAL FINANCIAL HIGHLIGHTS

## ■ Key group figures

### Breakdown of share ownership as at 31<sup>st</sup> December 2002



(1) Estimations.

### L'Oréal in 2002 (€ millions)

	2001	2002	Growth
Consolidated sales	13,740	14,288	+4.0%
Pre-tax profit of fully consolidated companies	1,502	1,698	+13.1%
Net profit before capital gains and losses and after minority interests	1,229	1,456	+18.5%
Net profit before capital gains and losses and after minority interests per share <sup>(2)</sup> (€)	1.82	2.15	+18.5%

(2) In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net profit before capital gains and losses and after minority interests, before allowing for the provision for depreciation of treasury shares, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill.

### Dividend

(excluding tax already paid to French Treasury, or tax credit)	Paid in 2002	Proposed for 2003 <sup>(3)</sup>	Growth
in euros	0.54	0.64	+18.5%

(3) Resolution of Annual General Meeting, 22<sup>nd</sup> May 2003.

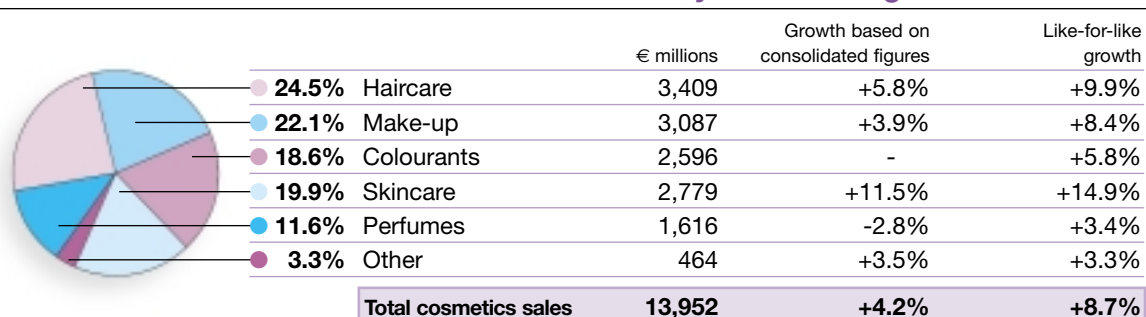
## ■ L'Oréal cosmetics branch

### Breakdown of 2002 consolidated cosmetics sales by division

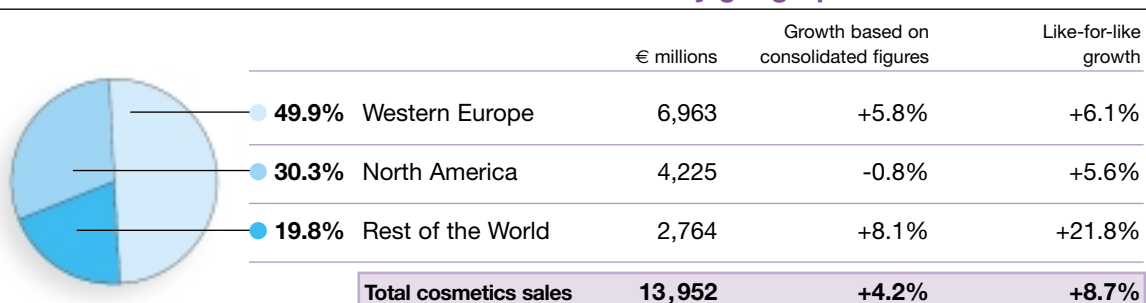


(1) The difference between the total cosmetics sales and the combined total of the 4 divisions and department (€ 116 million) consists mainly of mail order sales.

### Breakdown of 2002 consolidated cosmetics sales by business segment



### Breakdown of 2002 consolidated cosmetics sales by geographic zone



### Adjusted operating profit<sup>(2)</sup> of the cosmetics branch by geographic zone

	2001		2002	
	€ millions	% of sales	€ millions	% of sales
Western Europe	875	13.3%	971	13.9%
North America	522	12.3%	535	12.7%
Rest of the World	207	8.1%	262	9.5%
<b>Cosmetics total</b>	<b>1,604</b>	<b>12.0%</b>	<b>1,768</b>	<b>12.7%</b>

(2) Adjusted operating profit, i.e. including exchange gains and losses.

## ■ Cosmetics and dermatological branches

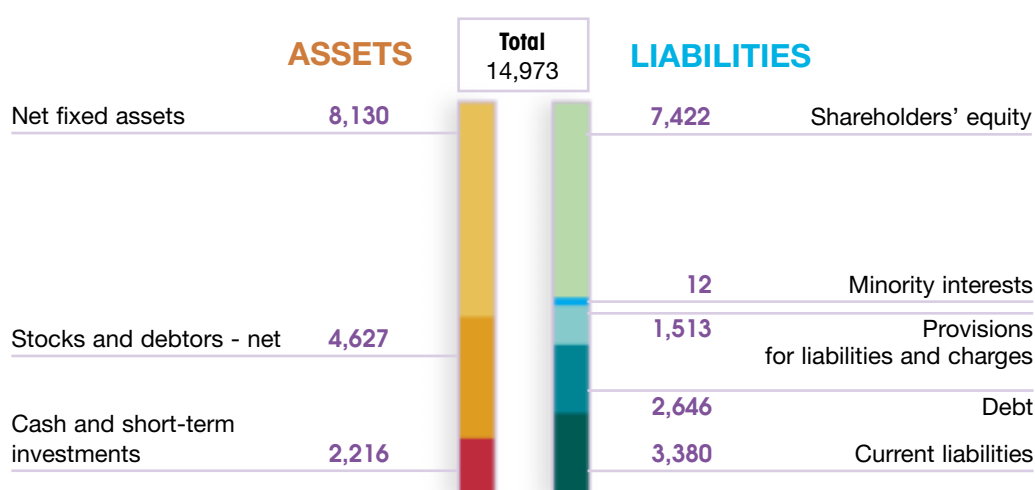
### Pre-tax profit of fully consolidated companies by branch

	€ millions	Weight	Growth	% of sales
Cosmetics	1,631	96%	+12.8%	11.7%
Dermatology	55	3%	+8.6%	17.2%

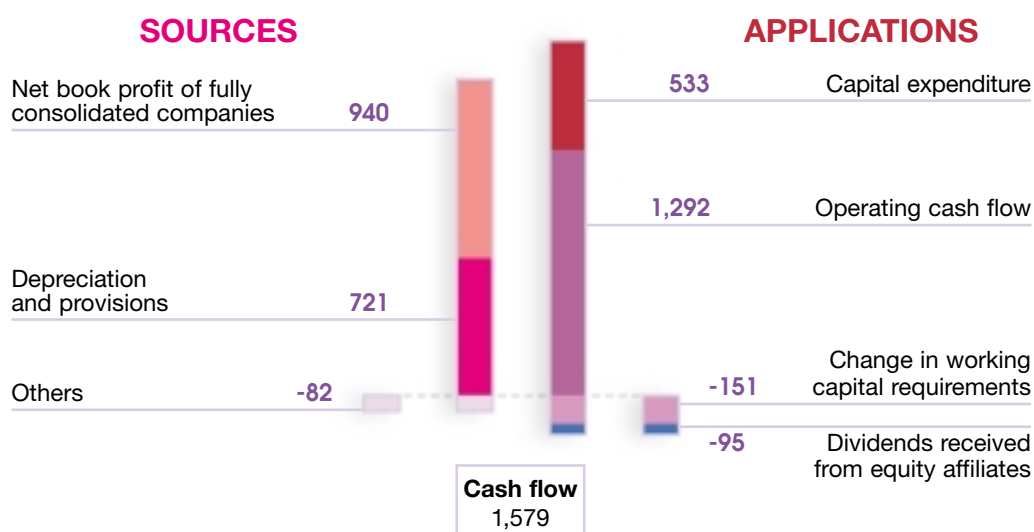
# A SOUND FINANCIAL STRUCTURE

## ■ Balance sheet, cash flows and financial ratios<sup>(1)</sup>

### Balance sheet 2002 (€ millions)



### Sources and applications of funds 2002 (€ millions)



### Financial ratios

	2001	2002
Pre-tax profit of fully consolidated companies Sales =	10.9%	11.9%
Net profit before capital gains and losses and minority interests of fully consolidated companies Sales =	9.0%	10.2%
Net profit before capital gains and losses after minority interests Opening shareholders' equity =	19.9%	20.2%
Net borrowings Shareholders' equity plus minority interests =	12.6%	4.8%

# 1992 - 2002: TEN YEARS OF CONSOLIDATED

€ millions	2002	2001	2000 <sup>(2)</sup>	1999 <sup>(1)(2)</sup>
<b>■ Results of operations</b>				
Consolidated sales	14,288	13,740	12,671	10,751
Pre-tax profit of fully consolidated companies	1,698	1,502	1,322	1,125
<i>As a percentage of consolidated sales</i>	<i>11.9</i>	<i>10.9</i>	<i>10.4</i>	<i>10.5</i>
Corporate tax	580	536	488	429
Net profit before capital gains and losses and minority interests	1,464	1,236	1,033	833
<i>As a percentage of consolidated sales</i>	<i>10.2</i>	<i>9.0</i>	<i>8.2</i>	<i>7.7</i>
Net profit before capital gains and losses and after minority interests	1,456	1,229	1,028	827
Total dividend	433	365	297	230
<b>■ Balance sheet</b>				
Fixed assets	8,130	8,140	7,605	5,918
Current assets	6,843	6,724	6,256	5,139
<i>Of which cash and short-term investments</i>	<i>2,216</i>	<i>1,954</i>	<i>1,588</i>	<i>1,080</i>
Shareholders' equity <sup>(3)</sup>	7,434	7,210	6,179	5,470
Loans and debt	2,646	2,939	3,424	1,914
<b>■ Per share data</b> (notes 4 to 7)				
Net profit before capital gains and losses and after minority interests per share <sup>(8) (9) (10)</sup>	2.15	1.82	1.52	1.22
Net dividend per share <sup>(11) (12)</sup>	0.64	0.54	0.44	0.34
Tax credit	0.32	0.27	0.22	0.17
Share price as of 31 <sup>st</sup> December <sup>(11)</sup>	72.55	80.90	91.30	79.65
Weighted average number of shares outstanding	675,990,516	676,062,160	676,062,160	676,062,160

(1) For purposes of comparability, the figures include:

- in 1998, the pro forma impact of the change in the consolidation method for Synthélabo, following its merger with Sanofi in May 1999,
- the impact in 1998 and 1999 of the application of CRC Regulation no.99-02 from 1<sup>st</sup> January 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 "Personal 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 1<sup>st</sup> January 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 25<sup>th</sup> May 1993 (see Commission des Opérations de Bourse information note of 3<sup>rd</sup> June 1993).

The certificates were reconstituted as shares following the Special General Meeting on 29<sup>th</sup> March 1999 and the Extraordinary General Meeting on 1<sup>st</sup> June 1999.

## FINANCIAL DATA

1998 <sup>(1)</sup>	1998	1997	1996	1995	1994	1993	1992
9,588	11,498	10,537	9,200	8,136	7,260	6,123	5,727
979	1,339	1,183	1,011	897	816	685	611
10.2	11.6	11.2	11.0	11.0	11.2	11.2	10.7
375	488	422	328	285	256	211	189
722	807	722	644	579	529	448	395
7.5	7.0	6.9	7.0	7.1	7.3	7.3	6.9
719	719	641	568	515	476	394	350
191	191	165	144	125	114	96	85
5,299	5,590	5,346	4,687	3,550	3,366	2,029	1,808
4,229	4,937	4,512	4,048	3,617	3,182	3,182	3,041
762	903	825	810	685	844	960	847
5,123	5,428	5,015	4,429	3,938	3,642	2,728	2,461
1,718	1,748	1,767	1,598	848	979	619	638
1.06	1.06	0.95	0.84	0.76	0.70	0.62	0.55
0.28	0.28	0.24	0.21	0.18	0.17	0.15	0.13
0.14	0.14	0.12	0.11	0.09	0.09	0.07	0.07
61.59	61.59	35.90	29.79	18.17	15.09	18.09	14.79
676,062,160	676,062,160	676,062,160	676,062,160	614,601,970	614,601,970	581,891,760	581,891,760

(5) Restated to reflect the ten-for-one share split decided at the Extraordinary General Meeting of 14<sup>th</sup> June 1990.

(6) Figures restated to reflect the one-for-ten bonus share allocation decided by the Board of Directors as of 23<sup>rd</sup> May 1996.

(7) Ten-for-one share split (Annual General Meeting of 30<sup>th</sup> May 2000).

(8) Net earnings per share are based on the weighted average number of shares outstanding in accordance with the accounting standards in force.

(9) In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net profit before capital gains and losses and after minority interests, before allowing for the provision for depreciation of treasury shares, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill.

(10) No financial instruments have been issued which could result in the creation of new L'Oréal shares.

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

The share capital was fixed at € 135,212,432 at the Annual General Meeting of 1<sup>st</sup> June 1999: the par value of one share is now € 0.2.

(12) The dividend is fixed in euros since the Annual General Meeting of 30<sup>th</sup> May 2000.

## ■ Rising levels of performance

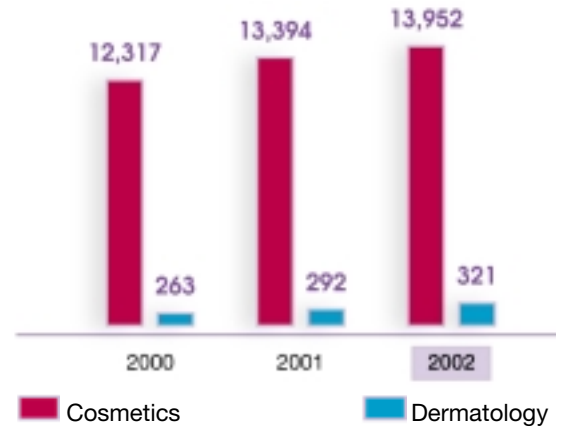
### Consolidated sales

(€ millions)



### Consolidated sales by branch<sup>(1)</sup>

(€ millions)



<sup>(1)</sup> The group's business is organised into two branches: cosmetics and dermatology. The other divisions do not constitute a branch.

### Pre-tax profit of fully consolidated companies

(€ millions)



### Net profit before capital gains and losses and after minority interests

(€ millions)



### Net dividend per share (excluding tax credit)

(€)



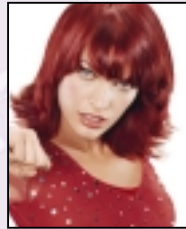
### Capital expenditure

cosmetology and dermatology (€ millions)



# CULTURALLY DIVERSE GLOBAL COSMETICS BRANDS

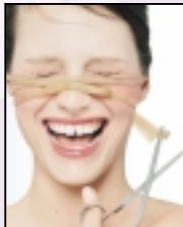
## BRANDS OF EUROPEAN ORIGIN



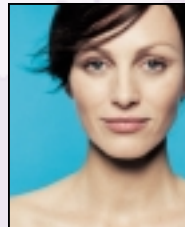
L'ORÉAL  
PARIS



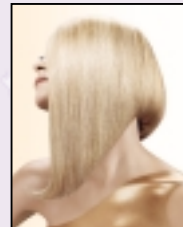
GARNIER



VICHY  
LABORATOIRES



LA ROCHE-POSAY  
LABORATOIRE PHARMACEUTIQUE



L'ORÉAL  
PROFESSIONNEL  
PARIS



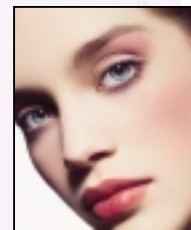
LANCÔME  
PARIS



GIORGIO ARMANI  
PARFUMS



(cacharel)

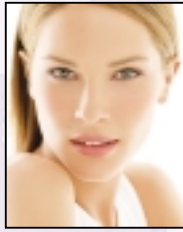


BIOOTHERM



BRANDS OF AMERICAN ORIGIN

BRAND OF ASIAN ORIGIN



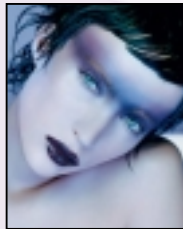
SOFTSHEEN·CARSON™

MAYBE SHE'S BORN WITH IT, MAYBE IT'S MAYBELLINE.  
MAYBELLINE  
NEW YORK



MATRIX

REDKEN  
5TH AVENUE NYC



RALPH LAUREN

Kiehl's  
SINCE 1851

HELENA RUBINSTEIN  
HR



shu uemura

## RESEARCH AND DEVELOPMENT

# INCREASING SCIENTIFIC CREATIVITY WORLDWIDE



Chemists use combinatorial chemistry to design new compounds.

### ■ Behind the scenes for the products of tomorrow

The decision, over twenty years ago, to invest in biotechnologies, and the life sciences in particular, was a bold gamble. Today it is paying off. Indeed, how could anyone develop products for skin and hair, which are living organs, without

understanding how the balance of healthy skin and hair is maintained? How and why is this equilibrium destroyed through exposure to sunlight, hair loss, the appearance of blemishes and the action of time?

By answering these questions, L'Oréal is paving the way for future products that combat ageing of the skin, hair loss and skin blemishes. The focus on prevention that underlies the development of all cosmetic products is now enhanced by a concern for protection.

For example, an active ingredient extracted from thermal plankton obtained through biotechnology has been shown to protect against the damage caused to immune system cells by sunlight. It has now been added to sun protection formulas to enhance the protective and preventive action of L'Oréal's patented sun filters, Mexoryl SX and Mexoryl XL.

There is another field in which L'Oréal has invested a great deal for over 30 years: high technology and nanotechnologies. These developments have led to major successes:

- the development of models of human skin through the revolution in cellular bioengineering;

Research & Development budget (approximately 3% of consolidated sales) (€ millions)



Cosmetic and dermatological research

	2000	2001	2002
Employees	2,564	2,743	2,823
Patents	420	493	501

International extensions of patents in 2002 = 25,309

- the design of non-invasive instruments for measuring skin and hair properties. In 2002, a joint project with the company ST Microelectronics led to the development of Skinchip®. This is a microelectronic sensor capable of supplying an image of the skin surface within a few seconds, together with information about moisturisation, ageing and blemishes in pigmentation;
- the harnessing of nanovectors to deliver fragile active ingredients to exactly where they are needed by the skin and hair.

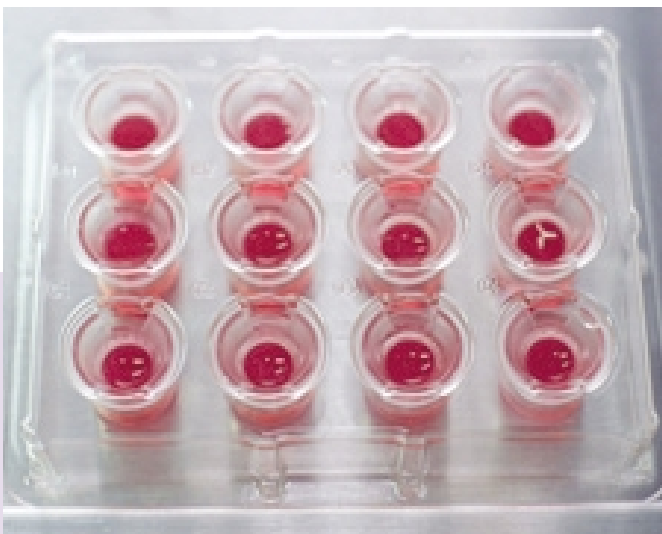
In 2002, L'Oréal teams also developed the first-ever model of "aged" skin - a reconstructed skin that simulates glycation, one of the main phenomena occurring in the ageing of the dermis. In addition, they used 3D modelling to reveal the complexity of the hair follicle. This work, carried out jointly with Dassault Systèmes, will enable a better understanding of the hair cycle and lead to the design of new molecules.

Since the science of cosmetics is a discipline in its own right, it draws on the ideas and the advances of the scientific community as a whole. This has led to many joint projects

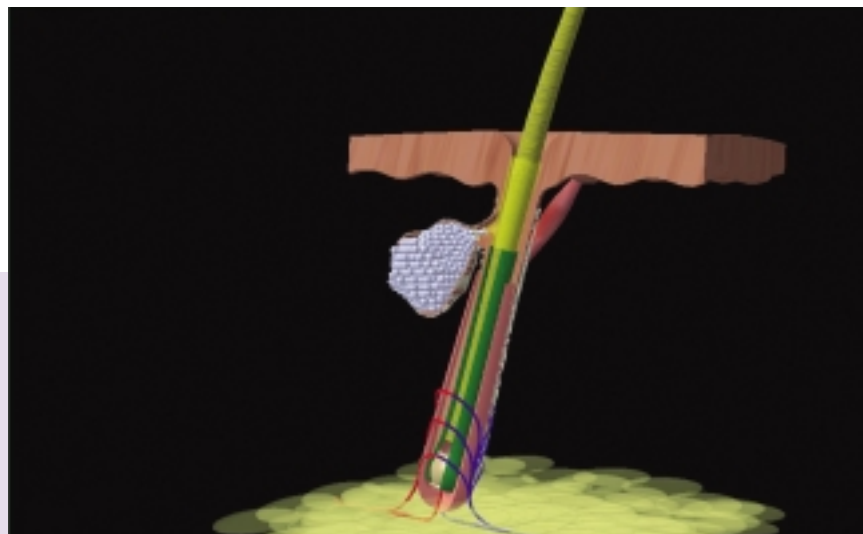
worldwide with teams in universities, hospitals and the private sector. The global dimension of this approach is reflected in research into skin and hair of different ethnic types.

In 2002, the results of a 5-year study of Chinese skin, based on a sample group of two thousand women, were revealed at the Congress of World Dermatology in Paris. The study's results provided the basis for a typological classification of skin, complete with conclusions on the appearance of wrinkles and blemishes, and on the impact of environmental factors such as climate, nutrition and tobacco. The study also provided data about sensitive skin in China. The data were correlated with those of two other research projects aimed at determining the percentage of sensitive skin in populations of Afro-American, Asian, European and Latin American origin.

In addition, the hair research teams have published data on African hair and its brittleness, breaking strength and dryness (the result of a specific pattern of lipid distribution in the follicle). These findings have been incorporated in the group's ethnic products.

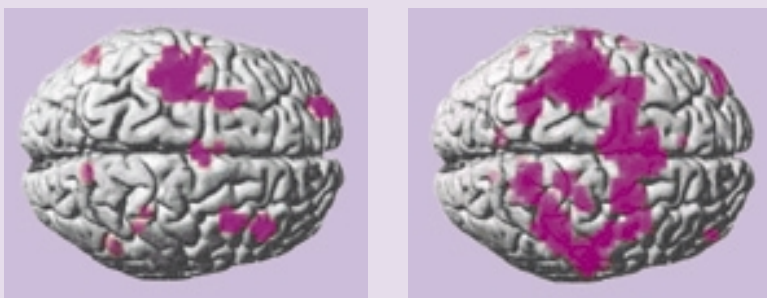


*Episkin reconstructed epidermis kit.*

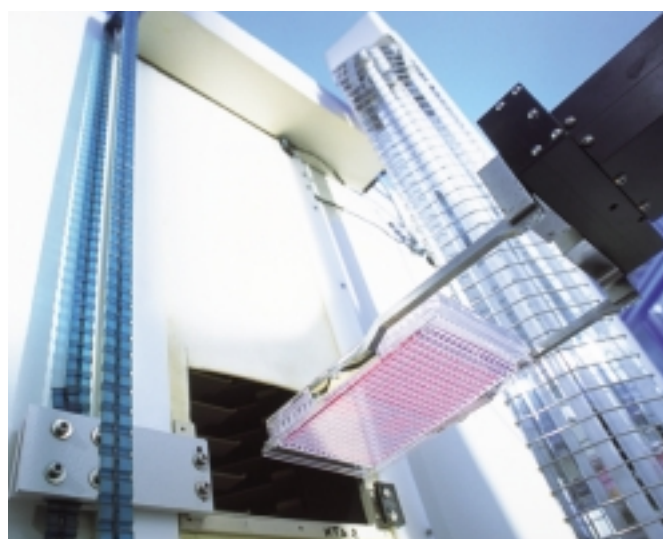


*Model of hair follicle with its sebaceous gland and arrector pili muscle.*

Image of cerebral activation in subjects with non-sensitive skin and sensitive skin.



An HTS robot tests the efficacy of biological active ingredients.



### ■ The keys to innovation: knowledge, efficacy and safety

Ever since 1907, the L'Oréal group has been steadfastly investing in research. This commitment is worldwide, and enriches all the key fields of cosmetics: skincare, make-up, sun protection, haircare, colourants, styling, hair and body hygiene, and perfumes.

In support of the global roll-out of the group's brands, L'Oréal Research has taken up the challenge of significantly increasing the creativity and productivity of its teams, by equipping them with the latest technology. They are thus able to evaluate a product's efficacy and safety at each stage of its development.

The initial tests are carried out *in vitro*. Once an active ingredient has been identified, and shown to be both harmless and effective, a model of the product is made, combining it with an excipient and, where appropriate, with other active ingredients. Safety and efficacy are then again checked *in vitro*. Once the final formulation has been determined, it is tested with dermatological monitoring on a sample group of

volunteers. This clinical evaluation stage on volunteers is carried out by external evaluation centres located in different continents.

Finally, sensorial performances are evaluated using panels of trained individuals, before the go-ahead is given for large-scale consumer testing in different parts of the world. The L'Oréal group's evaluation centres are located in twelve different countries, to ensure that each formula is ideally suited to its market. In some cases a formula may be adapted to ensure that consumers' needs are met. For example, gel textures are preferred in countries with hot climates, and some fragrances popular in Europe are not suitable for Asia.

To further increase its innovative capability, the group has invested in robots to carry out high throughput screening. Automation on this scale enables the rapid evaluation of a wide range of chemical, physical and biological properties in hundreds of molecules.

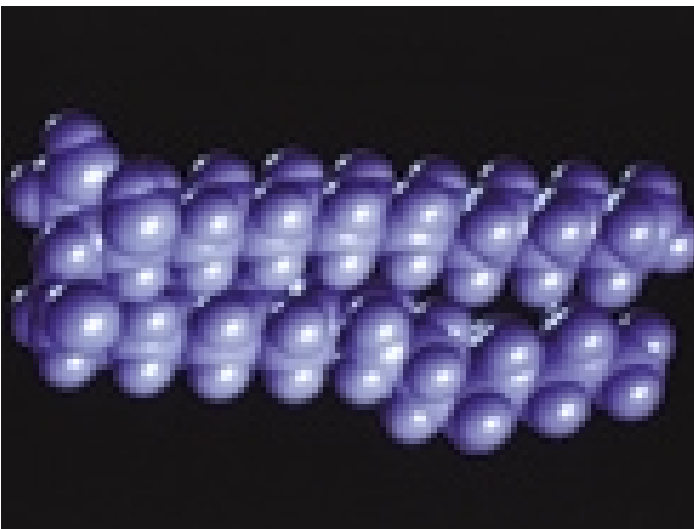
### ■ Innovation breeds innovation

In some cases, the knowledge and expertise gathered enable another form of innovation: finding other applications for a particularly effective molecule. UVA filters, for example, are not used only in sun protection products. Today they also contribute to the efficacy of everyday skincare creams, as biologists have shown that exposure to UVA has adverse effects in terms of the ageing of the skin.

Research into skin lipids, which has inspired the development of skincare and make-up products with ceramides, has also led to the use of a specific ceramide to repair damaged hair.

### ■ The innovators

Behind each innovation, there are teams of men and women. L'Oréal Research employs staff of about 60 nationalities working in 30 different specialisations, and most of our researchers are women. Our multi-disciplinary and multi-cultural research force is present in three continents (Asia, Europe and North America). This diversity fosters internationalisation and enables us to adapt our products to suit different countries.



Ceramide R, a biomimetic compound.

### ■ RESEARCH ACHIEVEMENTS

*Without attempting to be exhaustive, we may recall some key milestones which have marked the history of cosmetics and of cosmetics research. A total of over 120 new molecules have been patented and used by L'Oréal over the last 40 years.*

**Ceramide R:** *inspired by natural ceramides, this synthetic ceramide repairs the cuticle of damaged hair, strengthening it and making the hair shine. It was discovered in 1989, launched in 1995 in an Elsève shampoo, and included in ethnic products in 2001.*

**Sun filters:** *designing and synthesising compounds capable of absorbing ultraviolet A and B radiation was a major project. Success came with the first photostable UVA filter, Mexoryl SX, and later with the UVA-UVB filter, Mexoryl XL. Both have been incorporated in all the L'Oréal group's sun protection products since 1999, except in the United States.*

**Skin models:** *reconstructing skin from human cells was a dream in the 1970s. By the early 1980s, a L'Oréal team had made it a reality. These skin bioengineering techniques have now been mastered, and provide models of skin complete with its barrier function, pigmentation and immune response. The models are routinely used for biological research and for evaluating safety and efficacy. In 2000, L'Oréal opened a centre for the large-scale production of epidermis kits, and, again in 2002, the first model capable of simulating skin ageing was developed.*

**Nanovectors:** *these are systems that encapsulate and transport often fragile active ingredients. The vectors (liposomes, niosomes and nanocapsules) – nanometric in size and thus compatible with the intercellular dimensions of skin and hair – have been introduced into the skincare ranges of several of the group's brands.*

## PRODUCTION AND TECHNOLOGY

# STRONG INDUSTRIAL CONTRIBUTION TO THE GROUP'S ECONOMIC PERFORMANCE

In a year marked by growing production, L'Oréal's industrial organisation made a very strong contribution to the group's economic performance. With 14,500 full-time equivalent employees across 42 factories, producing some 3.7 billion units, the group's industrial capability continued to play its role in furthering sustainable development.



Packaging line, Suzhou factory, China.

### ■ Manufacturing process development and packaging

In 2002, the development of intricate manufacturing processes enabled the successful launch of VICHY's anti-dandruff product Dercos and Fibre mascara from GEMEY-MAYBELLINE.

The registration of 78 packaging patents, in line with previous years, reflects the on-going emphasis on research.

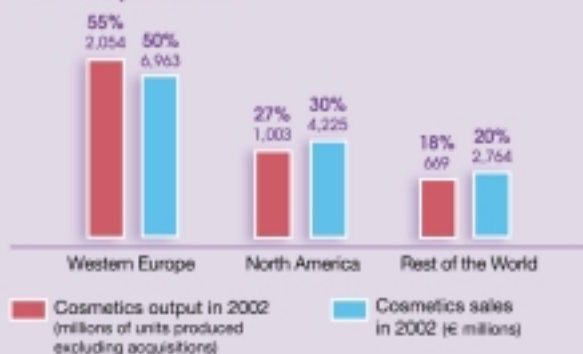
### ■ Quality, safety and the environment

In 2002, the proportion of products made in ISO certified factories reached 86% following the certification of our factory in China.

Safety levels in our manufacturing sites were improved by 25%, consolidating the advances made through our safety policy.

Our factories managed to reuse, recycle or incinerate 89.5% of their waste, and all effluents from our factories comply with locally applicable standards.

### Localised production



€ millions	2000	2001	2002
Cosmetics investments			
Production & physical distribution commitments	288.7	317.4	318.3
<i>Index (base: 100 in 2000)</i>			
Comparable product purchasing price index trend	100	98.1	95.6
<i>Units</i>			
Packaging patents	85	71	78

**MANUFACTURING ORGANISATION**

**■ Europe - Consumer Products Division**

In Europe, the Consumer Products Division has largely completed its restructuring by brand and by technology. There are now four factories for the L'ORÉAL PARIS brand and five for GARNIER supplying European markets. This simplification further speeds up product development, ensures the lowest production cost, and improves distribution cost control through highly efficient logistical systems.

**■ North America**

The Montreal factory, dedicated to the Professional Products Division, has doubled its output, and achieved cost levels comparable with the European factories.

The Solon factory in the United States, which previously only produced for the MATRIX brand, has now been integrated into the Professional Products Division. Since this move, its performance has improved tremendously.

**COST REDUCTION**

In 2002, production costs were reduced by integrating acquisitions made in 2001 into the group's industrial organisation, closing five factories, simplifying the manufacturing structure in Europe, and increasing output. Purchases, the largest component of production costs, were kept under very tight control even with the backdrop

of increasing basic raw material prices. The reduction of costs with our partner suppliers and the analysis of product value enabled a further decline in the comparable product purchasing price index.

Ongoing innovation and the constant improvement of product value help to ensure that more advances can be made in the future.

**■ THE CHALLENGE OF EXPANSION OUTSIDE EUROPE AND NORTH AMERICA**

*In 2002, the group continued to expand outside Europe and North America. To enable this, industrial facilities were concentrated, extended and specialised in each zone.*

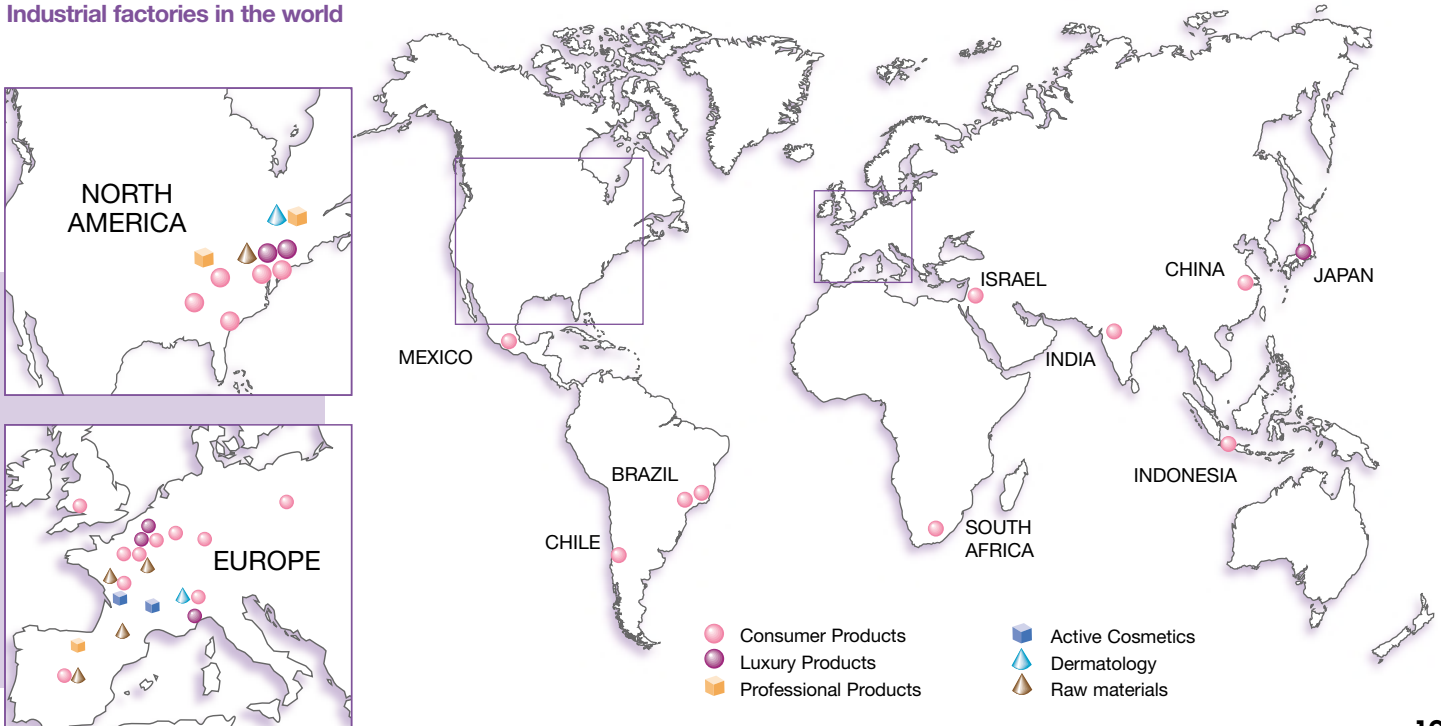
*Latin America: with the closure of the Argentinean factory, production was concentrated in Brazil.*

*Africa: in South Africa, the L'Oréal factory was closed and the Carson factory was reorganised to become the SOFTSHEEN.CARSON manufacturing centre for Africa and Europe.*

*Eastern Europe: the capacity of the Polish factory was doubled, enabling it to supply Eastern Europe and the Russian Federation.*

*Asia Pacific: after doubling its manufacturing output, the Suzhou factory in China became the group's largest industrial base for Asia. The Australian factory was closed.*

Industrial factories in the world



## HUMAN RESOURCES

# SPOTTING AND REVEALING TALENT

L'Oréal is aware of the importance of long-term vision in a multicultural context and looks on the international recruitment and development of its teams as vital challenges. In L'Oréal businesses all over the world, the group's Human Resources structures foster the personal development of its 50,491 employees of 98 different nationalities, using an approach tailored to suit each individual.



Marketing team of L'Oréal Professionnel.

### ■ Recruiting talented people

This is one of our essential concerns in building the future of L'Oréal. In 2002:

- 332,300 applications were received for recruitment at management level. 21,800 candidates were interviewed and 1,594 (60% of them female) were chosen to join the group,

- 165,700 Internet applications were received,
- 8% of management recruits work outside their country of origin,
- 58% of management recruits are under 30 years of age,
- the group's presence in universities was strengthened: there are now 129 partnership agreements worldwide,
- the E-Strat Challenge and the L'Oréal Marketing Award help the group spot new talent for the future,
- 1,590 students carried out training periods at L'Oréal.

### ■ Enriching individual skills

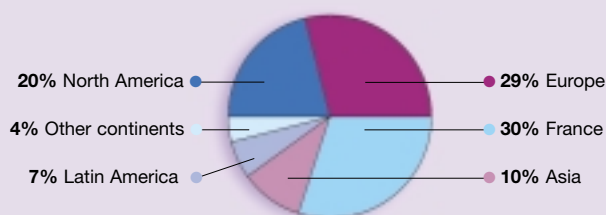
Training, one of fundamental concerns of L'Oréal, is based on three approaches:

- acquiring professional and technical skills,
- developing individual abilities,
- integrating employees into the corporate culture.

It is coordinated by the Continuing Education Division, which consists of:

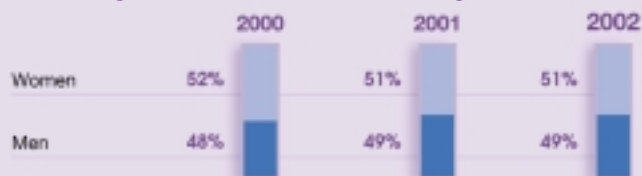
- a corporate team, based in France, in charge of development and international programmes,

### Managers by geographic zone



	2000	2001	2002
Global workforce	48,222	49,150	50,491
Global number of managers	11,020	11,695	12,612

### Percentages of female and male managers





The L'Oréal E-Strat Challenge: on-line business strategy game.



### E-STRAT CHALLENGE

*L'Oréal's widely acclaimed strategy game has become popular in business schools and universities all over the world. Since its creation in 2000, 26,400 students from 80 countries have registered for the game. As virtual chief executives, the players must demonstrate creativity and teamwork, be prepared to take risks and show their decision-making ability if they want to win. As well as enabling L'Oréal to spot talent for the future, the game provides the student community worldwide with an excellent opportunity to experience at first hand the strategic issues of the cosmetics sector.*

- Management Development Centres in New York, Rio de Janeiro and Singapore,
- the training departments of the operational and functional divisions, focussed on specific business segments,
- all of these operate in liaison with the CEDEP in France, whose international management programmes are aimed at future senior managers.

In 2002:

- the Management Development Centres organised 65 seminars attended by 1,353 participants,

- 80% of the marketing teams of the Consumer Products Division in Europe, Africa, the Middle East and the Pacific zones attended a training course.

### Developing managerial talent

The new Talent Development programme is intended for all L'Oréal managers, and enables the assessment of individual performance and skills. Information meetings were held on the programme, which consists of training programmes (including an e.learning module) for all managerial staff, and is fully in line with the needs expressed by the group's employees.

### Encouraging mobility

A continuous process of personalised monitoring enables the tailoring of career profiles to suit individual personalities. Internal and international mobility ensures that managers gather a wide range of experience and are prepared for future senior management positions:

- each year over 27% of managers are promoted to new positions,
- managers are put in charge of units (brands, subsidiaries, laboratories and factories) after an average of seven and a half years with the group,
- 1,447 managers are currently working outside their country of origin.

The group's career development policy enables rapid access to management responsibilities.



Financial Department of L'Oréal Paris.

## SUSTAINABLE DEVELOPMENT

# COMMITMENT AND RESPONSIBILITY

The group continued to implement its sustainable development approach, based on strong ethical principles shared by all its personnel, excellent working conditions for all employees, and practical initiatives aimed at protecting the environment and serving the community at large.

A Sustainable Development Committee coordinates the actions taken in each area of activity. In 2002, L'Oréal was included in the main sustainable development indexes for listed companies in Europe.

### ■ Limiting environmental impact

Even though the cosmetics industry causes relatively little pollution, the group has been applying a pro-active policy for the last ten years to further limit the environmental impact of its activities. At all its sites – factories, offices, laboratories, distribution centres – L'Oréal strives to reduce water and energy consumption, to treat effluents, and to reuse or recycle waste.

The group views the reduction of its waste as a major challenge. The "zero landfill" target has now been achieved at 45% of its sites worldwide, and in all of its French factories.

At the Karlsruhe factory in Germany, for example, a new recycling method has been developed for aerosol cans that fail to meet quality control requirements and for obsolete products. The gas, the various components of the products and the containers are all recovered and reused. This innovative system means that 97% of the aerosol products can be recycled, while the remaining 3% are used to produce energy.

The treatment of effluents is of the utmost importance to L'Oréal. To ensure that its factory at Rambouillet, near Paris, meets quality standards, L'Oréal has, for example, set up a treatment plant that combines biological waste water treatment with an innovative filtering technique.

The group's Environment Division monitors the performance of each site on charts recording 65 parameters that are updated on a monthly basis.

### ■ Motivation and corporate pride

The corporate pride and motivation of personnel are essential prerequisites for the company's sustainable development. L'Oréal strives to ensure exemplary working conditions for all its employees, and to build up their loyalty by enabling them to share in the benefits of growth and results.

To this end, the group has set up a profit sharing scheme in all its subsidiaries. L'Oréal Worldwide Profit Sharing means that employees in almost every country received the equivalent of

Work accidents per hour worked<sup>(1)</sup>



(1) Work injury frequency rate = number of accidents resulting in sick leave/1 million hours worked.

Since 1993, the work injury frequency rate of our industrial sites and distribution centres has fallen by 75%.

Progress of environmental indicators  
(group factories and distribution centres)

	1992	2002	Change
Water consumption (litres/finished product)	1.55	0.85	-45%
Energy consumption (kWh/1,000 finished products)	237	198	-16%
Reuse & recycling index (%)	+69.2%	+86.3%	+25%

Water treatment station, Rambouillet factory, France.



one week's additional salary in 2002. Profit sharing is provided in addition to individually calculated salaries that are competitive within the local context.

The scheme should enable employees to receive the equivalent of two weeks additional salary in 2003, and one month's additional salary within the next three years.

### ■ Apprenticeships and integration

For several years, L'Oréal has been investing in the training and integration of young people. In France, apprentices now represent 2.7% of the total workforce. The apprenticeship system has taken on an international dimension with the creation of foreign placements for French apprentices, and with the development of work-based training by the group's European subsidiaries, in accordance with local circumstances and legal requirements.

With support from the excellent partnerships that have been built up and with the commitment of its employees, L'Oréal also maintains a variety of projects in the area of work

opportunities and solidarity. Many initiatives have been launched in each country: the integration of disabled employees, beauty workshops, the sponsoring of young people without educational qualifications, assistance in training the unemployed, local services, and beauty care services for people with psychological or social difficulties.

### ■ Meeting communities' expectations

L'Oréal is determined by such means to demonstrate good citizenship through practical, useful and targeted action.

The L'Oréal-Unesco "For Women in Science" programme is a symbol of the group's commitment. The programme promotes the role of women in research and stimulates the awakening of new scientific vocations. Each year, L'Oréal-Unesco "For Women in Science" awards are made to five outstanding women. In addition, fellowships are awarded to young scientists from all over the world to encourage them to persevere in their scientific careers.

L'Oréal also supports local humanitarian, social, cultural and educational initiatives, demonstrating the group's close involvement with the communities in which it operates.

### ■ A MODEL FACTORY IN CHINA

*The Suzhou factory in China has very rapidly met the group's quality standards, and in less than two years has become a model of safety (no accidents have been reported during this period) and care for the environment. For this achievement, it received the group's "Environment and Safety Excellence" award for the best overall performance in these areas.*

# COSMETICS



PROFESSIONAL PRODUCTS



CONSUMER PRODUCTS



LUXURY PRODUCTS



ACTIVE COSMETICS

# BRANDS FOR EACH BUSINESS SEGMENT AND IN ALL TYPES OF DISTRIBUTION CHANNELS

▶ pages 26-31

L'ORÉAL PROFESSIONNEL

MATRIX

KÉRASTASE

REDKEN

■ The Professional Products Division develops innovative haircare products for salons all over the world. Its brands feature colourants, haircare, permanent wave and styling products that cover the whole range of hairdressers' needs.

▶ pages 32-39

L'ORÉAL PARIS

SOFTSHEEN•CARSON

GARNIER

CLUB DES CRÉATEURS  
DE BEAUTÉ

MAYBELLINE NEW YORK

■ The Consumer Products Division markets high technology products to a wide range of customers through its global brands. Its products are competitively priced and are sold through mass-market retailing channels.

▶ pages 40-47

LANCÔME

CACHAREL

BIOtherm

GUY LAROCHE

HELENA RUBINSTEIN

PALOMA PICASSO

GIORGIO ARMANI

KIEHL'S

RALPH LAUREN

SHU UEMURA

■ The Luxury Products Division develops prestigious global brands through a selective distribution network: department stores, perfumeries and travel retail outlets. Its high value added ranges incorporate the latest innovations of L'Oréal Research.

▶ pages 48-51

VICHY

LA ROCHE-POSAY

■ The Active Cosmetics Department markets dermo-cosmetic healthcare brands in pharmacies and specialist sections of drugstores. The products are backed up by pharmaceutical advice and dermatological prescription.





L'ORÉAL PROFESSIONNEL

KÉRASTASE

MATRIX

REDKEN

# PROFESSIONAL PRODUCTS



# PARTNERSHIP WITH HAIRDRESSERS ALL OVER THE WORLD

The Professional Products Division boasts a portfolio of unique and complementary brands to meet the needs of every type of hair salon worldwide, whatever the stage of development of the professional product market. Its colourants and its styling, texture and haircare products, are specially designed to meet all hairdressers' needs.



*"The Professional Products Division showed significant growth in 2002: like-for-like growth was 9.2% in an economic climate that was favourable to hair salons. In Western Europe, the increase in the Division's sales outstripped the market growth rate. In North America, the Division reinforced its leadership with an increase of 11.4%. Growth was maintained in the rest of the world, particularly in Eastern Europe and Asia. Growth was strongest in colourants and haircare. The Division built up its partnership with hairdressers throughout the world, while at the same time fostering the development of the hairdressing profession."*

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Jean-Jacques Lebel  
President Professional Products

## ■ CHALLENGES AND GROWTH STRATEGY

The growth strategy of the Professional Products Division is to speed up the globalisation of its brands by focussing in particular on areas where it is at present under-represented in market share terms, i.e. Asia and Eastern Europe.

The Division will also grow by creating new services not only in straightening and colourants, but also in haircare and styling, particularly through salon sales of products for home use.

The Division's expertise in hairdresser training and development programmes designed for all types of salons will continue to stimulate dynamism in the profession as a whole.



### Consolidated sales by geographic zone

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Western Europe	881.5	933.9	49.2%	5.8%
North America	586.5	625.1	32.9%	11.4%
Rest of the World	342.6	339.3	17.9%	14.8%
<b>Total</b>	<b>1,810.6</b>	<b>1,898.3</b>	<b>100.0%</b>	<b>9.2%</b>

### Consolidated sales by business segment

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Colourants	753.1	791.8	41.7%	9.2%
Styling and waves	369.5	370.7	19.5%	3.1%
Shampoos and haircare	688.1	735.8	38.8%	12.5%
<b>Total</b>	<b>1,810.6</b>	<b>1,898.3</b>	<b>100.0%</b>	<b>9.2%</b>



## 2002 HIGHLIGHTS

- Strengthening of L'ORÉAL PROFESSIONNEL in the United States by the acquisition of Artec, the styling and haircare brand.
- Expansion in growth-driver countries moved up a gear, with sales rising 33% in South Korea, 30% in Thailand, 56% in China and 26% in Eastern Europe.
- Development of new market segments through launches of highly innovative products with outstanding potential: Majirouge Mix + colourants and X-Tenso texture products from L'ORÉAL PROFESSIONNEL; Elasto Curl by KÉRASTASE; Sleek Look haircare and the Trix young people's styling line from MATRIX; and REDKEN'S Addictive haircare line.

## ACTIVITY AND DEVELOPMENTS IN 2002

### ■ L'Oréal Professionnel

L'ORÉAL PROFESSIONNEL, a premium brand featuring leading-edge technologies, is a source of inspiration for top hairdressers all over the world. In 2002, the brand's sales grew faster than the market, with successful colourant launches and the opening up of new service activities:

- in colourants, Majirouge Mix +, which produces more intense and long-lasting effects, the relaunch of Majiblond and the continuing success of Majilift in Asia have revitalised the whole oxidation colourant sector;
- the Série Expert haircare range achieved 22% growth, sustained by the launches of the Vitamino Color mask and Shine Blonde in Europe, and the resounding success of three "Targets Care" intensive haircare programmes launched in Japan;
- styling products have strengthened their position in Europe and made rapid progress in growth-driver countries;
- as for straightening, the X-Tenso launch will enable the Division to tap into this high-potential segment and to establish itself as the technological and technical reference for the market.



### ■ Kérastase

In 2002, KÉRASTASE reinforced its position as leader in the prestige salon segment. With like-for-like growth of 11.3%, the brand continued its strong expansion in Asia (50%) and in prestige salons in the United States, where sales doubled.

Oléo Relax, launched in 2001 in a new market segment, continued to prove successful. In 2002, KÉRASTASE maintained its policy with the launch of the Elasto Curl range for curly hair.

Major initiatives were also taken to modernise the brand image in salons, with new furnishings and educational programmes designed to enhance haircare services.





### Matrix

The mass-market salon brand MATRIX achieved 13.5% like-for-like growth in sales.

There were three major developments in 2002:

- the international success of the Sleek Look smoothing system;
- the successful launch of Trix, a styling range for young people;
- the remarkable performance of Earthtones highlights in the Biolage range, enabling the brand to achieve double-digit growth for the second year running.

These results augur well for the continuing globalisation of the brand.

### Redken

This brand, which draws its creative inspiration from New York, achieved double-digit growth for the fifth year in a row (10.4% like-for-like). This increase was based on:

- the exceptional growth of Color Fusion colourants: sales increased by 25% and the brand won 6,000 new customers in the United States;
- the success of All Soft Addictive haircare products and the Fresh Curl range for curly hair;
- the success of styling products offering original textures and effects: Vinyl Glam 2, Smart Wax 10 and Rough Paste 12;
- the excellent response to Vertical, which enables the brand to break into a new type of service.



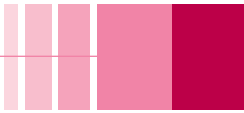
### OUTLOOK FOR 2003

The strength of its brand portfolio, the product success stories in 2002, and innovative launches in 2003 in new service segments mean that the Division can look forward with confidence to further market share gains.

Our teams, who are committed to fostering the development of the profession, will be given more resources to set up hairdresser training programmes linked to each of the Division's brands.

While continuing to invest, the Division will keep on improving its results by optimising its organisational structures and manufacturing costs.





L'ORÉAL PARIS

GARNIER

MAYBELLINE NEW YORK

SOFTSHEEN • CARSON

CLUB DES CRÉATEURS  
DE BEAUTÉ



# CONSUMER PRODUCTS

# SPEEDING UP GROWTH AND CONQUERING NEW MARKETS

The Consumer Products Division achieved a substantial increase in sales growth in 2002 (9.2% like-for-like and 4.4% based on consolidated figures). Its profitability in the main regions of the world also rose sharply.



*"2002 was a highly successful year, with a large number of innovative product developments providing the strongest growth leverage. It was a year marked by creativity and responsiveness.*

*Our teams worked tirelessly to identify the needs and dissatisfactions of consumers in order to develop new and different products that meet their expectations.*

*It was a very busy year for our manufacturing teams and factories as the Division also strongly increased volumes while setting up new organisational structures to increase productivity, make savings on manufacturing costs and improve the level of service.*

*It was also a year that saw the completion of a large number of partnerships with our customers in mass-market self-selection as well as in department stores and specialised retail outlets."*

Patrick Rabain  
President Consumer Products

## ■ CHALLENGES AND GROWTH STRATEGY

The first challenge is geographical. In 2002, the Consumer Products Division continued to apply its longstanding strategy of intensifying the roll-out of its brands in high-potential emerging countries. As a result, growth rates were around 20% in Eastern Europe, Asia, Latin America, Africa, and the Pacific area. In all these regions GARNIER was particularly successful, achieving spectacular growth by offering products of international quality with pricing and product mix adjusted to suit local market conditions.

The second challenge is innovation. New products continued to play an important role in boosting sales in 2002, while innovative technologies made a great contribution to stimulating consumer demand. These two trends were reflected in the success of L'ORÉAL PARIS in the developed countries, particularly in Western Europe (+10%), where the brand reinforced its already very strong position.

The third challenge concerns product categories. Already world number one in hair colourants, styling and make-up, and one of the leading players in haircare, the Division found a new growth opportunity in skincare (+22%) in 2002 that promises to open up bright prospects for the future.

### Consolidated sales by geographic zone

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Western Europe	3,585.7	3,836.9	50.5%	7.0%
North America	2,326.5	2,319.4	30.5%	6.1%
Rest of the World	1,369.5	1,444.7	19.0%	21.9%
<b>Total</b>	<b>7,281.7</b>	<b>7,600.9</b>	<b>100.0%</b>	<b>9.2%</b>

### Consolidated sales by business segment

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Haircare	3,958.3	4,048.4	53.3%	7.4%
Make-up	2,027.3	2,100.0	27.6%	8.8%
Skincare	862.4	1,019.8	13.4%	22.3%
Perfumes	155.5	150.6	2.0%	-1.8%
Other	278.3	282.2	3.7%	4.7%
<b>Total</b>	<b>7,281.7</b>	<b>7,600.9</b>	<b>100.0%</b>	<b>9.2%</b>



## 2002 HIGHLIGHTS

- L'ORÉAL PARIS achieved strong growth (up by 10% worldwide) which was evenly distributed around the world, including the developed countries in Europe (10%) and North America (8%).
- The success of GARNIER's mass-market business model was confirmed as the brand continued to pick up speed in new growth driver countries: Brazil (111%), Thailand (80%), Russian Federation (76%), Australia (63%) and Mexico (31%).
- The Division made a breakthrough in the skincare market (facial skincare, bodycare, sun protection) where sales grew by 22% in 2002 thanks to the L'ORÉAL PARIS and GARNIER brands.



## ACTIVITY AND DEVELOPMENTS IN 2002

### ■ L'Oréal Paris

Already marketed in 150 countries and the world's number one cosmetics brand, L'ORÉAL PARIS had an excellent year in 2002 by achieving 10% like-for-like sales growth and improving profitability. As demonstrated by image surveys in several countries, the brand also strengthened its "mass-market luxury brand" image.

The brand is highly focused on the needs of its target consumers – the growing proportion of women worldwide who expect better quality, product performance and a premium image. As a result, L'ORÉAL PARIS is constantly pushing quality to higher levels with improved formulas, products that deliver specific benefits, luxurious packaging,

more original innovations and a better visual expression of the brand at the point of sale.

Concentrating its efforts on high value added launches with a premium price positioning compared with the mass-market average, L'ORÉAL PARIS significantly improved its product mix and operational contribution in 2002.

By entering new product categories (bodycare, self-tanning sun protection, haircare for men), the brand has accelerated its growth rate and is opening up new sales potential.

2002 was marked by many product innovations and successes in each of the brand's main categories:

- in haircare, Elsève Liss Intense for dry, fly-away hair with patented micronised oil technology enabled the brand to bolster its position as number one in Europe;
- in colourants, Féria Booster introduced chromatics technology to achieve even more vibrant and intense red and copper tones;
- in make-up, Invincible lipstick is both long-lasting and comfortable, Idéal Balance foundation contains a moisturiser and has a long-lasting matt effect, and Lash Architect lengthens and curves eyelashes, and lends them body, with one simple gesture;
- in facial skincare, the successful relaunch of Revitalift helped L'ORÉAL PARIS to confirm its number one position in anti-wrinkle products. Visible Results, which uses an active ingredient developed through biotechnology to stimulate the







natural repair reflexes of the skin, is clearly one of the best facial skincare products currently available and was awarded the "2002 Marie-Claire Excellence Award";

- in bodycare, the successful 2002 performances in 35 countries of Body Expertise and the innovative Nutrilift line confirm the credentials of L'ORÉAL PARIS in this category.

Driven by the momentum of these successes, the brand should make a very good start in 2003 and move its growth up another gear with the help of a strongly innovative product offering.

## ■ Garnier

In 2002, GARNIER again achieved strong like-for-like growth of 13%.

GARNIER's brand identity – young, optimistic and informal – appeals to a broad range of customers because of the mass-market pricing and international level quality of its products.

Its product line-up incorporates a wide range of natural ingredients to boost the performance of its formulas, and its packaging conveys a message of originality, simplicity and efficacy.

GARNIER products are the ideal complement to the more premium positioning of L'ORÉAL PARIS and are targeted at the younger, more mass market customer base.

GARNIER's portfolio is highly focused on a small number of product lines that are set to become world leaders in their categories: Fructis haircare and styling, Nutrisse and Belle Color colourants, Skin Naturals skincare products, and the Ambre Solaire sun protection range.

In Europe, GARNIER's sales outstripped market growth by 8%, allowing the brand to reinforce its position as number two in haircare (haircare, styling and colourants) after L'ORÉAL PARIS and ahead of all its international rivals.

The key growth driver in 2002 was the success of the highly targeted innovations such as Fructis Color Resist haircare for coloured hair, Pschitt gel and Wet Gel from Fructis Style, the



bodycare lines Body Tonic and Body Cocoon, and the new Ambre Solaire sun protection range that offers improved convenience without impairing UVA-UVB protection.

The second growth driver is the ever-faster roll-out of GARNIER lines in new countries which has led to spectacular growth rates from an already substantial base: Latin America (+46%), Asia (+71%), Africa-Pacific (+37%), the Russian Federation (+76%) and North America (+14%).

GARNIER's international "star" products are also proving highly successful in the new markets, for example Fructis shampoo in Brazil, Nutrisse colourants in Mexico, and Garnier Skin Naturals in the Russian Federation and in Thailand.

With a steady stream of product innovations and its focus on young consumers all over the world, GARNIER should continue to enjoy very strong expansion in 2003.

### ■ Maybelline New York

MAYBELLINE, the world's number one make-up brand, achieved 6% sales growth in 2002.

Its market shares advanced in Western Europe, particularly in France, Spain and Italy, and its number one position on the American market was strengthened.

Once again, MAYBELLINE achieved spectacular growth (+19%) in Asia and Japan, and in Latin America where the brand from New York appeals to young consumers with its dynamic, youthful and fun-loving image and its policy of innovative products at reasonable prices.

The year's major event was the tremendous success of Water Shine Diamonds and Water Shine Classic, now the number one lipstick in terms of units sold worldwide, enabling the brand to advance by 20% in the lipstick category.

The Water Shine line, based on technology developed and patented by the group's laboratories, proved a big success on every continent by providing just what young women in Asia, North America and Europe were looking for: a lipstick with a new kind of brilliant gloss effect.

In the eye make-up category, where MAYBELLINE has been the unchallenged number one for many years, its healthy growth rate (11%) reflected the success of two recent mascara launches: Lash Discovery, whose patented brush and formula give body to small invisible lashes, and Lash Expansion, which gives lashes body while doubling their length.

2003 is expected to be particularly dynamic with the launch of new lipsticks and new foundation products.





### ■ SoftSheen.Carson

The world number one ethnic haircare brand consolidated its position in the United States in 2002 and achieved strong growth in the rest of the world which now accounts for 30% of its sales.

Produced through collaboration between the advanced research arm of L'Oréal and the SOFTSHEEN.CARSON laboratory in Chicago, the new relaxer Optimum Care was successfully launched in the United States. Optimum Care is highly effective and can be used on fragile hair thanks to a new patented L'Oréal technology that strengthens hair fibre.

Growth gathered speed in South Africa (+40%) thanks to the hair relaxer and haircare products Dark & Lovely.

The production centre at Midrand (Johannesburg) has been upgraded to meet L'Oréal group quality standards and serve the whole of Africa and the Middle East.

Dynamic performance is expected in 2003, with many new initiatives and the culmination of projects developed over the past two years.

### ■ C.C.B. - Club des Créateurs de Beauté

C.C.B., the 50/50 joint venture of L'Oréal and 3 Suisses, had a good year in 2002 with 9% growth in combined sales

including Japan, despite the poor economic climate in mail order market in Europe.

The breakthrough in Asia became more pronounced in 2002 with 58% growth for C.C.B. Japan in yen, and the region now accounts for 25% of the global sales of C.C.B.

In Taiwan, the new subsidiary made a very strong start which enabled it to break-even in 2002, its first year of existence.

There were many successes for C.C.B. catalogue products:

- Agnès b. make-up grew by 13%, with eye shadows and Shake Shake foundation proving particularly popular;
- Cosmence skincare products (+15%) were boosted by the success of Refine Pore, a 3-product programme to refine skin texture;
- the Expert haircare products of J.M. Maniatis, now featuring an innovative anti-ageing line, also proved successful;
- in perfumes, there was a very warm reception for Comédie, the new perfume from Michel Klein.

By using innovative data mining techniques in 2002, C.C.B. built up its client file, which now consists of 5 million women.

The proportion of Internet orders taken by C.C.B. has steadily increased, and now stands at 5% in Europe and 35% in the United States, where the figure reached an all-time high of 45% in December 2002.

With the arrival of a new designer label and a strong product launch programme for 2003, C.C.B. is once again setting itself high targets.

### OUTLOOK FOR 2003

**The excellent innovation momentum built up in recent months, together with the major launches already scheduled, should allow us to maintain the strong growth rate.**

**Major high quality product initiatives from the start of the year should make 2003 an excellent "vintage", both in the developed and new growth driver countries.**

**Increased volumes and improved administrative and manufacturing productivity should also continue to improve operations.**





LANCÔME

BIOThERM

HELENA RUBINSTEIN

GIORGIO ARMANI

RALPH LAUREN

CACHAREL

GUY LAROCHE

PALOMA PICASSO

KIEHL'S

SHU UEMURA



# LUXURY PRODUCTS

# INNOVATION AND GLOBALISATION DRIVE MARKET SHARE GAINS

The Luxury Products Division develops global prestige brands sold in exclusive and selective outlets: department stores, perfumeries and travel retail outlets. It aims to offer customers personalised advice and service. The Division markets highly effective products incorporating the latest innovations, whose high added value reflects the quality of L'Oréal Research. The strength and diversity of our brands, and the quality of our products and international teams, make the Division one of the world leaders in the selective cosmetics sector.



*"Faced with a difficult economic environment, the Division continued to win market share, driven by the large number of successful innovative launches in the skincare, make-up and perfume segments.*

*The Division reinforced its world leadership in perfumes and its strong hold in the cosmetics sector.*

*In geographic terms, advances were made in Asia (up by 33%), particularly in South Korea, Thailand, China and Hong Kong, in Japan (up 10%) and in Europe, with strong performances in the United Kingdom and Spain. The Division continued to move forward (up 2.3%) in the difficult American market, and returned to growth in Latin America (up 15%). Finally, travel retail held firm with 4% growth, despite the difficulties of the air travel market."*

Gilles Weil  
President Luxury Products

## ■ CHALLENGES AND GROWTH STRATEGY

The Division's objective in 2003 is to continue strong international expansion. Its growth strategy is based on:

- strengthening the position of LANCÔME as one of the world's leading luxury brands,
- developing the high-potential brands HELENA RUBINSTEIN and BIOTHERM,
- boosting the perfume brands RALPH LAUREN, ARMANI and CACHAREL,
- globalising the new brands KIEHL'S and SHU UEMURA.

Asia and Japan in particular will be a major area for expansion in skincare and make-up. The Division will continue its growth in Europe and should gradually take advantage of more favourable conditions in the United States.

The Division's expertise enables it to offer each generation of women products ideally suited to their needs. The strong global reach of its brands, and the quality of its initiatives and teams will enable the Division to keep on winning market share.

### Consolidated sales by geographic zone

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Western Europe	1,515.3	1,582.2	43.4%	5.6%
North America	1,302.7	1,231.0	33.8%	1.5%
Rest of the World	732.0	828.5	22.8%	18.2%
<b>Total</b>	<b>3,550.0</b>	<b>3,641.7</b>	<b>100.0%</b>	<b>6.7%</b>

### Consolidated sales by business segment

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Skincare	1,215.5	1,288.0	35.4%	8.6%
Perfumes	1,500.7	1,458.6	40.1%	4.0%
Make-up	833.7	895.1	24.6%	8.6%
<b>Total</b>	<b>3,550.0</b>	<b>3,641.7</b>	<b>100.0%</b>	<b>6.7%</b>



## 2002 HIGHLIGHTS

- GIORGIO ARMANI continued its winning ways by successfully launching two new fragrances: Armani Mania for men and Sensi for women.
- BIOTHERM launched Skin Loving Colors, the first make-up line with active thermal concentrate aimed at younger women.
- LANCÔME again boosted market share with its extraordinarily successful Juicy Tubes lipstick.
- HELENA RUBINSTEIN achieved a new momentum with the launch of the anti-ageing cream Prodigy.

## ACTIVITY AND DEVELOPMENTS IN 2002

### ■ Lancôme

In 2002, LANCÔME achieved like-for-like growth of 4.9%. Successful innovative launches in skincare and make-up, the resilience of core perfumes Trésor and Miracle and strong performances in Asia again helped the brand strengthen its worldwide leadership.

In skincare, LANCÔME bolstered its dominant position in the anti-ageing segment with the success of Absolue, a deep restructuring cream, and the launch of Absolue Yeux. The launch of Impactive is expected to win the brand new consumers. Alongside these major initiatives, the core product lines continued to perform well, and Rénergie (with dual anti-wrinkle and firming action) maintained its position as one of the leading skincare ranges worldwide.



Strong expansion in the make-up segment:

- Flextencils, the latest LANCÔME mascara, continued to prove successful, with over 3 million units sold;
- the foundation Photogénic that offers light-reflective vitality made advances following a range extension with Ultra Naturel. The launch of Adaptive is also expected to enhance LANCÔME's line-up of foundation products;
- the lipstick segment is performing well, supported by the launch of Rouge Attraction and the extraordinary success of Juicy Tubes, which is attracting many new customers in the younger age brackets.

Lastly, in the perfumes segment, Miracle, highlighted in a new advertising campaign, has won worldwide recognition as one of the top fragrances on the market. Trésor is already internationally acknowledged as one of the leading classic fragrances.







## ■ Biotherm

2002 was another year of strong growth for the BIODERM brand (up 10.4%). The highest growth rates were achieved in Asia (69.5%), Eastern Europe (26%), Japan (58%) and Spain (11%). These double-digit growth figures can be attributed to:

- the success of innovative products: Densité Lift and Source Therapy won the brand many new consumers. In the men's market, Aqua Power moisturiser created a sensation with over 350,000 units sold;

- a policy of strong support for existing lines, with sales growth for Aquasource and Biosource and continuing success for Age Fitness;
- very strong growth in Asia, with spectacular sales increases in the highly successful Hong Kong boutiques, and excellent results in Japanese department stores.

Lastly, the launch of the Skin Loving Colors make-up range marks a new step forward in BIODERM's development. Following the autumn launch in Asia and selected outlets in Europe, initial sales figures augur well for the future.





### ■ Helena Rubinstein

The brand's positions advanced in 2002, with particularly strong performances in Japan, in travel retail, in Eastern Europe, in Spain and in Italy.

The launch in 2002 of Prodigy, a major skincare product, is enabling the brand to increase its facial skincare expertise. Range extensions, such as Collagenist Eye, and specific developments in Asia, such as Power A lotion and the Future White kit, are also speeding up skincare sales growth.

In the field of make-up, the strong growth rate was driven by the Extravagant mascara launch, and the spectacular success of lipsticks such as The Stellars.

### ■ Prestige and Collections

After a year of consolidation in 2001, perfumes sales grew by 7.0%, well ahead of the growth rate for the worldwide market.

#### Giorgio Armani

GIORGIO ARMANI recorded very strong sales growth (up 17.5%) and has now become the Division's leading perfume brand. It achieved top position following the launch of Armani Mania, which very rapidly became one of the world's best-selling men's fragrances, and the launch in September 2002 of Sensi, whose advertising campaign is proving highly effective. The excellent performance of Acqua di Giò for Men, the world's leading male fragrance, and the selective extension of ARMANI make-up, are strengthening the brand's development prospects.



### Ralph Lauren

The launch in America of Polo Blue was very favourably received and helped the brand to maintain its positions in the United States in a difficult market environment.

Glamorous, Ralph Lauren's new women's line, was launched in Europe in 2002 and is proving highly successful.

The core products Polo and Romance complete the line-up from RALPH LAUREN, one of the top signatures on the selective perfume market today.



### Cacharel

Following a new advertising campaign for Anaïs Anaïs and the launch of Noa perfume, CACHAREL is on the offensive with the launch of Gloria in Western Europe, Eastern Europe and Latin America.

### Guy Laroche

The promotional campaigns organised in 2002 have enabled Drakkar Noir to maintain its position in the men's perfume league tables.

### Paloma Picasso

With a strong presence in Germany, Eastern Europe and Latin America, the brand is continuing to refocus on the classic fragrance Mon Parfum.

### Kiehl's

Acquired by L'Oréal in 2000, KIEHL'S now forms part of the Luxury Products Division. The original image of the brand, already strongly established in the United States, offers substantial development potential. The brand, which offers very high quality facial skincare, bodycare, haircare and men's skincare lines, continued its global roll-out in 2002 and achieved good growth levels in the United States.



### Shu Uemura

L'Oréal has concluded a strategic alliance with the Japanese brand SHU UEMURA. Following acquisitions of agents, the brand has already been launched by L'Oréal teams in Taiwan, Hong Kong, South Korea, Thailand, the United Kingdom and France.



### OUTLOOK FOR 2003

Despite a volatile economic climate, the Division is still setting its sights high. The product successes of 2002 provide a solid base for future growth. New technological breakthroughs for all the brands and the launch of new perfumes from the strategic brands will enable us to keep on winning market share. The Division will continue to internationalise its operations with new development initiatives in emerging markets and the strengthening of its positions in more mature markets. The reduction of administrative and industrial costs, and synergies between organisational structures, are expected to make more resources available to support new innovations and to continue to improve results.





VICHY

LA ROCHE-POSAY

# ACTIVE COSMETICS



# GLOBAL ROLL-OUT CONTINUES

Active Cosmetics is the world number one in over-the-counter dermatological skincare products. Supported by pharmacist recommendation and dermatological prescription, our products respond to the needs for safety and efficacy as proven by clinical tests.

## CHALLENGES AND GROWTH STRATEGY

Number one in skincare and with a strong presence in Western Europe, the Active Cosmetics Department is continuing its global roll-out with high growth in Asia, Latin America, Eastern Europe and, in particular, the Russian Federation. Its key challenges are to increase market share in dermatological skincare and make-up, and to establish its presence in the United States and Japan.



## Consolidated sales by geographic zone

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Western Europe	507.9	522.4	75.2%	2.7%
North America	37.4	45.1	6.5%	28.5%
Rest of the World	107.2	127.3	18.3%	49.8%
<b>Total</b>	<b>652.5</b>	<b>694.8</b>	<b>100.0%</b>	<b>10.5%</b>

## Consolidated sales by business segment

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Skincare	461.1	510.2	73.4%	15.0%
Haircare	62.7	63.3	9.1%	4.8%
Make-up	72.8	65.2	9.4%	-6.4%
Other	55.8	56.1	8.1%	1.9%
<b>Total</b>	<b>652.5</b>	<b>694.8</b>	<b>100.0%</b>	<b>10.5%</b>

## 2002 HIGHLIGHTS

- Platinum sponsor<sup>(1)</sup> of the World Congress of Dermatology in Paris.
- Launch of VICHY products in Venezuela and Thailand.
- Strong growth of VICHY in facial skincare.
- Growth of LA ROCHE-POSAY in the acne treatment market - the number one cause of dermatological consultations.

(1) Main sponsor.



## ACTIVITY AND DEVELOPMENTS IN 2002

### ■ Vichy

The brand develops products using Vichy Thermal Spa Water combined with dermatological hypoallergenic active ingredients. These provide excellent value for money and are backed up by pharmacists' advice and medical recommendations.

In 2002, sales growth reached 8.4% with the help of two major achievements:

- strong growth in facial skincare, the brand's core business, thanks to:
  - the enthusiastic welcome given to Oligo 25, a moisturising skincare product for women under 30 with dull skin that was presented at the World Congress of Dermatology;
  - the outstanding success of Novadiol Nuit, a smoothing skincare product with soya Phyto-Flavones for women over 50, building on the performances of the successful Novadiol line;
  - the continuing growth of core products such as Liftactiv, Thermal S and Nutrilogie.
- the gathering pace of the brand's international roll-out:
  - the confirmation of good growth prospects in Latin America, particularly in Brazil and Mexico;
  - strong performances in Asia (up 64%), particularly in China (up 83%), South Korea (up 52%) and Taiwan (up 36%), and the launch of VICHY products in Thailand;
  - high growth rates maintained in Scandinavia and Eastern Europe (up 42%), particularly in the Russian Federation.



### ■ La Roche-Posay

LA ROCHE-POSAY develops everyday skincare and make-up products for dermatologists, as well as products for professional use.

With a growth rate of 18.8% in 2002, LA ROCHE-POSAY continued to increase its legitimacy as a global brand.

The brand again stepped up its international growth in Latin America, Asia and Eastern Europe. In the United States, Biomedic, adopted as a professional peeling line by dermatologists and plastic surgeons, is raising the American profile of LA ROCHE-POSAY.

The brand's growth is increasingly supported by dermatologists worldwide. LA ROCHE-POSAY was Platinum sponsor<sup>(1)</sup> of the World Congress of Dermatology, and strengthened its involvement in clinical trials and continuing education.

Sales growth of 23.8% in skincare, driven by Tolériane, Lipikar, Hydraphase XL and Active C, was boosted by the success of Effaclar K which is now the number one prescription product in Europe for the everyday treatment of greasy skin with blemishes.

In sun protection, Anthelios is still the number one product in Europe, and the make-up line continued its breakthrough in pharmacies.

Modernised and with a simplified product range, the brand today meets the needs of dermatologists and consumers with a wide range of affordable products for all skin types.

*(1) Main sponsor.*

## OUTLOOK FOR 2003

**As international expansion moves up a gear, technological innovations aimed at new categories of consumers and strong initiatives in haircare and make-up will ensure strong global growth for the Active Cosmetics Department. The modernisation of the pharmacy distribution channel and the increasing role of dermatologists in skincare treatment will boost the development of its brands.**

## GALDERMA

# A BYWORD FOR DERMATOLOGICAL EXCELLENCE

**Galderma, the L'Oréal/Nestlé joint venture in dermatology, achieved sales of € 642 million in 2002, a like-for-like growth of 17.8% on the previous year.**

Galderma's mission is to provide dermatologists with products that help treat skin disorders and improve patients' quality of life. Its research and development efforts are entirely devoted to dermatology and represent the most significant programme of this type in the world.

The active involvement of Galderma as Platinum Sponsor<sup>(1)</sup> of the World Congress of Dermatology reflects its support for dermatology and the partnership it has built up with dermatologists.

Launched in the United States in April, Tri-Luma™, a cream containing an innovative combination of three active ingredients to treat melasma – a brownish discoloration of the face that can affect women who are pregnant or take oral contraceptives – is the most significant new product of the year.

*(1) Main sponsor.*

### ■ Sales by geographic zone<sup>(2)</sup>

€ millions	2001	2002	% of 2002 sales	Like-for-like growth 2002/2001
Western Europe	118.8	133.7	20.8%	12.3%
North America	386.1	427.7	66.6%	17.8%
Rest of the World	79.4	80.9	12.6%	28.8%
Total	584.3	642.2	100.0%	17.8%

*(2) 100% of Galderma's sales.*



Galderma's stand at the World Congress of Dermatology which took place in 2002 in Paris, attended by over 12,000 dermatologists from all over the world.



Differin®, Galderma's best-selling product, continued to achieve robust growth, particularly in Europe, and remains the number one topical acne treatment despite strong pressure from competitors.

The Rozex/Metro® treatment line for rosacea again achieved strong sales growth. The topical antifungal treatment Loceryl® maintained its double-digit growth rate.

## INNÉOV

# FIRST INITIATIVES IN NUTRICOSMETICS

The Laboratoires Innéov specialises in cosmetic nutritional supplements that help women keep their skin, hair and nails looking beautiful.

A joint-venture between L'Oréal and Nestlé, the Laboratoires Innéov benefits from the complimentary research expertise of the two companies:

- L'Oréal - knowledge and evaluation of skin, hair and nails,
- Nestlé - nutrition and food safety.

The nutritional supplements market represents a great potential: today, 10%-20% of European women are regular consumers of nutritional supplements<sup>(1)</sup>, with market growth rates ranging from 7% to 30% in European countries<sup>(2)</sup>.



*Tri-Luma™, a triple combination for the topical treatment of melasma launched in the United States in April.*

*Rozex® Emulsion, a new galenic form recently launched on the French market.*

## OUTLOOK FOR 2003

Two key events will take place in 2003:

- the European launch of Metvix®, a new treatment for actinic keratosis and squamous-cell carcinoma, the most severe skin disorders caused by chronic exposure to the sun.
- the launch of Solage in the United States and Canada. These launches will support Galderma's major move in 2002 into the area of skin disorders caused or made worse by chronic and repeated exposure to the sun, marked by the launch of Tri-Luma™.

Innéov Firmness, the first product to be marketed by the Laboratoires Innéov, was presented at the European Dermatological Congress in October 2002 and will be available in Europe through pharmacies from March 2003.

Innéov Firmness is intended for women aged over 40 who are concerned about reduced skin firmness. The technology behind this product has already attracted considerable interest from dermatologists and journalists who are increasingly aware of the scientific challenges of this new market.

(1) Source: IPSOS survey (2001).

(2) Source: IMS Health Pharmacy survey (2001).

## SANOFI-SYNTHÉLABO

# A MAJOR PLAYER

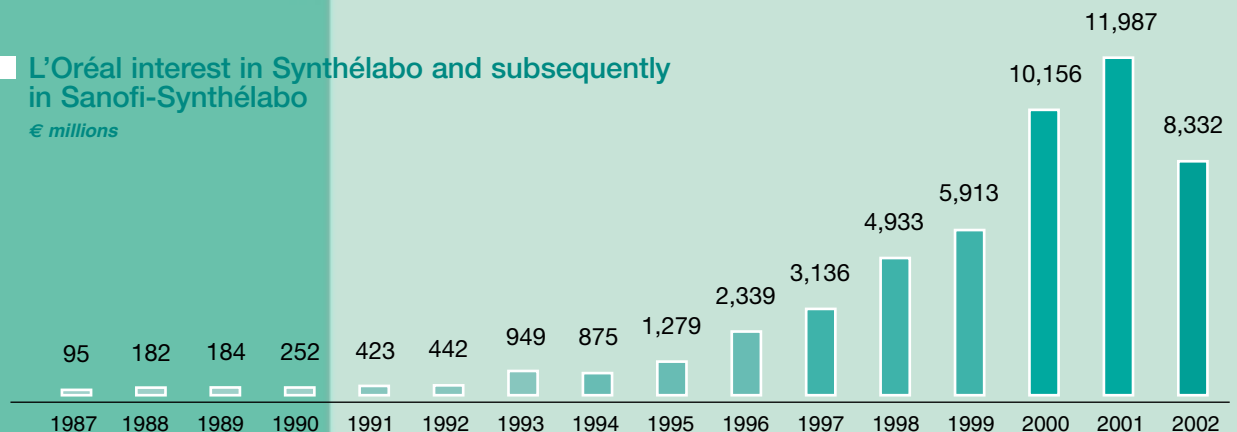
Sanofi-Synthélabo is the 2<sup>nd</sup> largest pharmaceutical group in France, number 7 in Europe, and one of the top 20 worldwide players.

Sanofi-Synthélabo is controlled by L'Oréal and TotalFinaElf under a shareholders' agreement, published by the *Conseil des Marchés Financiers*, which is binding until 2<sup>nd</sup> December 2004.

Sanofi-Synthélabo had the third largest market capitalisation on the Paris stock exchange at 31<sup>st</sup> December 2002.

■ L'Oréal interest in Synthélabo and subsequently in Sanofi-Synthélabo

€ millions



## ACTIVITY AND DEVELOPMENTS IN 2002

As Sanofi-Synthélabo is focussed on four therapeutic fields (cardiovascular/thrombosis, central nervous system, internal medicine and oncology), it is able to concentrate its research efforts and take up significant positions in each field. The group has a portfolio of 52 compounds in development, of which 15 are currently in phase II and 8 in phase III.

Sanofi-Synthélabo operates in more than 100 countries, directly through its own subsidiaries (in Europe and the United States) and through partnerships and collaborative ventures, particularly in the United States and Japan.

In 2002, Sanofi-Synthélabo achieved consolidated sales of € 7,448 million, an increase of 12.8%<sup>(1)</sup>. The top 15 products, which account for 68% of sales, grew by 20.1%<sup>(1)</sup>. Consolidated net profit attributable to the group before exceptional items and goodwill amortisation amounted to € 1,758 million, representing an increase of 27.8%.

Combined sales of Sanofi-Synthélabo products worldwide, which include the group's consolidated sales plus those of Plavix®/Iscover® and Aprovel®/Avapro®/Karvea® under agreements with Bristol-Myers Squibb, Stilnox®/Myslee® with Fujisawa and Arixtra® with Organon, amounted to € 9,585 million, a 14.5%<sup>(1)</sup> increase, despite some destocking of Plavix® and Avapro® in the United States.

The consolidated sales of the three flagship products showed highly dynamic growth: Stilnox®/Ambien®/Myslee® accounted for € 1,424 million (up 25.5%), Plavix® for € 987 million (up 41.5%), and Aprovel®/Avapro®/Karvea® for € 562 million (up 34.0%).



Electronic checking of injectable ampoules at the Ambarès facility.

## A year of success stories

In 2002, Sanofi-Synthélabo acquired all the remaining American rights in Ambien® by acquiring Pharmacia's interest in the Lorex pharmaceuticals joint venture.

The group's numerous product launches included Arixtra®, the first synthetic antithrombotic to be launched in Europe and the United States, and three oncological products (Eloxatine®, Elitek® and Eligard®) in the United States.

New indications have been approved in Europe and the United States for Plavix® and Avapro®.

Sanofi-Synthélabo confirmed the validity of the patent protecting the active ingredient of Plavix®, set to expire in 2011 in the United States, and took vigorous steps to defend its patents in conjunction with its partner BMS.

Sanofi-Synthélabo shares have been listed on the New York Stock Exchange since 1<sup>st</sup> July 2002.

*(1) Like-for-like growth.*

## OUTLOOK FOR 2003

**In 2003, Sanofi-Synthélabo will continue to develop its sales, particularly through growth in its flagship products. Its presence in the United States will be strengthened and consolidated through Plavix®, Avapro®, Ambien® and Eloxatine®. Sanofi-Synthélabo will increase its Research and Development efforts, particularly for phase III clinical trials of products developed by its research arm (rimonabant, dronedarone, idraparinix and zolpidem MR).**



Pharmaceutical form specialist - manufacturing of clinical batches in the Pharmaceutical Science Department of Chilly-Mazarin facility.

# CORPORATE GOVERNANCE

Gesparal S.A. holds a controlling interest of 53.7% in L'Oréal and, naturally, eight of the Board members are also on the Board of this holding company. All the Board members are aware that they must carry out their duties in the interest of all the shareholders. The Board of Directors of L'Oréal carries out its work on a collective basis. In accordance with ethical principles and codes of good conduct, it instructs Review Committees to carry out preparatory assignments and periodically reviews its modus operandi.

## ■ A balanced Board of Directors with actively involved members

With the arrival in 2002 of three new members from the industrial world, the Board of Directors has further strengthened its independence in line with corporate governance guidelines.

All L'Oréal Board members:

- contribute their expertise and their professional experience,
- are required to act with due care and attention, and have complete freedom of judgement.

In 2002, the Board of Directors met six times with a member attendance rate of 87%.

## ■ Codes of good conduct

In 2002 the Board of Directors introduced a Director's Charter (excerpts of which are provided in the Management Report which forms Volume 3 of this Reference Document) and decided, on the proposal of its Chairman, to create internal guidelines to complement those set out in the charter.

The Board of Directors ensures that the group's rules on insider trading are regularly updated. Board members already make a quarterly declaration concerning all trading in L'Oréal shares, in accordance with the recommendation made by the COB.

## ■ Control of management and major strategic transactions

Appointed by the shareholders, the Board members control the economic and financial management of the group and participate in determining its strategy. They review and approve the main lines of action adopted by the Management Committee, which is responsible for their implementation. Major transactions with a material impact on the scope of consolidation are presented to the Board in detail. The Chairman proposed that all transactions amounting to € 200 million or above should be submitted to the Directors, and this proposal was approved by the Board.

## ■ Review Committees with a wide brief

For several years now, the Board of Directors has called on Review Committees made up of non-executive directors to carry out preparatory assignments. This places the Board in a more secure position when making decisions.

The Audit Committee ensures that the group has the means available to identify and manage any economic, financial and legal risks that may arise. It also consults Internal Audit managers and Statutory Auditors. In its four meetings in 2002, which were attended by all its members, the Audit Committee carried out work on the insider trading rules, the legal charter, and the risk management and insurance handbook.

The Management and Remuneration Committee reviews matters relating to the remuneration of corporate officers, and makes detailed proposals in this respect to the Board of Directors (see «Remuneration of senior managers», page 29 of Volume 2). It is also responsible for proposing the attribution of stock options (see the Management Report which forms Volume 3 of this Reference Document), and continues to review the composition of the Board of Directors with a view to recommending possible changes. In 2002, the Committee met three times with all its members present. The Board has moreover decided that the Committee may meet at any time it deems to be appropriate, for example to evaluate the performance of the group's senior management.

For more detailed information about corporate governance at L'Oréal, see the Management Report which forms Volume 3 of this Reference Document.

## ■ AN ANNUAL REVIEW OF THE MODUS OPERANDI OF THE BOARD OF DIRECTORS

*Each year since 1996, the Board of Directors has reviewed its modus operandi. The review is based on a critical appraisal reflecting the content of individual and anonymous interviews with each of the Board members. At the most recent review in December 2002, the Board members indicated they were free to express their views, and discussed ways of obtaining information relevant to their debates, and the quality of the preparatory work carried out by the Review Committees. The Board of Directors encouraged the Committees to continue their efforts, confirming that, within the scope of their assignment, the Committees are free to set the agenda for their meetings.*

# THE BOARD OF DIRECTORS

## ■ Lindsay Owen-Jones

Age: 56. British.  
 Joined L'Oréal in 1969.  
 During his international career with the group, he was Chief Executive of L'Oréal in Italy from 1978 to 1981, and President of L'Oréal USA from 1981 to 1984. He was appointed Deputy Chairman and Chief Executive Officer in 1984, and **Chairman and Chief Executive Officer** in 1988. L'Oréal Board Member since 1984 (term of office renewed in 2002).  
 Director of Gesparal, the controlling holding company. Board Member of BNP Paribas and Sanofi-Synthélabo.  
 Member of the Supervisory Board of Air Liquide. *L'Oréal senior manager\**, holds at least 1,000 L'Oréal shares.

## ■ Jean-Pierre Meyers<sup>(4)</sup>

Age: 54.  
 L'Oréal Board Member since 1987 (term of office renewed in 2001).  
**Vice-Chairman of the Board.**  
 Director of Gesparal, the controlling holding company. Nestlé S.A. (Switzerland) Board Member. *Holds at least 1,000 L'Oréal shares\**.

## ■ Liliane Bettencourt<sup>(1)</sup>

Age: over 70.  
 Daughter of Eugène Schueller, who founded L'Oréal in 1907.  
 L'Oréal Board Member since 1995 (term of office renewed in 1999).  
 Vice-Chairman of the Board of Gesparal, in which she holds the controlling interest. *Holds at least 1,000 L'Oréal shares.*

## ■ Françoise Bettencourt Meyers

Age: 49.  
 Daughter of Mrs Bettencourt.  
 L'Oréal Board Member since 1997 (term of office renewed in 2001).  
 Director of Gesparal, the controlling holding company. *Holds at least 1,000 L'Oréal shares.*

## ■ Peter Brabeck-Letmathe

Age: 58. Austrian.  
 With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Officer of Nestlé S.A. (Switzerland) in 1997 and Vice-Chairman of the Board in 2001. L'Oréal Board Member since 1997 (term of office renewed in 2001).  
 Director of Gesparal, the controlling holding company. Vice-Chairman of the Board of Crédit Suisse Group and Winterthur (Switzerland).  
 Roche Holding Board Member. *Holds at least 1,000 L'Oréal shares.*

## ■ Francisco Castañer Basco<sup>(4)</sup>

Age: 58. Spanish.  
 With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board Member since 1998 (term of office renewed in 2002).  
 Director of Gesparal, the controlling holding company. Board Member of Alcon (Switzerland). *Holds at least 1,000 L'Oréal shares.*

## ■ François Dalle

Age: 84.  
 With L'Oréal from 1942 to 1984, Group Executive Vice-President in 1948, Chairman and Chief Executive Officer from 1957 to 1984. Board Member of Nestlé S.A. (Switzerland) from 1974 to 1989, and Vice-Chairman from 1986 to 1989. L'Oréal Board Member since 1950 (term of office renewed in 2001).  
 Vice-Chairman of the Board of Gesparal, the controlling holding company. Honorary Chairman of *l'Institut de l'Entreprise*. Honorary Chairman of *l'Association Entreprise et Progrès*.  
 Chairman of the periodical *Humanisme et Entreprise*. *Former L'Oréal senior manager more than 5 years ago\**, holds at least 1,000 L'Oréal shares.

## ■ Jean-Louis Dumas

Age: 64.  
 Joined Hermès in 1964, Chief Executive Officer in 1971. Chairman of Hermès group since 1978. President of Holding Hermès International since 1990. L'Oréal Board Member since 29<sup>th</sup> May 2002. Board Member of PSA Peugeot Citroën. President of the Comité Colbert from 1988 to 1991. **Independent director**, holds at least 1,000 L'Oréal shares.

## ■ Xavier Fontanet

Age: 54.  
 Appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995. Chairman and Chief Executive Officer since 1996. L'Oréal Board Member since 29<sup>th</sup> May 2002. Board Member of Beneteau and Crédit Agricole S.A. **Independent director**, holds at least 1,000 L'Oréal shares.

## ■ Rainer E. Gut<sup>(2)</sup>

Age: 70. Swiss.  
 Began his banking career in England and in the United States.  
 Joined Crédit Suisse in 1971, Chairman of the Board of Crédit Suisse Group from 1983 to 2000. Honorary Chairman thereafter. Chairman of the Board of Nestlé S.A. (Switzerland). L'Oréal Board Member since 2000. Vice-Chairman of the Board of Gesparal, the controlling holding company. Board Member of Sofina S.A. (Belgium). *Holds at least 1,000 L'Oréal shares.*

## ■ Marc Ladreit de Lacharrière

Age: 62.  
 With L'Oréal from 1976 to 1991, formerly Vice-President in charge of Administration and Finance, Group Executive Vice-President from 1984 to 1991. Chairman of Fimalac. Chairman of Fitch, Inc. L'Oréal Board Member since 1984 (term of office renewed in 2002). Board Member of Canal+ and Renault. Member of the Supervisory Board of Casino. *Former L'Oréal senior manager more than 5 years ago\**, holds at least 1,000 L'Oréal shares.

## ■ Olivier Lecerf<sup>(3)</sup>

Age: 73.  
 Joined Lafarge in 1956, Chairman and Chief Executive Officer from 1974 to 1989, Honorary Chairman thereafter. L'Oréal Board Member since 1990 (term of office renewed in 2002). **Independent director**, holds at least 1,000 L'Oréal shares.

## ■ Franck Riboud

Age: 47.  
 Joined BSN in 1980. Chairman and Chief Executive Officer of Danone group since 1996. L'Oréal Board Member since 29<sup>th</sup> May 2002. Board Member of Renault. Member of the Supervisory Board of Accor and Eurazeo (France). Board Member of Quick Silver (United States) and ONA (Morocco). **Independent director**, holds at least 1,000 L'Oréal shares.

## ■ Edouard de Royère<sup>(2)</sup>

Age: 70.  
 Joined Air Liquide in 1966, Executive Vice-President in 1979, Chairman and Chief Executive Officer from 1985 to 1995, Honorary Chairman thereafter. L'Oréal Board Member since 1995 (term of office renewed in 1999). Board Member of Danone and Sodexho. Member of the Supervisory Board of Air Liquide and Michelin. Chairman of ANSA (National Association of Joint-Stock Companies). **Independent director**, holds at least 1,000 L'Oréal shares.

- The statutory length of a Board Member's term of office is currently 4 years.  
 - Directorships of group subsidiaries are not included.  
 - A full presentation of the directors, in accordance with legal requirements, is included in the Management Report of the Board of Directors.

(1) Chairman of the "Management and Remuneration Committee".

(2) Member of the "Management and Remuneration Committee".

(3) Chairman of the Audit Committee.

(4) Member of the Audit Committee.

\* Has been a director for more than 12 years.

■ **Michel Somnolet**, 62 years old, finished his term of office as Board Member on 31<sup>st</sup> December 2002.

# THE L'ORÉAL SHARE

## Information on the L'Oréal share

Fiscal year from 1<sup>st</sup> January to 31<sup>st</sup> December.

Sicovam equity code: 12032.

Minimum lot: 1 share.

Par value: € 0.2.

Trading on the cash market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

Un-sponsored American Depositary Receipts are freely traded in the United States through certain American banks.

## Share Price

Price at 31<sup>st</sup> December 2002: € 72.55

High: € 88.30 at 2<sup>nd</sup> May 2002

Low: € 60.55 at 24<sup>th</sup> July 2002

Annual rise at 31<sup>st</sup> December 2002:

L'Oréal: -10.32%

CAC 40: -33.75%

Euronext 100: -32.51%

DJ Stoxx 50: -35.05%

Market capitalisation at 31<sup>st</sup> December 2002: € 49.0 billion.

At 31<sup>st</sup> December 2002, the L'Oréal share accounted for:

7.19% of the CAC 40;

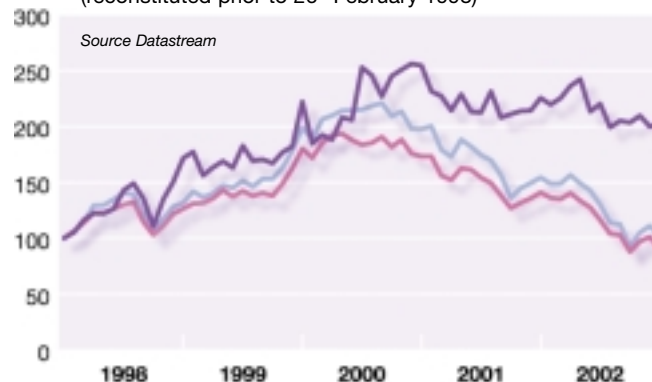
4.17% of the Euronext 100;

2.34% of the DJ Stoxx 50.

## L'Oréal share performance

(base 100 as of 01.01.1998)

■ L'Oréal (adjusted share price)  
■ CAC 40 index<sup>(1)</sup>  
■ DJ Stoxx 50 index<sup>(1)</sup>  
(reconstituted prior to 26<sup>th</sup> February 1998)



As of 31<sup>st</sup> December 2002, L'Oréal's share capital consisted of 676,062,160 shares with a par value of € 0.2. Gesparal S.A. holds 53.70% of L'Oréal's capital and 71.57% of voting rights.

(1) Indexes relative to L'Oréal share price.

## Net profit before capital gains and losses and after minority interests per share<sup>(4)</sup> (€)



(4) After the ten-for-one share split of 3<sup>rd</sup> July 2000.

## 5-year investment in L'Oréal shares<sup>(2)</sup> (€)

Purchase of 41 shares on 31<sup>st</sup> December 1997 14,719.82

Reinvestment of dividends

Valuation at 31<sup>st</sup> December 2002<sup>(3)</sup> 32,429.85  
(447 shares at € 72.55)

Capital invested multiplied by 2.2

Total Shareholder Return: 15.2% per year

(2) See volume 3 of the Annual Report 2002 (shareholder value creation).

(3) There was a ten-for-one share split on 3<sup>rd</sup> July 2000.

## Dividend (€)

	2000	2001	2002	
Final adjusted closing price <sup>(5)</sup>	91.30	80.90	72.55	
Dividend per share for the year <sup>(5)</sup>	Net dividend	0.44	0.54	0.64 <sup>(6)</sup>
	Tax credit	0.22	0.27	0.32
	<b>Total value</b>	<b>0.66</b>	<b>0.81</b>	<b>0.96</b>

(5) After the ten-for-one share split of 3<sup>rd</sup> July 2000.

(6) Dividend proposed to the Annual General Meeting of 22<sup>nd</sup> May 2003.

# FINANCIAL INFORMATION AT THE SERVICE OF SHAREHOLDERS

L'Oréal actively pursues a policy of providing information to the international financial community. The group spares no effort to make sure that all its individual and institutional shareholders inside and outside France are regularly provided with a wide range of easily accessible information.

## ■ Keeping in touch with shareholders

L'Oréal provides many opportunities for exchanges with the financial community and shareholders. The Annual General Meeting is of great importance in the dialogue with shareholders. It is to be held on Thursday 22<sup>nd</sup> May 2003 at Unesco, 125, avenue de Suffren, 75007 Paris, France.

L'Oréal also holds several meetings each year with shareholders in a number of French cities, and throughout the year with analysts and institutional investors in the main financial centres. Opinion surveys about the Annual Report and Annual General Meeting are carried out at regular intervals in conjunction with financial information specialists.

## ■ Providing regular and comprehensive information

In accordance with shareholders' wishes, L'Oréal provides them with a broad range of documents about the group, its strategy and recent developments. In 2002, the Annual Report, filed with the *Commission des Opérations de Bourse* as a Reference Document, was voted Best Annual Report by *Investor Relations Magazine* (United Kingdom). Again in 2002, L'Oréal issued an additional Letter to Shareholders containing a summary of the Annual General Meeting. The Letters to Shareholders are now published four times a year. The Shareholder Digest, which is updated every year, contains practical information about the group and L'Oréal shares. These documents are available on request, and can be downloaded from [loreal-finance.com](http://loreal-finance.com) or the Shareholder's Corner of the website. In addition to these documents, a large number of news releases is issued to keep the financial community informed about scheduled events or sensitive developments. These are backed up by financial announcements published in the French press, and legal publications that appear in the *Bulletin des Annonces Légales Obligatoires* (BALO).

## ■ Information that knows no boundaries

In 1997, L'Oréal created the [loreal-finance.com](http://loreal-finance.com) website for the use of the financial community. This interactive Internet site, continuously updated, contains comprehensive financial and stock exchange information about the group. Financial news releases and articles on major events are available on-line as soon as they are issued. The price of L'Oréal shares can be monitored in real time. The website includes a Shareholder's Corner with its own address. In 2002, [loreal-finance.com](http://loreal-finance.com) was awarded the Boursoscan Financial Website gold medal.

The website now offers a growing number of services. In April 2002, L'Oréal developed the first permanently updated interactive Annual Report, enabling transversal and dynamic content access. In December 2002, L'Oréal launched the [loreal-finance.com](http://loreal-finance.com) *mobile edition*, an original service that provides access through a PDA to the website's key information.



Best Annual Report Award announcement published in *Investor Relations Magazine* (December 2002).



**YOUR CONTACTS**

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**FINANCIAL INFORMATION SCHEDULE FOR 2003**

Key dates	Financial events
23 <sup>rd</sup> January	2002 sales announcement
20 <sup>th</sup> February	2002 provisional results announcement
25 <sup>th</sup> March	2002 certified results announcement
3 <sup>rd</sup> April	1 <sup>st</sup> quarter 2003 sales announcement and annual financial information meeting
22 <sup>nd</sup> May	Annual General Meeting of shareholders
10 <sup>th</sup> July	1 <sup>st</sup> half 2003 sales announcement
2 <sup>nd</sup> September	1 <sup>st</sup> half 2003 results announcement
23 <sup>rd</sup> October	1 <sup>st</sup> nine months 2003 sales announcement

**Persons to contact:**

**- for shareholders**

Mr François Archambault,  
Director of International Financial Information;

**- for analysts and institutional investors**

Mrs Caroline Millot,  
Director of Investor Relations;


**- for journalists**

Mr Lorrain Kressmann,  
Director of Press Relations.





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# L'ORÉAL

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