



L'ORÉAL

2005 SUSTAINABLE DEVELOPMENT REPORT



130  
countries

52,403  
employees

18  
global brands

496  
million euros in R&D investments

4.4  
billion units manufactured annually

14.5  
billion euros in consolidated sales

## BACKGROUND TO THIS REPORT

L'Oréal undertook this appraisal by examining current practices and studying the recommendations of international institutions and specialist organisations such as the UN, OECD, European Commission and WBCSD. The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 2002 have helped guide this review.

### Scope

This report covers all of L'Oréal's operations and joint venture with Galderma over the year January–December 2005.

### Verification

Data relating to safety, health and the environment was examined and verified by Environmental Resources Management, and social data, shown with an asterisk (\*), were validated by PricewaterhouseCoopers Audit. The verification statements can be found at the end of the report.



L'Oréal USA Research and Development Mascara Laboratory, in Clark, New Jersey.

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For more detailed information, consult the group Internet site  
[www.loreal.com](http://www.loreal.com)

# Our commitment to sustainable growth



In conjunction with the financial results of our company set out in the Annual Report, we would like to present our values and rules of conduct, which express the convictions we have forged over close to one century of responsible and sustainable growth.

This report describes the very significant progress made in 2005 and over the last few years. It also describes our ambitions for the future because we are fully aware of the work that remains to be done. We intend to continue moving forward, step by step through concrete and measurable initiatives always based on the high standards and the firm determination shared by all our teams.

## BEYOND A PURELY ECONOMIC MODEL

One guiding principle has always been with us: there can be no sustainable development in a company without enduring economic growth. In 2005, L'Oréal reached its 21<sup>st</sup> year of double-digit earnings growth.

But in keeping with our corporate culture, we deeply believe that in order to be truly sustainable, growth requires a dimension beyond a purely economic model.

Growth must be based on a foundation of values shared by all within L'Oréal, on firm ethical standards and a sincere awareness of our responsibility, while demanding respect for all people the company is in contact with, as well as the environment and the greater community.

Corporate citizenship is intimately linked to our mission. L'Oréal serves beauty and well-being in all of its forms of expression. Cosmetics



correspond to an ingrained need, as age-old as humanity. They enable us to feel better about our bodies, to express beauty and creativity, reaffirm our identity and be better able to communicate with others. Cosmetics thus contribute to developing a most profound dimension of the human being.

## A SOCIAL PROJECT

Ours is an exciting corporate project which is based first and foremost on our 52,000 employees.

Motivation, a sense of belonging and adhering to the economic and social goals are essential in a company whose development model is based primarily on internal growth.

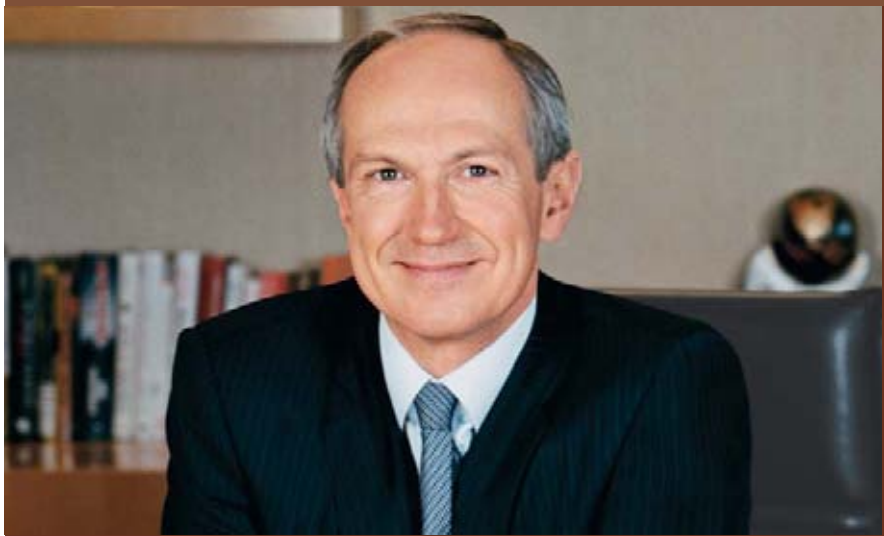
It is truly a human adventure based on one ambition: to make growth become an element of social policy and that social policy be an element of growth.

## RESPECT FOR PEOPLE AND CULTURES

The very meaning of this business is to celebrate diversity.

The diversity of our customers first and foremost, because beauty is not uniform. L'Oréal has made the universal dream of beauty a mode of individual expression that each woman, each man can make their own expressing all of their differences. Each culture has its care rituals and finery, its cosmetics secrets and its own definition of beauty. We devote our efforts to learning about this diversity to provide to each and every one the right products for their needs. In 2005, we created a research centre in

**Jean-Paul Agon**  
Deputy Chief Executive Officer



Aged 49, Jean-Paul Agon has spent his whole career within L'Oréal, in all its divisions and on several continents. He joined L'Oréal in 1978. After working as a sales representative for one year, he then took on marketing responsibilities. He began his international career in 1981, and at the age of 25, became General Manager of L'Oréal in Greece. Five years later, he assumed the role of General Manager of L'ORÉAL PARIS in France. In 1989, he became International Managing Director of BIODERM, in the Luxury Products Division. In 1994, Jean-Paul Agon became Managing Director of L'Oréal in Germany. In 1997, he set up L'Oréal's Asian zone, taking overall responsibility for all the group's businesses. In October 2001, Jean-Paul Agon was appointed President and Chief Executive Officer of the group's largest subsidiary, L'Oréal USA. He strengthened

the diversity of the teams by taking key initiatives in this area, which were later applied throughout the group. He showed great concern for promoting quality health and safety standards of all facets of its operations by vowing to have all of its US-based facilities take part in OSHA's Voluntary Protection Program on health and safety. The group was one of the first non-American multinationals to pledge to extend the Program to all of its US plants. Jean-Paul Agon has been the group's Deputy Chief Executive Officer since July 2005 and chairs the Executive Committee for Sustainable Development. Throughout the 27 years he has spent in countries all over the world, Jean-Paul Agon has consistently sought to understand different sensitivities and cultures, and has always attached the highest importance to respecting differences.

**“ We intend to continue moving forward,  
step by step through concrete and  
measurable initiatives.”**

Pudong near Shanghai, China, to better understand the specificities of Chinese skin and hair. We opened a research centre in Chicago in 2003 devoted to research on the skin and hair of people of African origin.

Diversity is also expressed in the development approach to our brands. Because L'Oréal does not want to impose a single face of beauty, we seek to express all kinds of beauty; to do that we have developed a unique portfolio of brands of different cultural origins in order to satisfy the varying sensitivities all around the world.

It is our deepest belief that a company can not fully integrate differences unless it is also composed of teams which illustrate diversity. L'Oréal therefore is a mosaic of individuals of varying culture, sex, colour, religious conviction and social origin. This diversity, more than any kind of homogeneity, makes us more creative, more imaginative and more dynamic. We shall pursue our efforts along the path of diversity in our sources of recruitment. Such responsible human resources management is one of the key elements of our determination to be open to the world and contributes to the harmonious and sustainable development of our group.

Our beliefs and our actions in favour of diversity were recognised twice this year: by the Anti-Defamation League, one of the top-ranking American organisations which fights all forms of discrimination, and by the World Diversity Leadership Council which paid tribute to L'Oréal for the cultural diversity of its products.

Thanks to this international recognition, the 52,000 employees of the group can be proud to see their hard work, their commitment and their actions rewarded.

## **A SENSE OF RESPONSIBILITY**

Our sense of responsibility involves an obsession to guarantee innovation, quality and safety to all of our customers. Their health and well-being are an absolute priority for L'Oréal. It is with determination and a proactive approach that our company has adhered to a responsible policy over many years now in the selection of the ingredients used in our products. This is one of the main pillars of our commitment to sustainable development.

In 2005, we developed a methodology to assess our ingredients against a set of 25 sustainability criteria, including social, environmental and biodiversity impacts, and fair trade principles. This sustainability assessment is being piloted during 2006 and we hope to roll it out during 2006-2007.

Developing alternative methods to animal testing requires a significant investment in terms of research. That is why in early 2006, we bought the company SkinEthic, which is specialised in the reconstruction of human tissue. This will enable L'Oréal to strengthen its position and make further progress in this key area of development.

Responsibility also means we produce our own products. This is an additional guarantee of the global quality of our products but also a guarantee that our social, ethical and environmental principles are adhered to.

Our sense of responsibility also means limiting the impact of our business activities on the environment. In an industry such as ours, which already has a low level of energy consumption and a low level of pollution, the group has made very significant progress in

the last ten years and has set even higher goals for the future.

For L'Oréal corporate responsibility goes even further. It means extending the appropriate gestures to prove our will to be close to the communities where the group operates.

This is a factual document intended to show how L'Oréal takes on its responsibilities day to day. It is intended as an on-going report to be used as a tool to make further progress.

The Executive Committee, ourselves, and all of our teams around the world are committed to pursuing these goals even further in the development of our company. It is in this way that we reaffirm our vision of truly sustainable growth for the future.

**SIR LINDSAY OWEN-JONES**  
Chairman and Chief Executive Officer

**JEAN-PAUL AGON**  
Deputy Chief Executive Officer

# Management Committee



**1 SIR LINDSAY OWEN-JONES**

Chairman and Chief Executive Officer

**2 JEAN-PAUL AGON**

Deputy Chief Executive Officer

**3 BÉATRICE DAUTRESME**

Executive Vice-President Corporate Communications,  
Sustainable Development and Prospective

**4 JEAN-FRANÇOIS GROLIER**

Executive Vice-President Research and Development

**5 MARCEL LAFFORGUE**

Executive Vice-President Production and Technology

**6 JEAN-JACQUES LEBEL**

President Professional Products

**7 MARC MENESGUEN**

President Luxury Products

**8 CHRISTIAN MULLIEZ**

Executive Vice-President  
Administration and Finance

**9 PATRICK RABAIN**

President Consumer Products

**10 GEOFF SKINGSLEY**

Executive Vice-President Human Resources



# Governance: L'Oréal takes part in sustainable development

At L'Oréal, we believe that lasting business success is built upon ethical standards which guide growth and on a genuine sense of responsibility to the community at large. Here we highlight L'Oréal's core values of diversity and the importance of high ethical standards, and explain the governance of sustainable development issues within the company.

## OUR VALUES AND GUIDING PRINCIPLES

### Encouraging self-expression and diversity

L'Oréal takes care not to favour any particular model of beauty but to respond as effectively as possible to the needs and the desires of all. It does so through:

- research open to the world. L'Oréal's research teams seek to discover and evaluate the varying characteristics of skin and hair in different parts of the world in order to provide scientific responses tailored to the most diverse requirements,
- a varied brand portfolio. L'Oréal offers a range of brands and beauty concepts, with diverse cultural origins,
- multicultural advertising. The challenge of each brand is to contribute to the diverse perceptions of beauty, in particular through its choice of ambassadors who express the many varieties of beauty,
- our employees — a mosaic of individuals of different cultures, gender, colour, religious convictions and social origins.

L'Oréal is fully convinced that diversity enriches us, by making us more creative, more imaginative and more innovative. The diversity of our teams ensures that international development respects local cultures.

## L'ORÉAL'S CODE OF BUSINESS ETHICS

L'Oréal's values and guiding principles are formalised in L'Oréal's Code of Business Ethics (available in 2006 at [www.loreal.com](http://www.loreal.com)). It focuses on 6 areas:

- respect for the law,
- respect for the individual,
- respect for the consumer,
- respect for the environment,
- partnership with customers, distributors and suppliers,
- principles of loyalty and integrity.

In 2000, our Code of Business Ethics was distributed to all of the 50,000 employees of L'Oréal worldwide and every new employee is given a personal copy\*. The Code of Business Ethics is translated into the languages of the countries in which the group operates (at present 26 languages). It applies throughout its operations and subsidiaries worldwide. L'Oréal's Code of Business Ethics sets out what is expected of employees and what stakeholders can expect from L'Oréal. L'Oréal expects its employees not only to respect local law but also to comply with the minimum standards contained in L'Oréal's Code of Business Ethics, whatever the role or business, or wherever in the world they operate. Awareness programmes and training, aimed at all employee levels, ensure that these values are properly communicated and embedded in every-day operations. Managers are

specifically targeted for training on the Code of Business Ethics, as part of their duties includes monitoring the day-to-day application of L'Oréal's values\*.

Employees who have concerns relating to the Code of Business Ethics are encouraged to contact their line management or Human Resources Department. Employees may also contact the General Counsel, Human Resources located at the group's Headquarters. All concerns are carefully examined and the group guarantees that all information will be treated on a strict need-to-know basis and ensures that there is no retaliation for those who have in good faith raised a concern. "Whistleblowing" mechanisms for raising ethical concerns also exist at country level, for example in the United States and Germany, in accordance with local requirements and culture.

## L'ORÉAL'S COMMITMENT TO THE GLOBAL COMPACT

L'Oréal has been a signatory of the United Nations Global Compact since June 2003 and is committed to embracing, supporting and enacting, within its sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption as set out in the Global Compact's ten principles.

L'Oréal respects and supports the Universal Declaration of Human Rights and Sir Lindsay





## Monitoring ethics

A key achievement of 2005 was the launch of "Country reporting: ethics", an annual reporting system on ethical issues including communication of the Code of Business Ethics, prohibition of child labour and forced labour, discrimination, sexual and moral harassment and integrity and loyalty\*. Not only will this reporting system be used to measure the actual implementation of the Code of

Business Ethics but it also allows the internal communication of best practice, and assists L'Oréal's subsidiaries in identifying possible areas of improvement. L'Oréal recognises that ensuring the respect of its values and guiding principles is an ongoing process and endeavours to continuously monitor and assess its activity in this respect.

Owen-Jones, Chairman and Chief Executive Officer, has entrusted Geoff Skingsley, Executive Vice-President, Human Relations with the responsibility of ensuring strict compliance with the Code of Business Ethics, in particular with regards to Human Rights.

L'Oréal makes specific reference to the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work which cover freedom of association, elimination of all forms of forced or compulsory labour, effective abolition of child labour and the elimination of discrimination with respect to employment and occupation.

The elimination of forced and child labour receives particular attention. L'Oréal has chosen to set a minimum age of 16 for all its employees, which is higher than the minimum age set by the International Labour Organisation's Declaration on Fundamental

Principles and Rights at Work\*. L'Oréal respects the rights of employees to join associations of their choice and encourages constructive dialogue. Elimination of discrimination is at the forefront of L'Oréal's diversity policy (for more information, see pages 29-32 of this report).

Moreover, L'Oréal hopes that its partners will share and put into practice its values and therefore ensures that its supply chain is also free from violations of human rights. All L'Oréal suppliers and subcontractors are asked to comply with L'Oréal's General Terms of Purchase and Payment which includes an undertaking to comply with the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work\*. Regular audits are carried out in order to monitor compliance (for more information, see pages 37-39 of this report)\*.

L'Oréal supports the Rio Declaration on Environment and Development, which outlines the concepts of a precautionary approach to environmental challenges, promotion of greater environmental responsibility and development and diffusion of environmentally friendly technologies.

L'Oréal also condemns all forms of corruption, including extortion and bribery and abides by the United Nations Convention against Corruption. In particular, the Code of Business Ethics is supplemented by specific codes of conduct such as L'Oréal's Purchasing Code which addresses issues such as gifts, courtesy invitations and potential conflict of interest situations.



“ L'ORÉAL IS FOUNDED ON STRONG VALUES WHICH HAVE BOTH GUIDED ITS DEVELOPMENT AND HELPED TO ESTABLISH ITS REPUTATION FOR THE BEST PART OF A CENTURY... ALL OF US HAVE A DUTY TO ACT IN ACCORDANCE WITH THESE ESSENTIAL VALUES AND TO CONTINUE TO PASS THEM ON TO OTHERS. ”

Sir Lindsay Owen-Jones, Chairman and Chief Executive Officer,  
L'Oréal's Code of Business Ethics

## GOVERNANCE OF SUSTAINABILITY ISSUES

L'Oréal's social responsibility initiative is driven by a Sustainable Development Steering Committee made up of managers from the different Divisions of the company. This Steering Committee reports to the Executive Committee for Sustainable Development, made up of the five functional Executive Vice-Presidents and chaired by the Deputy Chief Executive Officer, Jean-Paul Agon, which is responsible for overall sustainability strategy and implementation.

Seven working groups cover different aspects of sustainable development:

- Vision and Strategy,
- Corporate Governance,
- Finance and Economics,
- Research and Development,
- Safety, Health and Environment,
- Social and Human Affairs,
- Sponsorship and Partnerships.

The work of these seven groups is coordinated by the Director of Sustainable Development.

## A POLICY OF SUSTAINABLE PROGRESS

This report paints an accurate picture of the economic, social and societal reality at L'Oréal in 2005 and provides an objective appraisal of the situation with regard to sustainable development and the creation of value based on the non-financial elements of its business.

It is a step along the path of sustained progress, which has always been an objective of L'Oréal, and enables the group to measure and improve its performance in the future.

The Sustainable Development Steering Committee, which regularly brings together the departments concerned, is currently considering a number of different initiatives, namely:

- raising awareness among employees of our sustainable development initiatives and performance,
- developing relationships with stakeholders,
- further strengthening our work on diversity,
- incorporating sustainability principles into our business practices at all levels, for example our supply chain and raw material selection.

## CORPORATE GOVERNANCE

### A balanced, diversified Board with extended skills

The Board has been strengthened by two new directors, elected at the Annual General Meeting held on April 26<sup>th</sup>, 2005. Mr Werner Bauer and Mr Louis Schweitzer are therefore now able to contribute to the L'Oréal Board the knowledge they have gained in the fields of science and industry. Their expertise and experience are added to those of the other L'Oréal directors.

The Board has thirteen members: the majority shareholders are represented by six members, of whom three represent Mrs Bettencourt and her family and three represent Nestlé. The two Vice-Chairmen of the Board respectively represent the two parties. Alongside the Chairman, six other directors are independent personalities who have held professional responsibilities at the most senior level.

All directors are required to meet the highest standards of integrity, and to act with due

### Dialogue on sustainability issues

L'Oréal is a member of the Conference Board, a US-based organisation which creates and disseminates knowledge about management and the marketplace to help companies strengthen their performance and better serve society, for example on corporate citizenship, corporate governance and business ethics and compliance. For more information, see [www.conference-board.org](http://www.conference-board.org).

L'Oréal is also a member of the World Business Council on Sustainable Development, [www.wbcsd.org](http://www.wbcsd.org).

### Sustainability indices

L'Oréal is a member of the FTSE4Good, ASPI Eurozone and Ethibel Sustainability indices.



"FTSE Group confirms that L'Oréal has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent social, ethical and environmental criteria, and are positioned to capitalise on the benefits of responsible business practice."



"L'Oréal is a member of the ASPI Eurozone® index, which consists of the stocks of the 120 listed Eurozone companies (DJ Euro Stoxx universe) that perform best in social and environmental terms. The stocks are selected on the basis of Vigeo Group ratings."



"L'Oréal is a member of the Ethibel Pioneer Index® and the Ethibel Excellence Index®, which consist respectively of some 200 and 280 company stocks from Europe, North America, Japan and the Asia-Pacific regions. These are selected by the independent organisation Forum Ethibel ([www.ethibel.org](http://www.ethibel.org)) based on Vigeo Group ratings ([www.vigeogroup.com](http://www.vigeogroup.com)). The index is calculated by Standard & Poor's.

The Ethibel Pioneer Index® consists of companies showing the most outstanding scores in terms of social and environmental sustainability and the Ethibel Excellence Index® companies show above-average performance in terms of social and environmental sustainability. These companies meet the ethical criteria established by Forum Ethibel."

care and attention, while having complete freedom of judgement and strictly respecting the collective nature of the decisions taken by the Board.

With regard to inside information, the principles which the Board applies to itself are in line with the preventive measures taken by L'Oréal in relation to its employees.

The goal is to prevent any improper use or transmission of inside information, and to make sure that all investments in the company's shares are carried out with a high degree of security.

To respect the interests of the company and all its shareholders, it is also compulsory for directors to notify the Board if any conflict of interest arises, even if the conflict is only potential, in which case they are not allowed to participate in the corresponding deliberations.

The Board met five times in 2005, with an average attendance rate of almost 88%. Many of the directors also attend the Annual General Meeting.

### **Committees actively involved in preparing for the work of the Board**

The Board's Committees carry out missions entrusted to them by the Board. They are actively involved in preparing for the Board's work, but do not themselves have any decision-making powers.

#### **The Committee for "Strategy and Implementation"**

This Committee clarifies the strategic orientations which are submitted to the Board, and monitors the implementation and progress of significant ongoing operations.

It ensures that general financial stability is maintained.

With these aims in mind, the Committee reviews the main strategic lines of development, options and projects presented by the General Management together with their economic and financial consequences, acquisition opportunities, and financial transactions that could significantly change the balance sheet structure. It also reviews paths for future development.

#### **The Audit Committee**

The role of the Audit Committee is to ensure that the General Management is provided with information enabling it to identify and manage the economic, financial and legal risks faced by the group both inside and outside France in its routine and exceptional operations.

#### **The "Management and Remuneration" Committee**

The "Management and Remuneration" Committee assists the Chairman and the Board in their review of succession plans for the group's senior management positions, reviews the composition of the Board of Directors and any possible changes, makes proposals to the Board concerning the remuneration of the senior management and attributions of stock options, and addresses general issues of remuneration policy in the company.

#### **A periodical evaluation of the Board's modus operandi which the directors wished for a long time**

Each year since 1996 the Board has carried out a formal assessment of its composition, organisation and modus operandi. The assessment

is based on interviews, organised by the Secretary of the Board, based on regulations, recommendations and generally accepted practices.

Where necessary, the Board takes measures to ensure that improvements are made.

In 2005, the Board expressed satisfaction that a greater number of senior managers made presentations during Board meetings, a practice it believes represents a step forward and should continue. As well as enabling the Board to get to know senior managers better, it provides a deeper insight into all aspects of the group's strategy.

The Board encouraged the Committees to present more regular progress reports, which are essential to ensure the quality of its debates.

Lastly, it requested further improvements in the organisational processes through which directors, outside of meetings, are provided with relevant information for carrying out their duties. The principle is that the company makes available to directors all the means necessary to enable them to accomplish their missions.

## **Board of Directors** as of December 31<sup>st</sup>, 2005

SIR LINDSAY OWEN-JONES, Chairman and Chief Executive Officer JEAN-PIERRE MEYERS, Vice-Chairman of the Board  
 PETER BRABECK-LETMATHE, Vice-Chairman of the Board LILIANE BETTENCOURT, Board member  
 FRANÇOISE BETTENCOURT MEYERS, Board member WERNER BAUER, Board member FRANCISCO CASTAÑER BASCO, Board member  
 JEAN-LOUIS DUMAS, Board member XAVIER FONTANET, Board member BERNARD KASRIEL, Board member  
 MARC LADREIT DE LACHARRIÈRE, Board member FRANCK RIBOUD, Board member LOUIS SCHWEITZER, Board member

The Annual General Meeting of the L'Oréal shareholders.



In € millions

14,533

Net sales

4,347

Cost of goods, materials  
and services purchased

2,852

Total payroll and benefits

406

Total taxes

64

Interest on debt

659

Distribution to shareholders

17

Donations to community,  
charity and civil society

931

Retained profits<sup>(1)</sup>

(1) At parent company's level.

## L'ORÉAL'S COMMITMENT: TO CREATE VALUE

Over the last year L'Oréal has injected €8.3 billion into the global economy in the form of goods purchased, employee salaries, tax paid, interest to banks, dividends to shareholders and community giving.

# ECONOMIC AFFAIRS

As an international business L'Oréal is committed to growth that creates more value for more people with a stake in our success. The values that underpin our core business will be crucial as we grow further.

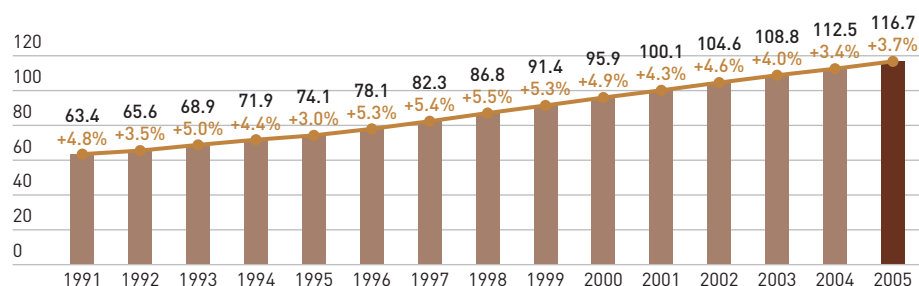
## A GROWING MARKET

Since 1990, the world cosmetics market has been growing at twice the rate of the annual global average GNP. It is still growing even in developed countries, thanks to new demands and new markets, but the growth of the cosmetics market is especially important in the emerging countries where the correlation between economic development and consumption of cosmetics is strong.

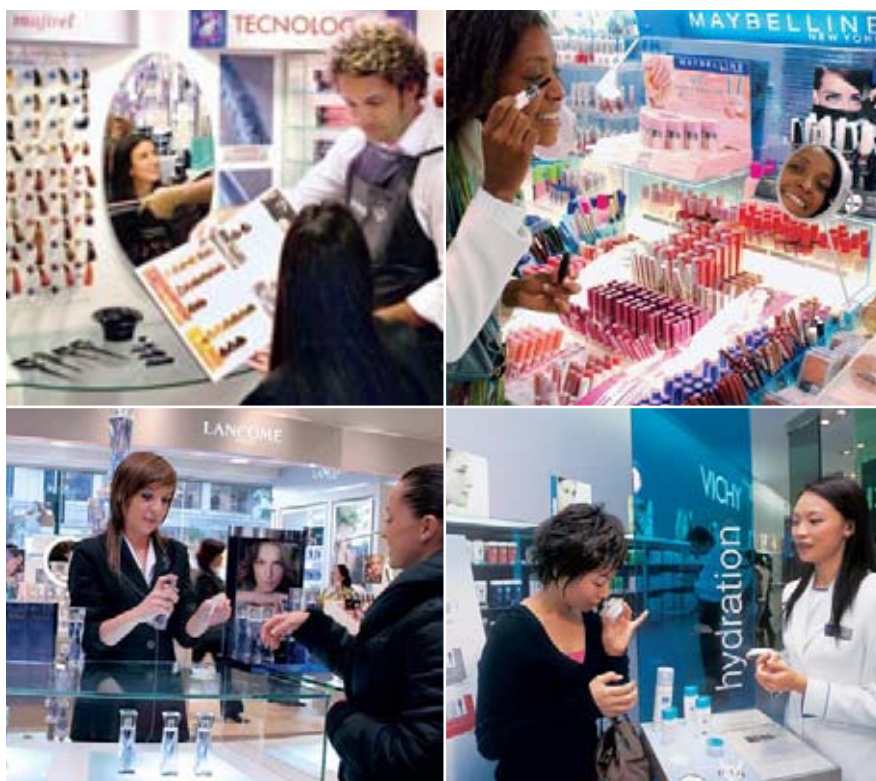
### WORLDWIDE COSMETICS MARKET 1991-2005

\$ billions

Average annual growth rate, excluding exchange rate impact







## Key figures 2005 (IFRS standards)

2005 consolidated sales: **€14,533 million**

2005 net profit excluding non-recurrent items after minority interests:  
**€1,638.5 million**

Dividend put forward at the Annual General Meeting on April 25<sup>th</sup>, 2006: **€1**

### WORKFORCE

**52,403** employees of 100 different nationalities at December 31<sup>st</sup>, 2005

### GLOBAL PRESENCE

- The group is present in more than **130** countries
- The group has **290** subsidiaries

### INDUSTRIAL PRESENCE

- The group has **42** factories worldwide

### INVESTMENT IN RESEARCH

- 3.4%** of consolidated sales devoted to research
- 2,900** people engaged in cosmetics and dermatological research
- 529** patents registered in 2005

## A SUSTAINABLE GROWTH STRATEGY

L'Oréal considers internal growth to be the main focus of its development. The group ensures healthy long-term geographic and sector-based balance for its brands and increases the rate of its international expansion through a highly selective acquisition policy. As a result, L'Oréal has enjoyed double-digit growth in earnings for many years. L'Oréal looks to the growth of new markets, especially in developing regions such as in Asia, Eastern Europe and Latin America. However, the group's growth is never at the expense of a responsible attitude: by manufacturing locally as soon as practical, we contribute to local economic development, applying the principles outlined in our Code of Business Ethics.

## OUR BUSINESS CATEGORIES AND BRANDS

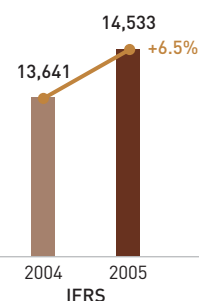
L'Oréal is active in cosmetics (98% of consolidated sales in 2005) and dermatology through the Galderma subsidiary in which the group holds 50%.

In cosmetics, L'Oréal is organised according to distribution channels.

*For detailed information on L'Oréal's financials, see the group's Annual Report or [www.loreal-finance.com](http://www.loreal-finance.com)*

## CONSOLIDATED SALES

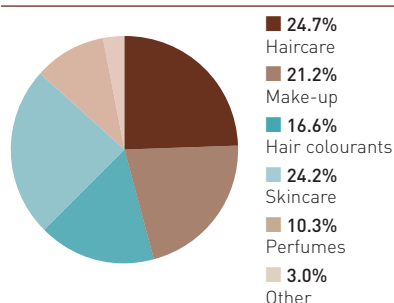
€ millions



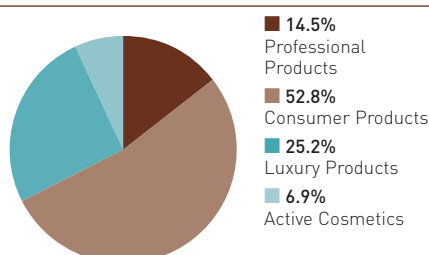
DIVISION	TURNOVER (€ MILLIONS)	MISSION	BRANDS
<b>PROFESSIONAL PRODUCTS</b>	2,061	Develop products for hairstyling professionals.	L'ORÉAL PROFESSIONNEL KÉRASTASE REDKEN MATRIX MIZANI
<b>CONSUMER PRODUCTS</b>	7,499	Develop beauty products for the widest possible range of customers, offering the most innovative products at affordable prices through the broadest distribution channels.	L'ORÉAL PARIS GARNIER MAYBELLINE NEW YORK SOFTSHEEN-CARSON CLUB DES CRÉATEURS DE BEAUTÉ YUE-SAI
<b>LUXURY PRODUCTS</b>	3,582	Develop prestigious global brands sold through a selective distribution network designed to add value to the products, offering a service based on personalised advice and relationship with the customer.	LANCÔME BIOTHERM HELENA RUBINSTEIN GIORGIO ARMANI RALPH LAUREN CACHAREL KIEHL'S SHU UEMURA VIKTOR & ROLF
<b>ACTIVE COSMETICS</b>	986	Develop dermo-cosmetic brands that meet the highest standards of skincare safety and effectiveness (proven by clinical tests) and are backed up by pharmaceutical advice.	VICHY LA ROCHE-POSAY INNÉOV SKINCEUTICALS

#### COSMETICS BRANCH: 2005 CONSOLIDATED SALES

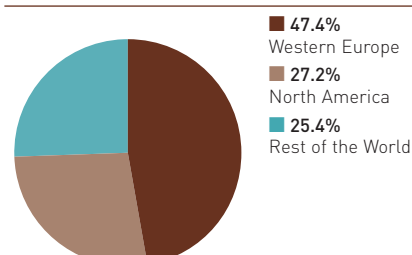
##### By business segment



##### By Division



##### By geographic zone



## LOCALISED PRODUCTION

2005	Cosmetics output	Cosmetics sales
Western Europe	51.4%	47.4%
North America	27.0%	27.2%
Rest of the World	21.6%	25.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The group's presence in a market is frequently accompanied by the setting up of manufacturing facilities in the country, creating jobs and directly contributing to the expansion of the geographic region.

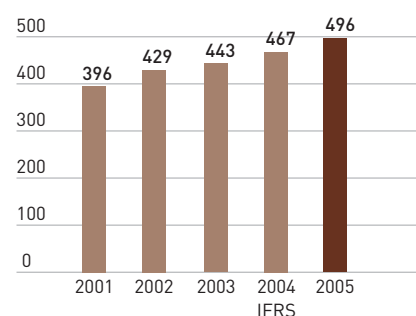
## INVESTMENT

	2003	2004	2005
<i>Millions of units</i>			
Cosmetics plant output	3,853	4,307	4,379
<i>€ millions</i>			
Cosmetics investments (production & physical distribution commitments)	332	293	288

In creating products, the group sets itself the highest standards in quality and innovation to ensure total consumer satisfaction. This involves considerable investment in technology, both in production and in research facilities.

## COSMETICS AND DERMATOLOGICAL RESEARCH BUDGETS<sup>(1)</sup>

€ millions



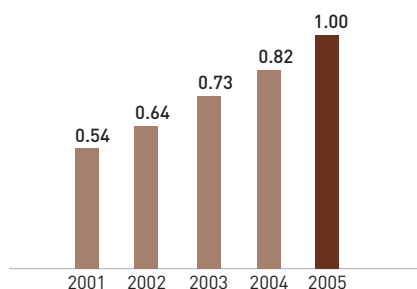
(1) Including Galderma at 50%.

Skincare manufacturing unit opened in 2004, Pune plant (India).

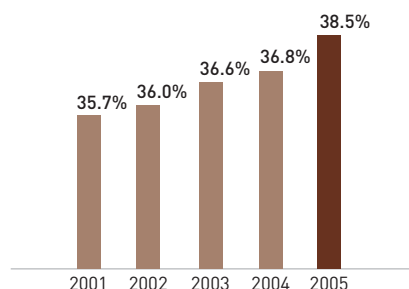


## CREATING VALUE FOR SHAREHOLDERS

Dividend per share from 2001 to 2005  
(€)



Payout ratio 2001-2005 as % of net profit,  
with Sanofi in dividends



Our strong financial performance has resulted in a return to our shareholders over the last ten years of 15.37%.

## 10 YEARS INVESTMENT IN L'ORÉAL SHARES

Purchase of 75 shares at €199.86

on December 31<sup>st</sup>, 1995

14,989.50 euros

Valuation at December 31<sup>st</sup>, 2005

including reinvestment of dividends

(927 shares at €62.80)

58,215.60 euros

**Initial capital multiplied by 3.88 in 10 years**

**Total Shareholder Return: 15.37%**

## COMMITMENT TO IMPROVE FINANCIAL INFORMATION

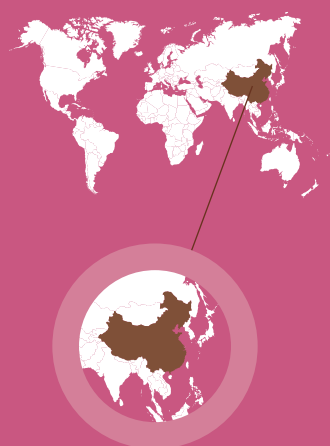
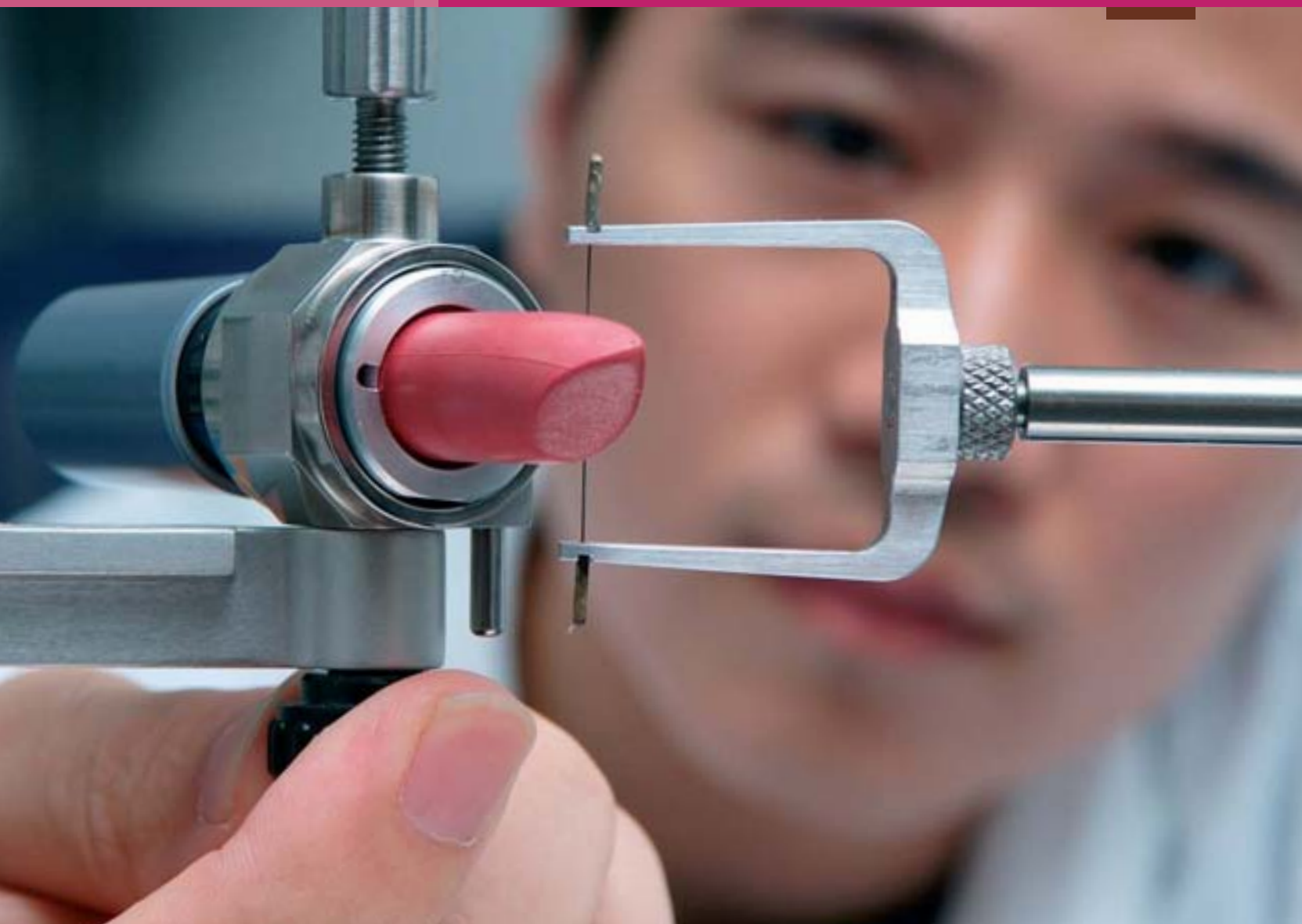
Attentive to the needs of its shareholders and the financial community, including individual and institutional investors inside and outside France, L'Oréal constantly strives to meet their expectations and improve the quality of its financial information.

The Annual Report, the Reference Document, the Letters to Shareholders and the interactive financial Internet site ([www.loreal-finance.com](http://www.loreal-finance.com)) are the regularly issued information media made available by L'Oréal to its shareholders.





*L'Oréal opened the first research centre dedicated to Chinese skin and hair in Pudong, Shanghai (China).*



### **L'ORÉAL'S COMMITMENT... TO DEVELOP HIGH QUALITY PRODUCTS FOR A DIVERSE HUMAN POPULATION**

Located in Pudong, Shanghai, L'Oréal's research centre in China, the first and only one of its kind created by a cosmetics company, has a team of around 40 researchers and technicians. Initially, development laboratories will focus on make-up, skincare and haircare. In 2006, biology and chemical analysis laboratories will be set up: the chemical analysis facilities will concentrate on applications for the chemical and plant raw materials used in Chinese medicine.



# RESEARCH AND DEVELOPMENT

L'Oréal has always devoted a significant and growing part of its activity to research, scientific discovery and technological innovation. Leader in various scientific and technological areas, notably human skin reconstruction technology, L'Oréal views its research as contributing to the development of human knowledge. Our laboratories, in France, the United States, Japan and, more recently, in China, employ almost 3,000 people in some thirty different disciplines including biology, medicine, chemistry, physics, and physical-chemistry.

## COMMITTED RESEARCH AND DEVELOPMENT

### The challenges of sustainable development

In the past few years, the Research and Development Division has asserted its strong commitment to taking the issues of sustainable development into account in its activities, programmes and operating methods. The health of the company employees and L'Oréal product users, and respect for the

living world and all its biodiversity help define the way research is structured at L'Oréal.

In particular, the challenges of sustainable development have led L'Oréal to reduce the impact of its activities on our common heritage, by taking into account:

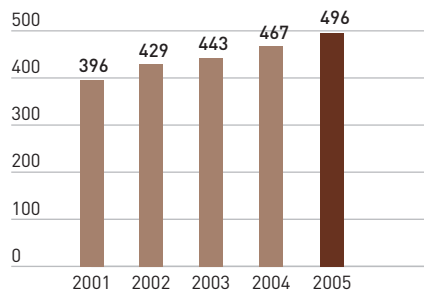
- the health of present and future generations,
  - protection of the environment and biodiversity,
  - the concern for fair and responsible trade.
- L'Oréal has, as a result, set its sights on activity and production methods that take into account all these challenges and encourages

its suppliers to adopt similar approaches. Certain processes that reflect the adoption of this approach have already been implemented.

Proactively anticipating social change and international regulation is at the heart of L'Oréal's approach, and results in sustainable innovation for the benefit of our consumers. One of L'Oréal's major responsibilities, as a manufacturer of cosmetics, involves measuring the risks of the raw materials used in its products and updating its assessment by integrating, as early as possible, the most recent findings in this area in order to ensure

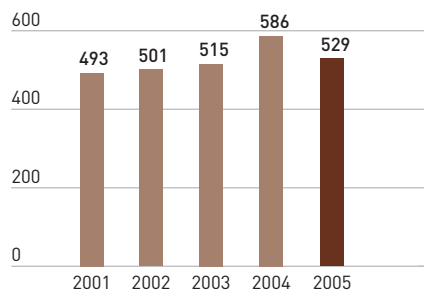
## COSMETICS AND DERMATOLOGICAL RESEARCH BUDGETS<sup>(1)</sup>

€ millions



(1) Including Galderma at 50%.

## PATENTS



the safety of our consumers. Safety is a fundamental priority for L'Oréal, and one for which we will never allow room for any compromise.

In this area, the European REACH legislation, currently in the stages of being passed, is a significant step that L'Oréal supports and already takes into account.

This ambition has already resulted in procedures and commitments some of which are examined in greater detail in this report. We aim to:

- guarantee the safety of ingredients and guarantee safe handling procedures for our raw materials,
- assess, right from the initial design phase, the human and environmental safety of our raw materials and formulas,
- increase the proportion of renewable raw materials of plant origin,
- protect biodiversity,
- carry out life cycle assessments (LCAs) of our common raw materials,
- assist our suppliers in integrating sustainable development issues,

- assess raw material supply, and processing, and structure some of these sources to support local development, regional requirements and employment,

- guarantee local populations' access to the source raw materials, recognise their ancestral know-how and take into account a "fair return" for the local population,

- discuss and consult with stakeholders, notably community representatives.

### Management structure aligned to the challenges of sustainable development

L'Oréal's Research and Development Division has set up a Sustainable Development Committee to oversee the implementation of sustainable development related measures. The aims of this Committee are to:

- translate sustainable development challenges into action plans in the research and development laboratories,
- ensure the relevant actions plans are implemented.



## REACH: Registration, Evaluation and Authorization of Chemicals (Europe)

The aim of the REACH proposals is to improve human and environmental safety from chemical substances through the improved identification of their intrinsic properties.

This European legislation, in the stage of being passed, represents a series of provisions restricting and governing the use and production of chemical substances. The substances' safety and environmental compliance will be strengthened, user companies will be obliged to analyse them and record them with a European agency, while those substances presenting risks will be strictly controlled, limited and ultimately replaced.

L'Oréal has for many years supported a responsible approach to the protection of consumer health and the environment. L'Oréal examines and develops systems in all areas targeted by the REACH system to ensure that its implementation is as effective as possible.

REACH and the Cosmetics Directive will shortly form a regulatory foundation providing particularly stringent product safety protection within a context of sustainable development:

- the Cosmetics Directive covers the safety of product use and user health,
- workplace safety/human health aspects (laboratories, plants, etc.) are also included in REACH,
- environmental safety is covered by REACH.

## The L'Oréal Research Institute for Ethnic Hair and Skin in Chicago

Established in 2000, the aim of this Institute is to further our understanding of the specific properties and needs of the skin and hair of people from various ethnic backgrounds, especially African.

In addition to its own research, this Institute is open to the international scientific community. In particular, it has contact with Northwestern University in Chicago, Howard University in Washington, and Cornell University in New York. In 2001, L'Oréal organised the first biannual Symposium in Chicago to share recent knowledge about Afro-American skin and hair.



The L'Oréal Research Institute for Ethnic Hair and Skin in Chicago analyses how hair and skin change with ethnicity.

This Committee reports to the Executive Vice-President of the R&D Division, and is linked to the group Sustainable Development Steering Committee. In addition:

- a Green Chemistry manager has been appointed to provide cross-sector coordination of all initiatives for obtaining and using raw materials manufactured by more environmentally friendly processes,

- we have a team of four full-time sustainable development experts as well as several external advisers,

- eight part-time Green Chemistry and Sustainable Development roles have been created in each research unit. It is the task of these officers to help apply sustainable development criteria during the development of new products.

All those at the Global Raw Materials Department and other relevant staff are responsible for ensuring that sustainability is integrated into day-to-day decisions.

These new appointments and the integration of sustainability criteria to the level of structuring principles represent a deep-seated change in the organisation of research.

### Research

Aware of the importance of developing knowledge, L'Oréal has for many years invested one third of its research budget into upstream

research, which paves the way for innovations to come in the medium and long term. This includes skin biology, skin engineering, and diversity of skin and hair types by ethnicity. It aims to develop new technology, such as the reconstruction of human skin and non-invasive physical methods (non-destructive that can be applied *in vivo*) for measuring skin and hair quality.

### Skin and hair around the world

In order to consider the diversity of skin and hair types of the world's population, the research teams work on the skin and hair characteristics in the various regions of the world and strive to offer scientific responses adapted to the various needs. This work is based on several approaches:

- *in vitro*, models of human skin, obtained from the growth of skin cells of various sources and ages, enable L'Oréal researchers to continually improve their knowledge of the biological differences between different skin types,

- *in vivo*, in the L'Oréal laboratories, the colour, composition, structure, resistance to mechanical stress and reaction to hair treatments of hair from the world over are examined.

### Physical sciences

This area of upstream research targets an understanding and the definition of the

physical, mechanical and optical qualities of the world's skin and hair types. It also plays a crucial role in introducing appropriate technology for the non-invasive characterisation of skin and hair.

To explore further the possibilities of non-invasive studies of skin and hair, L'Oréal became an industrial partner in the ambitious French-German Biophotonic project. This project aims to develop instruments and associated methods to analyse skin better.

# 2,903

cosmetics and dermatological  
research employees  
including 50% of Galderma research employees

### Sponsorships and partnerships

L'Oréal also works closely with many countries to develop local knowledge. Within this context L'Oréal is supporting a doctoral thesis at the University of Abomey-Calavi (Benin); it is a pilot operation aimed at supporting the local economic development and employment of women.

➤ **Nanotechnology:** L'Oréal's use of nanotechnology is relatively limited; in its research, nanoscience is approached from three different angles:

- the development of techniques used for the detailed study of the skin and hair (microscopes used to observe at the nanometric level for example),

- the use of nano-emulsions (for example in conditioners). These nano-emulsions correspond to nanometric droplets measuring between 50 and 100 nanometres; their harmlessness is optimal as they are a mixture of water and oil droplets. In this way, it is possible to produce original textures, especially for creams,

- the use of nanomaterials whose performance is dependant on size. L'Oréal uses these to improve the efficacy of its products, especially sunscreens. In the area of UV filtration, mineral pigments filter UV rays better when

their size is of the order of 50 nanometres. Internal, as well as independent and institutional scientific research has concluded that nano-emulsions are harmless, and that there is no penetration of nanopigments (e.g. titanium dioxide) into living skin.

More broadly, beyond these practical applications, the development of nanotechnology in the medical, biometric, cosmetic, etc. fields raises new questions, as for all major innovations, about the available scientific knowledge, ethical issues and potential applications. Fully aware of the need to boost knowledge and understanding of this issue, L'Oréal is involved, in addition to R&D applications, in several French and international programmes including the International Council on Nanotechnology and the Center for Biological & Environmental Nanotechnology, Houston, and is working closely with academics and institutions such as the European Union Scientific Committee on Consumer Products, the Working Group on Nanosubstances in Cosmetics, and the CNRS-French Scientific Research Centre Ethics Committee.

#### Life sciences

This area of upstream research aims to understand the biological and physiological processes that the skin and hair undergo over time.

This research is more specifically focused on:

- improving knowledge of the various states of healthy skin and hair,

- the ageing process of skin and hair,

- the effects of the sun's rays on skin,

- understanding the links between the impact of the sun's rays on skin and the clinical signs of skin ageing,

- the innermost mechanisms of skin and hair pigmentation and its alterations (age spots, melasma and vitiligo).

This research taps into approaches combining biology, clinical trials and pharmacology. It also involves the most modern biological technology, for example genetics, genome, proteomic, etc.

For over 20 years, it has included and developed cellular biology and skin engineering with the main focus being the reconstruction of human skin. This is a strategic technological challenge taken up by L'Oréal upstream research in order to have at its disposal various models of reconstructed skin to:

- continue to develop knowledge of the skin without the need for invasive clinical trials,

- develop alternative methods to animal testing in the area of safety, by sharing the results of its work with the international scientific community, notably by actively participating in the international validation process.

➤ **Episkin:** this biotechnology company is based at the Lyon/Gerland Technology Centre, and is a fully-owned L'Oréal subsidiary. It produces models of reconstructed skin with the aim, in addition to other approaches, of replacing animal testing for product harmlessness and tolerance.

The use and development of reconstructed skin is a matter of excellence for L'Oréal, in three directions:

- understanding how the skin works (upstream research into skin biology),

- product efficacy (evaluation of the effects of new molecules),

- product safety (product evaluation).

Life sciences are also working on a new model using Langerhans cells that may make it possible to assess the skin's allergic response, and eventually to determine the allergenic active ingredients without resorting to animal testing. L'Oréal has led this research under a European Commission programme as a pilot laboratory.

#### LEXICON

**Nanotechnology**, also called nanoscience, describes the techniques used to observe matter and build objects on a nanometric scale ( $10^{-9}$  metre).

*By enlarging objects 10,000 times, these electronic microscopes are used to explore and understand the inner structure of the hair and skin.*





## Episkin: reconstructed skin kits as an alternative to animal testing

Episkin supplies three reconstructed skin kits (CorroSkin, IrriSkin and EpiTol), in the form of multi-well plates, each well corresponds to an epidermal unit and can be used to predict:

- CorroSkin: the corrosive potential of products,
- IrriSkin: the irritant potential of chemical products,
- EpiTol: the cutaneous irritant potential of cosmetic and dermatological formulas.

These are models that present the main histological and biological properties of human skin. Internally, within L'Oréal's life sciences activities, these kits can replace animal testing for certain tests, and can also be used to make a pre-selection of products by eliminating the most aggressive for the skin and therefore not test them on animals.



*L'Oréal is a pioneer in human skin reconstruction.*

### The development of alternative methods to animal testing

► **Long-standing research on alternative methods to animal testing:** L'Oréal research has invested heavily for more than fifteen years in the possibilities for reducing animal testing.

L'Oréal participates actively in the introduction of solutions making it possible to do away with animal testing and supports the 3R Rule (Refine, Reduce, Replace) for animal testing:

- avoid animal suffering and improve the humane and comfort levels of these tests,
- reduce the number of animal tests,
- gradually replace them by contributing in a proactive way to the scientific validation and regulatory acceptance in order to meet the 2009 and 2013 deadlines of the European Cosmetic Directive.

In 1989, L'Oréal ended all animal testing for its finished products prior to their release on the market.

► **Regulatory and safety obligation:** new chemical ingredients must, however, be tested on animals when there is no other approved method guaranteeing their harmlessness. Some of the harmlessness and safety tests imposed by the various international regulations and the future European REACH legislation can only be carried out through animal tests. At the same time, the Seventh Amendment of the European Cosmetic Directive aims to end animal testing for the assessment of product safety and harmlessness. It requires the discontinuation of all animal testing for the evaluation of product safety in 2009, and in 2013 for the more complex tests.

► **Upstream research and alternative methods to animal testing:** L'Oréal is pursuing significant initiatives to develop alternative methods to animal testing, notably through reconstructed human skin technology.

In the area of product safety, future research aiming to discover new methods in areas

where there are as yet none (allergies for example) is carried out internally in the Life Sciences Advanced Research Laboratories in conjunction with the international scientific community (ECVAM<sup>(1)</sup>, EU FP6<sup>(2)</sup>).

► **Validation of alternative methods to animal testing.** There are currently three areas of toxicity for which alternative methods have been scientifically validated and are now used to replace animal testing: cutaneous corrosion, photo-toxic potential and cutaneous absorption.

In response to the Seventh Amendment of the European Cosmetics Directive, L'Oréal is contributing significantly to the development, validation and acceptance of these tests in the regulations.

L'Oréal has developed original *in vitro* methods, notably in the area of human skin models.

<sup>(1)</sup> European Centre for the Validation of Alternative Methods.

<sup>(2)</sup> EU Sixth Framework Programme for Research and Technological Development.



More recently, L'Oréal actively participated with ECVAM<sup>(1)</sup> in the validation of cutaneous irritation tests for chemical raw materials using an Episkin reconstructed epidermal model. The results of this validation procedure will be published soon.

Alongside the approved alternative methods, research is ongoing to arrive at the validation and certification of methods in non-validated areas or to complete others, such as ocular irritation, mutagenesis, genotoxicity, allergy and acute toxicity. This research is being carried out in liaison with the international scientific community (ECVAM<sup>(1)</sup>, EU FP6<sup>(2)</sup>, ILSI<sup>(3)</sup>) and the European Cosmetic Toiletry and Perfumery Association (COLIPA).

Developing alternative methods to animal testing requires a significant investment in terms of research, finance and development from all areas of L'Oréal. To further strengthen this area of development, in the first half of 2006, L'Oréal acquired the company SkinEthic, which manufactures reconstructed human epidermis, reconstructed human skin, and epitheliums.

(3) International Life Sciences Institute.

#### ► SkinEthic: further commitment to alternative methods to animal testing:

located in Nice (France), SkinEthic's expertise lies in tissue engineering. Its knowledge broadens the expertise acquired by L'Oréal in this area. SkinEthic is a major player at the global level in the production and sale of reconstructed epidermis and epitheliums for *in vitro* testing by numerous industries. L'Oréal's aim is to develop various approaches and standardised *in vitro* methods for the industry to test the safety of ingredients and to speed up the eradication of animal testing. The acquisition of SkinEthic by Episkin will enable these pioneering teams to work at the intersection of science and industry, and bears witness to a concern for responsible innovation. This acquisition confirms L'Oréal's commitment to pursuing the development of alternative safety testing methods.

The complementary nature of Episkin and SkinEthic also enables L'Oréal to take additional steps towards the development of alternative methods to guarantee the harmlessness of the ingredients used. SkinEthic aims to meet the needs of the entire industry by marketing to the cosmetics, chemical and pharmaceutical industries all these reproducible and standardised tools.

L'Oréal's goal is to purely and simply phase out laboratory animal tests as soon as alternative methods are approved by the relevant scientific authorities.

#### Social sciences

Appearance plays an extremely important role in our society in terms of social ties, self-esteem, and the construction of one's very identity. It is closely tied to the practice of cosmetics and corporal expression.

In addition to bio-technology excellence research, L'Oréal research has for the past 2 years sought to develop knowledge of the psychological, social and anthropological dimensions of corporal practices, especially the tie between the influence of appearance and social ties. L'Oréal has decided to explore this field of knowledge and to support research on these issues through joint corporate-university projects and CIFRE (Industrial Training through Research) agreements, and to utilise the lessons drawn from the results to direct its own R&D.

This cooperation, which is separate from the research carried out by L'Oréal researchers, aims to encourage, through transparent partnerships, scientific interest among the academic and research community for these issues.

Thus, a series of research projects is focussed on studying two major topics from the angle of the social sciences (sociology and social psychology): the link between the diversity of cosmetic practices, multiculturalism, identity construction and self-esteem on the one hand, and society's relationship to ageing, on the other. Through these two new directions of research, R&D is opening up to a better understanding of the emerging issues and processes surrounding the relationship to the body.

Clinical efficacy of Redermic following 6 months treatment.



## Social impact of appearance

Understanding the relationship between appearance, self-esteem, self-image and identity is essential in order to embrace the issues of cosmetics in the everyday life of millions of men and women. The relationship each individual has with his or her appearance cannot be reduced to an aesthetic ideal. It involves the aesthetic criteria of the relevant society at large, self-confidence, emotional and social relations, personal history, the way in which people live their age, culture and the desire to conform to a model or, alternatively, to be different...

## RAW MATERIAL SELECTION AND SUPPLIER RELATIONS

The development and use of raw materials is a major area of innovation for L'Oréal. R&D is a driving force behind the creation of new products and strives to develop product formulas within an ecologically and socially responsible framework.

This year we have taken a significant step forward with the integration of sustainability principles into our assessment process of raw materials, using a sustainability assessment form. This new system has five main areas of ratings, based on the following priorities:

- preserve the health and safety of people,
- preserve the health and safety of the envi-

ronment,

- protect biodiversity,
- promote fair trade practices,
- take into account social and societal impacts.

This raw material assessment and selection system follows recommendations of the GRI (Global Reporting Initiative) guidelines in the selection of the criteria assessed. Twenty-five criteria have been adopted. In principle, designed to assess organisations, they have been adapted for the specific evaluation of raw materials.

The sustainability assessment is applied throughout the entire life cycle of raw materials at each of the three stages:

- the relevant raw material,
- the manufacturing process for this raw material,
- the primary materials used for its production.

Approval and rollout of this system to our suppliers began in 2006. The system is currently being piloted with eight suppliers, and we are expecting to conclude the pilot by the end of 2006 and start general deployment in 2007.

L'Oréal is a member of the Comité 21 pour l'Environnement et le Développement Durable (French Committee for the Environment and Sustainable Development), and of the Entreprises 21 Programme's steering group which encourages companies to contribute to local, national and international sustainable development issues, as defined in Rio Agenda Item 21 or integrated in national and international regulations and recommendations.

### The origin of raw materials

#### Raw materials essentially of plant origin

The portfolio of L'Oréal's raw materials includes a high proportion of plant origin. In 2005, around 40% of raw materials used were sourced from plants and therefore are renewable.

#### Raw materials of natural origin – a definition

L'Oréal research has developed an assess-

ment system for raw material evaluation and cosmetic formulas based on 'naturalness'. This system seeks to overcome the lack of any rigorous definition, and the associated requirements, of the "concept of natural" in the area of cosmetics.

The system based on these evaluation criteria is able to define the quality of our portfolio of raw materials in terms of its "naturalness". This system is now used to select our raw materials and for the eco-conception of our formulas.

The entire portfolio of raw materials used by L'Oréal has been subjected to a re-evaluation on this basis. For 2006, the aim is to evaluate all raw materials used by the group against this value ranking. We aim to increase the proportion of our ingredients from plant sources.

Within a responsible approach, L'Oréal rejects the introduction of raw materials of animal origin with the exception of beehive products and silkworm derivatives, and no new raw material of animal origin was introduced in 2005.

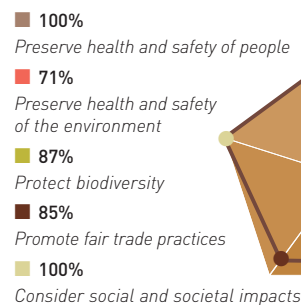
### LEXICON

We define **raw materials of natural origin** as raw materials of plant or non-fossil mineral origin, that have undergone little change from their origin and which comply with our most stringent sustainability criteria.

### RAW MATERIAL ASSESSMENT FORM

	Relevant raw material	Manufacturing process	Primary materials used
Health and safety of people			
Health and safety of the environment			
Preserve biodiversity			
Fair trade practices			
Social and societal impacts			

### EXAMPLE OF THE ASSESSMENT OF ONE OF OUR RAW MATERIALS



## Green chemistry

The aim of green chemistry is the development of raw materials and processes that ensure maximum human and environmental health and safety.

To achieve this goal, greater emphasis is placed on the use of renewable raw materials and the development of low ecotoxicity biodegradable active ingredients in accordance with the basic principles of green chemistry published by Paul Anatas in 1998 (Anatas P., Warner J.C., *Green Chemistry*, Oxford University Press, New York, 1998, p30). In 2005, a certain number of "green process" indicators were introduced at research level to select, from the design phase, those processes limiting the use of raw materials and discharge levels.

Furthermore, significant efforts have been made to foster our cooperation in the area of plant biomass recovery and the development of environmentally friendly processes. For example, L'Oréal joined the Agrice consortium, in the Industry and Agri-resource competitive sector.

Finally, a proactive stance has been adopted with regard to our suppliers which has made it possible to identify among the raw materials in our portfolio those based on more environmentally friendly processes, and we work with our suppliers to define and implement possible improvements.

This overall approach will be pursued in 2006. The introduction of green indicators will allow us to track the progress made.



### A commitment to green chemistry

The priority focus is now on raw materials of plant origin. However, in the raw material selection process, L'Oréal R&D promotes the performance of its cosmetic products. This approach requires the use of raw materials of non-vegetal origin, as well as raw materials of vegetal origin.

When the use of "artificial" raw materials is necessary, priority is given to those manufactured using methods that are environmentally-friendly, using the definition defined by Delf University (R.A. Sheldon, *Puer Appl. Chem.* Vol. 72, 7, p 1233 (2000)). This priority approach is further backed by the "green chemistry" approach that was introduced in 2004.

### The environmental impact of our raw materials

In order to specify the environmental impact of its activity, L'Oréal has set itself the goal of strengthening the information about the raw materials it uses in terms of the criteria of persistence, bioaccumulation and ecotoxicity. This approach was initiated in 2004 and is scheduled for completion by the end of 2007. In addition to internal expertise built up in this area over many years, L'Oréal also taps into the shared knowledge and reports obtained jointly with the suppliers of these raw

materials in order to meet this commitment. L'Oréal has set itself the target of:

- measuring the environmental impact of the used raw materials,
  - promoting the use of raw materials identified as environmental friendly,
  - extending the evaluation of raw materials considered necessary and relevant when the evaluation (calculated or measured) results in an unfavourable environmental profile,
  - substituting those raw materials with a confirmed unfavourable environmental impact.
- L'Oréal rejects the introduction of new raw materials that have an unfavourable environmental profile, such as substances classified as 'very persistent, very bio-accumulative' and 'persistent, bio-accumulative', in compliance with the future European REACH regulations, and is also monitoring all known information about the authorised substances it uses. For example, although triclosan and musk ketone are authorised, L'Oréal closely follows the ongoing research so that it can react swiftly if any environmental risks are found.

### Including environmental, social and societal issues in the selection of our plant extracts

Aware that its activities may have an impact on the population and balance of the regions where the plant extracts in its raw materials are sourced,

### LEXICON

**AGRICE (Agriculture for Green Chemistry and Energy)** is a French research programme on bioproducts managed by ADEME-the French agency for the environment and energy. It promotes applied technology research. Its prime concern is the replacement of products of fossil origin with products of plant origin.

**Triclosan** is a broad-spectrum antimicrobial agent which, up until now, has not aroused any concern, but some recent studies have indicated that it may have the potential to disrupt certain ecosystems. There is no scientific evidence to restrict usage of this ingredient in the specific application where it is needed. However, we will continue to examine any new information available.

Some recent research has shown that among the artificial musks used in fragrances, **musk ketone** presents a risk for the environment, essentially through aquatic contamination. A general analysis of fragrant products is being carried out to systematically detect among those containing musk, the ones with musk ketone, to enable substitution if and when necessary.

ed, L'Oréal has set itself the goal of improving and extending knowledge of the raw materials of plant origin in its portfolio in order to:

- preserve biodiversity,
- promote fair trade practices,
- take into account the social and societal impact.

This action was started in 2006. It necessitates close cooperation with suppliers and takes into account the principles of fair trade. It relies on the rollout and sharing of the Raw Material Assessment Form.

### Preserving biodiversity

Biodiversity refers to the diversity of the living world, that is the diversity of ecosystems, the diversity of species and the genetic diversity found in nature.

Understanding, conserving and using biodiversity in a sustainable manner at all stages and in accordance with the principles of the Convention on Biological Diversity, is one of the fundamental commitments made by the L'Oréal Research Division.

L'Oréal is highly attentive to the conditions in which the raw materials used to manufacture its products are selected and extracted. These issues raise questions and imply changes for which answers are gradually being found directly through the methods of ingredient selection, analysis, traceability and revision. A preliminary study was undertaken in 2004

with the Muséum National d'Histoire Naturelle, one of the world's leading centres of expertise in the protection of biodiversity, to update the compliance of extraction and trade in the plants used by L'Oréal in accordance with the relevant regional, national and international regulations. This study revealed that all of the plant extracts assessed comply with regulations governing the protection of biodiversity. Our aim is to complete this study by going one step further than maintaining the biological availability of the species used, and assessing the potential impact of their extraction on their respective ecosystems.

### Promoting fair trade practices

Adopting sustainable development as an underlying principle of our activity means:

- taking into account the populations that live in extraction zones or production sites of the raw materials and formulas used,
  - contributing, alongside L'Oréal's suppliers, to the development and success of a responsible integrated supply chain.
- In particular, L'Oréal undertakes to consider:
- the impact of our activities on the socio-economic balance of the regions where the populations live,
  - the relations between our suppliers and the local population,
  - access to the resources by the relevant population and a fair return from the extraction of these resources,
  - traditional knowledge in its policy on industrial property rights.

inventions, L'Oréal undertook in 2004 a study of the plants listed in patents filed. To date, 30% of its patent portfolio has been reviewed from this particular angle.

A process has been set in place within R&D to ensure that the ancestral know-how of local populations is integrated and respected as part of the protection of intellectual rights, in order to comply with the principles of the Convention on Biological Diversity.

L'Oréal's aim, in the coming two years, is to continue to examine all patents in its portfolio to assess the way in which these principles are respected.

➤ **Selecting the structure of responsible supply streams in compliance with the principles of fair trade** We aim to:

- make sure that the raw materials do not come from fragile environments and/or that their extraction does not upset local balances,
  - make sure that the rule of enlightened consent of communities is respected when selecting and extracting raw materials and guarantee a fair return for them,
  - ensure fair and equitable sharing of the advantages derived from the resources extracted,
  - make sure that the basic rights are respected and that there is no use of forced or child labour.
- To this end, L'Oréal undertakes, jointly with its suppliers, to assess its contribution to the sustainable socio-economic development of the regions where the resources are extracted, and to contribute with them to the success of sustainable supply streams in accordance with the principles of sustainability.

### Reducing social and societal impacts

The notion of "social or societal impact" refers to any change, negative or positive, in the local, regional or national, or even international, human environment, resulting fully or partially from the activities generated directly or indirectly by an enterprise or project.

Although extremely complex and delicate, the evaluation of this type of impact can be measured by a series of numeric and other indicators grouped into several categories:

- social impacts: basic social rights of employees, quality social dialogue, skills and employability, team training and support,
- societal impacts: containment of the risks associated with the presence of our activities

### Palm oil

Palm oil is extracted from oil palms that can only be grown in certain tropical regions. Its increasing use at the global level, for all sorts of products, is leading to a significant reduction of tropical forests that are partially cleared and replaced by these plantations.

L'Oréal uses an extremely small amount of palm oil (less than 0.1% of the world's production, and less than 1% of the cosmetics industry's consumption).

We actively encourage our suppliers to join the Roundtable on Sustainable Palm Oil, and support the development of sustainable sourcing criteria.

➤ **The issue of protecting our inventions in accordance with the principles of the Convention on Biological Diversity:** certain

patents, extractions of raw materials, or practices in regions where these raw materials are extracted, may present particular issues for sustainable development, for example, the ownership of regional biological resources and a fair return for the local population.

L'Oréal has examined in detail the issue of patentability of living organisms in relation to the question of natural resource ownership, respect for the associated ancestral knowledge and the fair return for the populations living in the region of origin.

With a view to fairness, and within the overall context of the responsible protection of its





Studying the scalp.

in these regions, containment of the risks attributable to the logistics chain, sustainable integration of our entities within the regions of activity (improving the stakeholders' ability to develop, network resources, etc.). The rollout of the Raw Material Assessment Form will also make it possible to factor in the social and societal impact attributable to the extraction and supply of raw materials in order to deploy best practice adopted in partnership with certain suppliers.

### Relations with suppliers

The company places considerable importance on the quality and sustainability of its relations with suppliers. Within this context, L'Oréal R&D is working to extend partnerships with suppliers in order to share good practices, and develop an effective sustainable development policy throughout the entire chain. Various measures are taken with this in mind and they will be further developed in the months and years ahead to:

- gradually integrate the criteria of sustainable development into suppliers' activity

through close operational relationships, ■ gradually integrate supplier practices and their commitment to the principles of sustainable development into ingredient selection criteria.

Partnerships with certain suppliers are now in place in order to pinpoint as best possible the social, societal and environmental impact of activities, find solutions where required, and implement them.

## CONSUMER SAFETY

The safety of people is an essential commitment that is backed and supported by numerous internal and legislative measures. Our support for the new REACH legislation on evaluation of chemicals is outlined on page 18.

### International Safety Evaluation Division

Well before it was required by law, L'Oréal put in place a safety evaluation plan to ensure the safety of our products for both professionals and consumers.

For human health, an International Safety Evaluation Division examines in detail the toxicological profile of all ingredients used and assesses the safety and tolerance of all formulas prior to their release on the market. This commitment is upheld at each stage in the product's life: raw materials are rigorously selected and their safety individually assessed; products undergo a thorough safety evaluation; and the tolerance of products released on the market is constantly monitored through our international "cosmetovigilance" network.

### Evaluating the safety of each raw material

This involves three stages:

- select high quality raw materials,
- establish the raw material's safety profile,
- assess the risk of this raw material for a given product.

By the end of this first stage, L'Oréal research has compiled a catalogue of known raw materials that can be safely used up to a specified concentration in a certain number of product categories.

### Evaluating the safety of the finished product

The aim here is to check that the mixture of raw materials that forms the finished prod-

uct will be perfectly tolerated by the consumer. To this end, studies are carried out on our finished products *in vitro*, on volunteers in laboratories, or in specialist clinics outside L'Oréal prior to the market release of any product. This procedure confirms the excellent tolerance of each of L'Oréal's formulas. These studies never involve the use of laboratory animals.

### Monitoring the safety of finished products on the market

With its ongoing concern for the consumer, L'Oréal continues to evaluate consumer tolerance to our products sold around the world in accordance with our ethical standards for safety as defined by applicable international legislation. The international "cosmetovigilance" network that L'Oréal started establishing 25 years ago, well before the emergence of regulations in this area, provides this monitoring function.

The network collects, validates and analyses, through the application of rigorous and recognised methodology, any undesirable events related to the use of a product.

Through our Consumer Services departments around the world, consumers can advise us of a tolerance issue regarding one of our products. This information is immediately communicated to our "cosmetovigilance" department that examines the file, the formula, and the raw materials. It then contacts the consumer and/or his or her doctor, if necessary, to work with them on any additional investigation required, before reporting back on any potential implication involving our product.

This is an extraordinary system for rapidly detecting the slightest indication of any intolerance to any of our products on the market. It has enabled us, where necessary, to immediately take the most appropriate corrective measures, and constitutes the final stage in our strategy that is wholly focused on guaranteeing the safety of L'Oréal products for our consumers.

### Safety, Health and Environment (SHE) policy

A Safety, Health and Environment (SHE) policy has been in force at L'Oréal for many years, see page 43. As a general rule, R&D is committed to guaranteeing the SHE requirements with regard to:

- the production of raw materials developed internally and in cooperation with suppliers,



- the development of chemical formulas. In particular, L'Oréal research has formula risk evaluation studies carried out by external international experts,
- the impact of activities relative to the acquisition of raw materials; the population, ecosystems and economic resources of the regions where the raw materials are extracted.

### Chemical molecules and public health

Product safety is one of the group's major commitments. For a great many years, L'Oréal has applied very strict rules regarding the safety of ingredients used in the composition of its products. Our position on preservatives, phthalates, sunscreens and GMOs is as follows.

#### Preservatives

L'Oréal works in close cooperation with the authorities on the ongoing assessment of preservative safety to make sure that their use is without risk for human health. The well-recognised need to optimise their use, especially with regard to their concentration, has led L'Oréal to commit to a series of programmes on this issue.

Parabens and phenoxyethanol are among the preservatives used. Parabens were brought into question following the publication of several scientific studies stating the potential risk for the endocrine systems and breast cancer. Such studies concerning the health of our consumers immediately ensure L'Oréal's concern and vigilance.

In this particular case, the position of international health authorities has confirmed that no cause-to-effect link can be estab-

lished between the use of parabens and the risks mentioned. The latest scientific news about parabens is however closely scrutinised. For those consumers who are sensitive to this question L'Oréal will develop products without parabens.

Phenoxyethanol is considered safe to within the authorised concentrations. L'Oréal remains very attentive to any new data that might undermine its harmlessness.

#### Phthalates

L'Oréal only uses diethyl phthalate (DEP), which is safe for its cosmetic applications, as an alcohol denaturant and solvent in fragrance products.

Various committees and scientific institutions reporting on the toxicity of phthalates, such as the US Food & Drug Administration and US Environmental Protection Agency, and European legislation, which is more stringent than other international legislations, have concluded that the use of DEP is harmless in cosmetics.

Nonetheless, L'Oréal remains vigilant with regard to the possible effects of these ingredients and scientific discoveries regarding their toxicity. L'Oréal research therefore constantly monitors all progress in research on phthalates. In any event, the use of DEP is already the subject of a reduction programme, and DEP as an alcohol denaturant is replaced whenever possible. For DEP as a solvent, L'Oréal is focussing on developing formulas that do not include phthalates. Should a risk be revealed, L'Oréal would implement a programme to replace those products still containing DEP.

#### Sunscreens

Sunscreens protect against the harmful effects of UV rays, the most serious of which are skin cancer and melanoma. Mineral sunscreen filters do not penetrate the cutaneous barrier and their harmlessness has been proven.

One publication referred to the possible effect

of some organic sunscreens on the hormone (endocrine) system. European scientific authorities have reaffirmed the safety of sun products and confirmed the harmlessness of the organic sunscreens used by L'Oréal<sup>[2]</sup>. A recent study in Denmark<sup>[3]</sup> showed that the incriminated sunscreens, after topical administration at a high concentration to volunteers (male and female), had no estrogenic effect on the study participants.

Some of L'Oréal's sunscreens use nanomaterials to give a more fluid and more transparent mixture of oil and water and so provide a light and transparent texture. In the area of UV filters, mineral pigments are more effective in filtering out UV rays when their size is of the order of 50 nanometres. Many studies by independent scientists, along with European health authorities, confirm that mineral UV filters do not penetrate the skin. Thus, the hypothesis of the potential penetration of these materials through the skin and so the possibility of induced toxicity, can be rejected.

To protect the environment from the risk of ecotoxicity, L'Oréal prefers to use sunscreens which have a lesser impact on the environment, notably by using mexoryl SX and titanium dioxide. Mexoryl SX is a water-soluble and biodegradable sunscreen that has no environmental impact. Titanium oxide has successfully passed stringent ecotoxicity and bioaccumulation tests; it has a very favourable environmental profile.

#### GMOs

L'Oréal avoids using GMOs (Genetically Modified Organism) or their derivatives. However, infinitely small traces (much less than 1%) may be present in some products with ingredients originating from manufacturing processes affected by GMOs without our being able to trace them. At present, traceability is impossible with the tools currently available to us. The introduction of a traceability approach with our suppliers is cur-

### LEXICON

**Preservatives** are substances widely used in the food, pharmaceuticals, chemicals and cosmetics industries in response to a public health requirement, namely to protect products from microbial growth i.e. germs.

**Phthalates** are chemical substances present in various common consumer products. For example, they are used as an alcohol denaturants<sup>[1]</sup> and solvents in the composition of several cosmetic products.

[1] A denaturant renders the alcohol unfit for human consumption.

[2] Opinion on the Evaluation of Potentially Estrogenic Effects of UV-filters adopted by the SCCNFP during the 17<sup>th</sup> Plenary meeting of 12 June 2001:

[http://europa.eu.int/comm/health/ph\\_risk/committees/sccp/docshtml/sccp\\_out145\\_en.htm](http://europa.eu.int/comm/health/ph_risk/committees/sccp/docshtml/sccp_out145_en.htm)

[3] Systemic Absorption of the Sunscreens Benzophenone-3, Octyl-Methoxycinnamate, and 3-[4-Methyl-Benzylidene] Camphor After Whole-Body Topical Application and Reproductive Hormone Levels in Humans [accepted for publication December 22, 2003] by Nadeem Rezaq Janjua, Brian Mogensen, Mette Henriksen and Hans Christian Wulf (Department of Dermatology, Bispebjerg Hospital, Denmark); Anna-Maria Andersson, Jørgen Holm Petersen and Niels E. Skakkebæk (Department of Growth and Reproduction, Rigshospitalet, Copenhagen University Hospitals, Denmark).

L'Oréal promotes cultural, ethnic and social diversity within its organisation.



## L'ORÉAL'S COMMITMENT... TO PROMOTE DIVERSITY

In December 2004 we signed up to the Diversity Charter in France. The Charter was drafted by the Institut du Mécénat de Solidarité, a French business association, at the impetus of Claude Bébéar, its chairman and the author of the report *Les entreprises aux couleurs de la France*. It was signed by more than 200 companies in 2005.

Extract: "Encouraging pluralism and fostering diversity through recruitment and career management helps our company progress. It makes us more efficient and enhances the quality of employee relations. It can positively impact our company's image among our customers, outside service providers and consumers, both in France and the rest of the world. The Diversity Charter adopted by our company seeks to underscore our commitment to promoting cultural, ethnic and social diversity within our organisation."



# SOCIAL AFFAIRS

L'Oréal believes that employee development is a fundamental driver of economic performance. We aim to be one of the most proactive employers in terms of overall appeal, remuneration, career development, profit-sharing and monitoring of employee expectations worldwide. L'Oréal sees employee motivation and loyalty as an intrinsic part of our company's continuing high performance. All L'Oréal staff are now enrolled in a global profit-sharing scheme administered locally and based on their country's earnings growth. Growth and forward planning help us anticipate organisational changes with employees' interests in mind.

## L'ORÉAL'S COMMITMENT TO EMPLOYEE DEVELOPMENT

For L'Oréal, a sustainable human resources and employee relations policy means:

- extending our diversity,
- offering opportunities to work internationally,
- promoting personal and professional development through corporate training programmes and sharing experiences,
- motivating our teams, especially by taking an assertive approach to remuneration and mobility,

- providing formal opportunities for dialogue with employees,
- maintaining optimal working conditions.

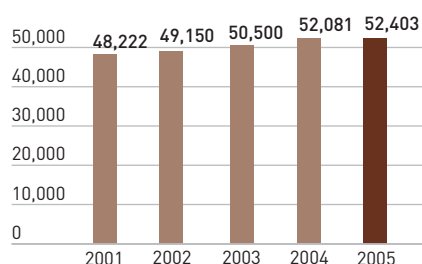
### Workforce profile

L'Oréal had a workforce of 52,403 in 2005, a slight increase of 0.2% from 2004 on a like-for-like basis. Believing that differences are a source of enrichment, L'Oréal considers it critical to attract a diverse group of employees and has people of 104 different nationalities among its managerial staff\*.

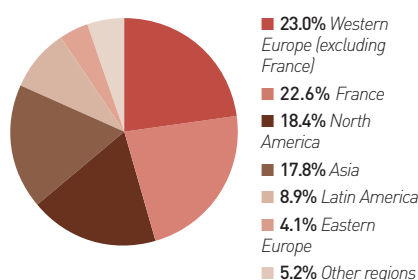
## DIVERSITY, A BASIC L'ORÉAL VALUE

Diversity lies at the core of what we do. As Sir Lindsay Owen-Jones says, *"The appearance and physical features of each person are unique, with differences that include age, skin and hair type. Cultural diversity is almost as great —perceptions of beauty vary from one country to the next, as do the rituals associated with cosmetics and personal care, which also change over time. And individual choices of hairstyle, skincare, make-up and*

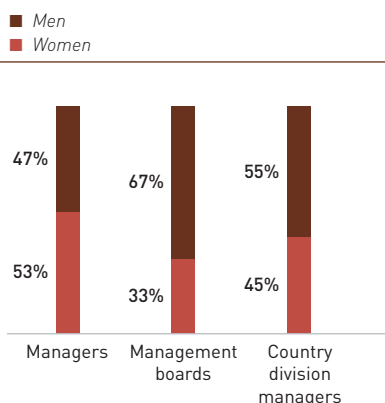
## WORKFORCE (INCLUDING GALDERMA)\*



## GEOGRAPHIC DISTRIBUTION OF WORKFORCE IN 2005\*



## MANAGERS BY GENDER IN 2005\*



*perfume express the uniqueness of each person. Our business is founded on respect for those differences and the capacity to match personal diversity of our products and brands."*

The diverse and complementary range of the brands and products we offer underscores L'Oréal's commitment to enhancing all types of beauty and well-being, while respecting differences. Similarly, the diverse backgrounds of our workforce at every level and in all fields spur creativity and give us a better understanding of consumers. Our diversity policy is part of our Code of Business Ethics, which states that L'Oréal categorically rejects all forms of discrimination, both in thought and deed, notably concerning gender, age, physical disability, political and philosophical opinions, union activities, religious beliefs, as well as race, social, national or cultural origin. L'Oréal's efforts were recognized in late 2005 when the Anti-Defamation League (ADL) gave Sir Lindsay Owen-Jones its International Leadership Award for his contribution to community leadership, equal opportunity, and commitment to diversity.

### Managing diversity

In 2005 L'Oréal created the position of Diversity Manager, which has responsibility for improving diversity throughout the company. In 2002 we named a Vice-President of Diversity in the United States. Our Production and Technology department has had a Diversity and Ethics Manager since 2004.

### Diversity profile

➤ **Diversity in the workforce.** L'Oréal's cosmetic workforce of 51,194 employees includes:

- 104 different nationalities among managerial staff\*,
- 60% of members of Management Committees from outside France.

Women make up 53% of the management staff at L'Oréal\*, 33% of the management boards and 45% of country division managers. In 2005, 53% of the managers who received training and 51% of those promoted were women. Since 2005, L'Oréal has been supporting and participating in European forums for women leaders, such as Women in Leadership (Amsterdam, Paris, Munich, London) and the Women's Forum.

In France and certain other countries, legislation prevents the collection of data on other diversity indicators such as ethnicity, religious beliefs, and union membership. However, in 2005 we took part in the Institut National des Etudes Démographiques' experimental survey to gauge ethnic diversity in France, in order to find alternative approaches to measuring diversity.

L'Oréal conducted quantitative and qualitative audits on disability in 2003 and 2004. We have since worked to improve our understanding of national legislation concerning the recommended disabled employment rate, to improve our policy and facilities for disabled employees and to get more feedback.

➤ **Diversity in research.** L'Oréal has 14 research centres and 13 assessment centres worldwide, including one in Chicago dedicated to studying the specific skin and hair care needs of people of African origin. Another, which opened in Pudong, near Shanghai, in 2005, specialises in analysing the specific needs of Asian skin and hair. Some 60% of L'Oréal's Development Laboratory managers and 34% of Research Department managers are women, while 45% of Development Laboratory managers are non-French\*.

### Diversifying sources of recruitment

➤ **Getting an early start in fostering a diversity of talent.** L'Oréal aims to recruit open-minded employees and promotes equal opportunity before students actually leave school. A good example is our partnership, established in 2001, with the Institut d'Etudes Politiques de Paris and its Priority Education Agreements programme. This initiative aims to promote access to training opportunities for deserving baccalaureate holders from low-income neighbourhoods. L'Oréal participates by providing financial support, tutoring and work placement opportunities for students abroad.

➤ **Creating and strengthening partnerships to promote employment.** L'Oréal has signed partnership agreements in France with recruitment agencies, temporary employment agencies and Web sites that are in direct contact with applicants from minority groups, disadvantaged backgrounds or who





## Case study – The United States

L'Oréal USA has created a four-point diversity strategy:

- create diverse teams that include both women and various ethnic backgrounds at every level,
- highlight the value of diversity and integration, while respecting differences,
- manage diversity through the involvement and commitment of managers and employees,
- capitalise on diversity to enhance creativity and innovate, through the timely marketing of a portfolio of products that meet the needs of a diverse customer base.

In the United States, L'Oréal's commitment to diversity has resulted in the use of a wide array of measurement tools to monitor, evaluate and benchmark progress. The US programme assesses our diversity policy, focusing on human resources management (recruitment, retention and mobility) and the importance of purchasing goods and services from companies owned by women and minorities.

In the United States:

Over **60%**  
of all managers are women

Over **57%**  
of managers in Research and Development are women,  
+7% in three years

**18.6%**  
of all managers are minorities,  
up from 13.9% in 2001

**33%**  
of our entire workforce are  
minorities, which is almost identical  
to minority representation in the  
US population

**29.1%**  
of managers in Research and  
Development are minorities,  
the highest minority representation  
of any management team in  
the United States

**42%**  
of the workforce in Research and  
Development are minorities

**2,000**  
managers have been trained in  
diversity awareness in two years

are disabled. We also regularly attend job fairs in the United States and Europe dedicated to minority, disadvantaged background or disabled applicants, to help them land their first job interviews.

### Diversity training and awareness

➤ **Involving employees.** Diversity training and raising employee awareness of the issues surrounding diversity and the fight against discrimination are also priorities at L'Oréal. In 2005, 1,029 managers were educated about diversity issues by adding these to training modules and seminars. Employee awareness was raised through local and group communication initiatives, including the distribution of the Diversity Charter in France, adding a "Diversity" module to employee induction courses, and articles in in-house publications.

➤ **Raising community awareness and exchanging best practice.** In 2005, L'Oréal took part in industry work groups organised in France by the Institut du Mécénat de Solidarité and in Europe by the Conference Board in Paris and Brussels, to facilitate the sharing of diversity best practice. To familiarise people with the complex reality of disability and the wealth of talent disabled workers have to offer, L'Oréal continued its work with associations (e.g. Valentin Haüy's Emploi workshops) and sharing best

practice with other companies, for example we participated in the Business & Disability Forum held on November 2005 in Paris.

### Helping the disadvantaged find jobs

L'Oréal has worked for over 10 years with community organisations to help hard-to-place job seekers or the long-term unemployed enter the job market. We focus on three areas.

➤ **Helping young people gain job skills.** Youth initiatives aim to provide young people without the baccalaureate an opportunity to "get their foot in the door", by exploring a field and gaining job skills and qualifications.

■ **L'Oréal Israel:** partnership with the "Mif-tan Psagot" school, which enrolls struggling young people and trains them for hair styling careers: organisation of a training seminar twice a year at L'Oréal, job-finding assistance for the best students, etc.

➤ **Cosmetology for the benefit of people in need.** L'Oréal helps people who are suffering medically by offering them our various forms of cosmetic expertise.

■ **L'Oréal France:** our Luxury Products Division has a partnership with CODES, a unique socio-cosmetology training centre in France. We have given financial and material support

since 2000, including two days of training by LANCÔME and HELENA RUBINSTEIN trainers, a job-finding workshop led by HELENA RUBINSTEIN staff for graduate socio-cosmetologists, and financing of a documentary on socio-cosmetology and CODES.

■ **L'Oréal Worldwide:** the "Look Good... Feel Better" programme helps women offset appearance-related changes from cancer treatment through skin and haircare advice. This programme is implemented by 16 other countries. See [www.lookgoodfeelbetter.org](http://www.lookgoodfeelbetter.org), and page 60.

➤ **Helping the disadvantaged.** The goal is to help disadvantaged individuals re-enter the job market and society by providing them with practical support, close to where they live.

■ **L'Oréal France:** L'Oréal employee sponsorship of more than 100 individuals in need since 1998, through Fondation de la 2<sup>e</sup> Chance. This state-approved foundation helps people in difficulty carry out a personal plan such as creating a business.

■ **L'Oréal Chile:** "Un toit pour le Chili" initiative: each year all employees get together to build prefabricated housing in low-income neighbourhoods.

*Training programme in hair styling techniques for disadvantaged young people (L'Oréal Italy).*



### Helping young people gain job skills in Italy

In Turin, L'Oréal Italy is working with the Piazza dei Mestieri Foundation to train disadvantaged young people as hairdressers. The training lasts two to three years and is aimed at teenagers who have left school at 15 and want to train professionally. L'Oréal provides products and instructors, and encourages salons to recruit from this Foundation. In 2005, 60 young people benefited from this training, and 60% of the students found a job at the end of the course.

# 515,500

applications received  
worldwide in 2005  
63% of them *via* the Internet

# 45,300

interviews\* conducted

# 2,027

managers recruited,  
up 11% over 2004, from  
104 different nationalities\*

# 10%

of the applicants hired  
in 2005 are of a different  
nationality than the country  
in which they were hired\*



*The Employment and Diversity Forum, organised by IMS Entreprendre pour la Cité and L'Oréal (France).*

## RECRUITING INTERNATIONAL AND MULTICULTURAL MANAGERS

A cornerstone of L'Oréal's human resources and sustainable development policy is attracting talent to support our growth worldwide. We fulfil this international focus by establishing long-term partnerships with universities, and by offering a broad range of career opportunities.

### Stepping up major partnerships with universities

L'Oréal has stepped up its presence at universities and top professional schools and by end-December 2005 had 189 close partnerships, on five continents. The type of partnership varies with the institution. However, examples include the endowment of chairs, and the supply of L'Oréal case studies and expertise, to enhance student instruction.

Internships are also a key part of our relations with institutions of higher education and give students initial, practical work experience. L'Oréal does not see work placements merely as brief stints at our company: they can also be the first step in a career with the group. In 2005, we offered 2,602 work placements, up 18% over 2004, in 48 countries, and conducted 11,600 interviews, an increase of 14% over 2004\*. Student work placements ultimately led to 242 jobs.

### Building awareness of our businesses and passing on know-how

L'Oréal is well-known for our business games, which we use to raise young people's awareness of our areas of activity and pass on L'Oréal's know-how to future professionals. In 2005, 4,030 students participated in L'Oréal Brandstorm, and 39,000 students from 125 countries participated in the L'Oréal

e-Strat Challenge. More details can be found at [www.loreal.com](http://www.loreal.com).

Every year the Universum Institute ([www.universum.se](http://www.universum.se)) conducts a survey among students from academic institutions worldwide. The 2005 survey involved 5,375 students from 100 business schools and universities in 20 European countries. The students were asked to name the companies they would most like to work for.

### COMPANY RANKING

McKinsey & Company	1
<b>L'Oréal</b>	<b>2</b>
BMW	3
Procter & Gamble	4
PricewaterhouseCoopers	5

## PERSONALISED CAREER DEVELOPMENT

The group intends to give its employees career opportunities geared to each personal situation.

### Winning young people's trust by giving them responsibility early on

L'Oréal has always given priority to recruiting young graduates with a view to building long-term careers. 63% of the trainee managers recruited worldwide in 2005 are under thirty\*. The group thus surrounds itself with a veritable seedbed of talented individuals whom it entrusts with responsibilities from an early stage.

L'Oréal ranks second (behind the Swiss bank UBS) in Hewitt's "Top Companies for Leaders in Europe" listing. The aim of the survey, which involved 101 companies in nine European countries, is to identify the company that does the best job of developing talent. It reveals a close link between a company's financial performance and its ability to identify, promote and develop talented individuals.

### Offering a personalised and imaginative approach to career tracking

The group prides itself on its responsiveness to the career plans and expectations of its employees.

The L'Oréal management appraisal system, Talent Development, includes two formal occasions set aside during the year to identify and discuss areas for development:

■ **mid-year review:** offered to all managers with less than 5 years with the company to discuss how well they are getting on with the position and/or integrating into the organisation. In 2005 the mid-year review was altered to focus entirely on skill and career development rather than appraisal,

■ **year-end appraisal interviews:** a formalised system for assessing individuals' performance and skills. The issue of remuneration is dealt with during the year-end appraisal.

This appraisal system is transparent and implemented worldwide based on standards shared by all.

## Encouraging mobility

The diversity that L'Oréal seeks relies on a policy of geographical and professional mobility.

L'Oréal wishes to continue enhancing the quality of its international management and local workforce by the addition of experienced expatriates of all nationalities. As staff progress through successive positions in different countries, they will contribute to the group's development while broadening their own knowledge and honing their skills.

At the end of 2005, 524 expatriates of 50 different nationalities were employed in management positions in 53 countries. 26% of these are women\*. A total of 109 people were newly transferred abroad in 2005, 40% of them were women\*.

To facilitate internal mobility, L'Oréal runs COOL (Careers and Opportunities On Line), an intranet-based job exchange. It aims to ensure employees' professional and geographical mobility runs smoothly and transparently, by giving them access to all vacancies in a particular country.

COOL was developed and launched in April 2000 by L'Oréal USA, and was introduced in France in 2002, as the pilot country for Europe. The system shows all the job vacancies available locally, with the exception of management vacancies.

Of the 407 job vacancies posted online in 2005, 172 (i.e. 42%) were filled *via* COOL\*. The group plans to extend the system to other European countries, adapting it to the cultural and linguistic environment of each country.

## SKILLS DEVELOPMENT

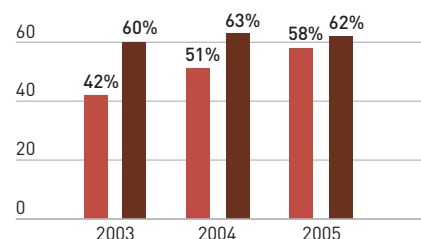
### A training offer for all is our continuous goal

In 2005, 62% of managers and 58% of all employees received training.

We have four Management Development Centres (MDC) throughout the world —in Paris, Rio, Shanghai and New York. In 2005 training paths were put into place by each MDC, to ensure that each manager in the zone has access to L'Oréal's training and development programmes.

## PERCENTAGE RECEIVING TRAINING

■ Employees  
■ Managers (average duration of training: 6 days)



720

managers received the "Transition To Team Management" programme in 2005 of which: 51% in Europe, 34% in Asia, 10% in North America, 5% in Latin America\*

### Training that delivers high quality standards

Management training is available at every step and new level of responsibility of a manager's career at L'Oréal. In 2005, the "Transition To Team Management" programme attained worldwide reach. After being co-designed and launched in 2004 by the Corporate and MDC teams to ensure global coherency while meeting local needs, the programme was run in 2005 in 20 countries. The classroom-based sessions, lead by local external trainers, are enhanced by getting the participant's manager involved both before and after the seminar and by organising follow-up sessions with external coaches. Powerful partnerships have been initiated or continue to be strengthened with leading universities worldwide to provide the best in training. Examples include CEDEP (INSEAD campus), Cranfield University UK, CEIBS Shanghai, ITAM Mexico.



## Apprenticeship facts and figures in France

### A REAL COMMITMENT SINCE 1993\*

- 2,251 apprentices taken on by L'Oréal
- More than 1,500 voluntary instructors

### IN 2005\*

- 566 apprentices taken on during the year
- 349 apprentices at 31.12.05, i.e. 3% of French workforce

In 2005, L'Oréal affirmed its commitment by signing the *Charte de l'Apprentissage*, a training charter drawn up by the Institut de l'Entreprise that applies to trainees recruited in France and underscores the importance of key points such as:

- raising the profile of instructors with an instructor's certificate and a specific 3-day training course,
- when apprentices are taken on, showing respect for the diversity of French society, particularly cultural and ethnic diversity, at all levels of qualification,



- cooperation between training organisations and companies with a view to improving skill levels among young people.

### A POLICY OF DIVERSITY

All levels of qualification (from a basic vocational diploma to a PhD) and all job types (secretarial, research, industry, management, sales and marketing, communications, human resources, IT) are represented.

### ON TRACK FOR EXCELLENCE

- 82% of apprentices were working towards diplomas awarded after at least two years of university-level study\*
- More than 80% success rate in examinations since 1998\*
- 25% of qualified apprentices taken on\*

## Maintaining our high level of expertise and know-how

Professional expertise training is essential to prepare our teams for a constantly evolving market. Overall, 58% of employees received training in 2005, including a minimum of 6 days for managers. Key programmes included:

■ **"Luxury Energies"**: launched in 2005 for the Luxury Products Division, this programme is designed to develop each individual's awareness of luxury and enrich the Division's strategy. It consists of monthly events, conferences and visits related to an annual overall luxury theme,

■ **marketing**: with the aim of optimising the expertise available in each division, the parts of the marketing seminars that were common to all Product Managers were merged into one. The marketing seminars are now split into a 3-day joint module followed by a 2-day division-specific module,

■ **industry**: the ambitious project, ISIS, which consists of putting SAP into place in all 22 factories in Europe and North America by

the end of 2008, got underway in 2005 with a pilot factory in France. Training prepares employees for important changes in their work methods: for each factory, this means 8,000 hours of training over a two-month period and an average of 4 days' training per employee,

### ■ management programmes strengthened, to further develop teams and talent

Management: the "Transition To" management development programmes, which support managers as they make the move from one managerial level to another, were enriched in 2005 with the introduction of "Transition to Advanced Management" (TAM). Built in partnership with Cranfield University UK and Fundação Getulio Vargas Brazil, this seminar aims to prepare managers when they join a Management Committee or similar position. Specific development actions to help Executives deal with complex situations:

- "Re-Source" Programme: seminars and conferences on fundamental questions relating to general management responsibility and L'Oréal's activity,

- Global Learning Alliance: a programme built jointly with four other multinationals, - the L'Oréal way of learning in the workplace reinforced: encouragement for managers to adopt our management development practices and by the implementation in each country of the "L'Oréal FIT" integration programme, which is rooted in these same practices.

## Welcoming apprentices: a strong commitment

Welcoming and training young apprentices is a long-established tradition at L'Oréal. In 1993, L'Oréal extended its youth training programme by introducing a selective, qualitative training policy.

Apprenticeship is a real resource for integrating young people into the working environment and managing human resources and diversity within the company that combines theoretical training in a centre and initial work experience in order to obtain a graduation.



*The individual is at the heart of the L'Oréal's development.*

## A REMUNERATION AND WELFARE POLICY THAT IS MOTIVATING FOR EVERYONE

For L'Oréal, the individual is at the heart of the company's development. Our success depends on the quality of our employees and we take steps to enable the individual to share in the group's growth.

### Applying transparent principles

L'Oréal has implemented a clear remuneration policy that recognises individual performance, is transparent for all employees, and is based on an appraisal system standardised all over the world.

### Recognising individual qualities

L'Oréal offers competitive remuneration designed to attract and retain talented individuals. Remuneration is linked to the job yet also takes into account potential. The careers and remuneration of all employees are monitored on an individual basis.

## A share in the achievements of all

As well as rewarding individual achievements, L'Oréal has chosen to have its employees benefit from the achievements of all.

In France, a profit-sharing scheme was set up in 1988. The amounts distributed in 2005 represent 18% of total employee remuneration in France. 66% of this profit-sharing portion of employees' remuneration was voluntarily then invested in L'Oréal shares\*.

A scheme called the Worldwide Profit Sharing Plan (WPS), introduced in 2001, is set to become a mainstay of the group's remuneration policy. Since 2001, we have been rolling out the scheme in practically all the group's subsidiaries (55 countries) with the formation of Country Steering Committees whose role is to develop, at the local level, common principles and define the practicalities of implementation. With WPS, the group hopes to strengthen its employees' sense of belonging and increase their motivation.

In 2006, L'Oréal plans to pay out a total of €49 million in bonuses under the WPS scheme for the 2005 financial year, an

increase of more than 22% at comparable exchange rates. In 2006, L'Oréal has set the target for the vast majority of countries to pay their employees who achieve all their targets the equivalent of 3.5 weeks' salary\*. We hope to be able to raise this to 4 weeks in future years.

## Benefit programmes to protect employees and their families

L'Oréal aims to offer one of the best benefit programmes to employees and their families. This aims to complement local social security and mandatory programmes to provide support against the financial risks related, for example, to retirement, death, disability and medical expenses. The group has established an International Benefits Steering Committee to ensure proper coverage is offered to all employees.

In 2005, the group undertook an exhaustive review of the death and disability benefits offered by its subsidiaries to ensure that all its employees are covered.

## Guaranteeing minimum salaries

In the vast majority of countries, the minimum salaries paid are well above the legal minimum wage (national, regional or linked to collective agreement).

## AN ONGOING DIALOGUE ON ALL LEVELS

The quality of the "social climate" within the group is the result of an ongoing dialogue and the pursuit of a consensus between management, employees and their representatives. These exchanges are facilitated by decentralised structures of representation, both legal and informal.

In France, there are 91 bodies with 1,038 representatives, including works councils and works committees, workers' representatives, union representatives, CHSCTs, the group Committee (France) and RIEDS. The matters dealt with by these bodies range from local issues to examination of the consolidated financial statements by the group Committee\*.

## Promoting social dialogue at the European level

In 1996, an agreement was reached between management and the relevant French and European trade unions (FECCIA and EMCEF), relating to the creation of L'Oréal's European social dialogue body Instance Européenne de Dialogue Social (IEDS). This agreement has been continually renewed ever since. The purpose of IEDS is to inform and discuss with staff representatives L'Oréal's current situation and prospects for economic, financial and social development. It currently has 30 members who all receive training in economic and labour-related matters. Following the enlargement of the European Union in 2004, IEDS covers 21 countries. A total of just over 24,000 employees are involved in IEDS\*.

## WORKING CONDITIONS

### Looking after employees' health

Keeping our employees healthy is always a priority for L'Oréal. Whether it is a question of accidents at work or occupational ill-health, the group intends to pursue the implementation of preventative measures, namely:

- removal of biomechanical causes by phasing out packing lines involving a lot of manual intervention,
- stepping up awareness and training initiatives for employees and management,
- carrying out job and design ergonomics studies,
- dissemination of best practice,
- personalised health monitoring.

This commitment also relies on the introduction of indicators relating to health and working conditions. Since the plenary meeting of the IEDS in 2001, the number of occupational diseases in Europe and the means employed by the countries to reduce the number of cases have been monitored on a yearly basis. This is in line with the continuous improvement approach that L'Oréal adopts with respect to employee health.

In 2005, the group introduced for the first time a global indicator to monitor the rate of absenteeism covering 50 countries (out of a total of 58) and 95% of employees. The overall

rate of absenteeism was shown to be 4.4% (includes leaves of absence and maternity leave) and the sickness rate 2.6%\*.

### A great place to work

The result of this human resources and social policy is illustrated by the ranking published by the American Great Place to Work Institute in 2005. Thus, in France, out of the 50 companies assessed using a questionnaire mainly filled out by the employees themselves, L'Oréal was ranked in 4<sup>th</sup> position of the companies that are great to work for. The group was both the first French company and the first manufacturing company in the ranking.

## SUPPLY CHAIN LABOUR STANDARDS AUDITING

### OUR LABOUR STANDARDS

As part of L'Oréal's commitment to the principles of sustainable development, we require our suppliers to maintain good labour standards in their operations. This is communicated *via* our standard contract with suppliers, known as the General Terms and Conditions for Purchase and Payment, which contains clauses requiring suppliers to abide by the fundamental ILO Conventions on child labour, forced labour, discrimination and freedom of association, as well as abiding by local laws. Suppliers are required to ensure that these standards are maintained by their subcontractors.

We make sure that these standards are upheld through the use of independent audits. Since 2002, Bureau Veritas and Intertek, experienced and impartial auditors, have carried out 152 independent audits of our suppliers to monitor compliance. These audits are unannounced within a notified period of 30 days, and consist of plant inspection, review of documents and employee interviews, using criteria based on the main principles of SA8000 social accountability standard. At the end of the audit, any shortcomings found are discussed with the managers of the plant, and corrective actions suggested.

Where significant violations are found, no new work is awarded to the supplier until a further audit shows that corrective action has been taken. In the rare circumstances that substantial violations are found, such as child labour, trade relations are terminated until a further audit shows that standards are acceptable. In the case of child labour, we have a process for asking for evidence that the child has been returned to education and that the job has been offered to an adult member of the same family.

### TARGETS

In 2006 we have a target of commissioning more than 200 further social audits, plus follow-up audits.

Supply chain labour standards and our social audit programme have been and will continue to be communicated worldwide during our international meetings for managers and directors involved with suppliers, i.e. Technical Directors, Logistics Directors, Purchasing Managers, Packaging Development Managers, and Quality Managers. The information and follow-up of the programme will be communicated to the Board of L'Oréal.

At the beginning of 2006 our procedure and standard letters used to communicate our auditing process to suppliers were improved and translated in 4 additional languages. All information, documents and contacts are shared worldwide within the group *via* a specific intranet platform.

We are also introducing guidelines for buyers on best practice in purchasing, to ensure that request for quotations are made only to audited suppliers and that new business is awarded to suppliers who comply with our requirements.

This year we have set up an internal database of audit results, so that our buyers all over the world, in addition to those within the Corporate Purchasing Department, can instantly check whether a supplier has already passed our audits. We expect this to become an essential tool in making purchasing decisions.

We have consulted a leading international human right organisation on our labour standards programme and will continue working with them going forward.

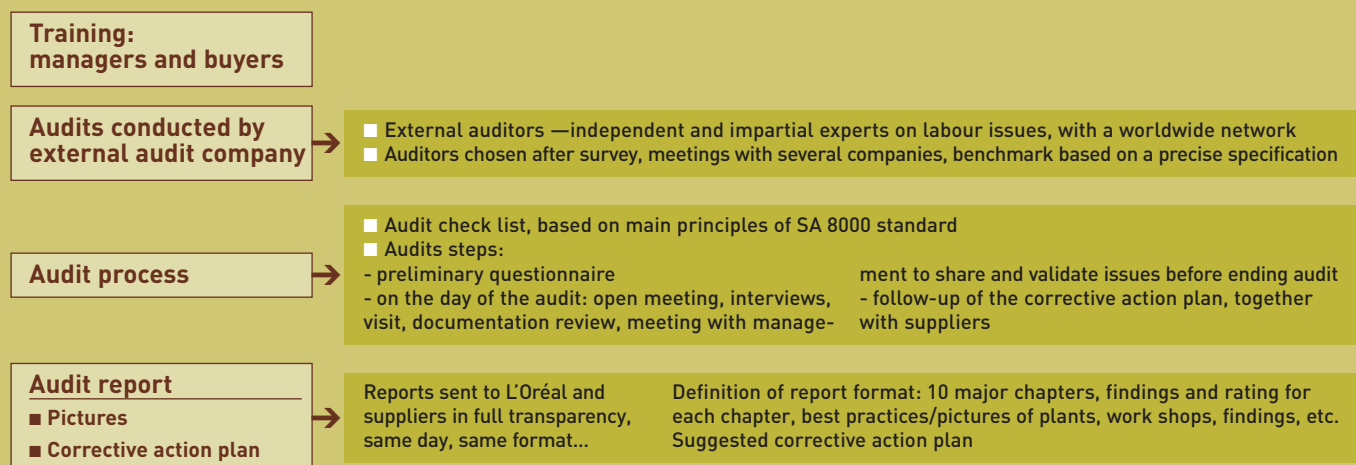
# IMPLEMENTING OUR SOCIAL RESPONSIBILITY PROGRAMME WITH OUR SUPPLIERS

## THE PLATFORM WE HAVE BUILT

### INFORM AND COMMUNICATE



### AUDIT



### FOLLOW UP

Audit results classified according to a rating scale	AUDIT RESULT RATING SCALE	NON-CONFORMITY	ACTIONS
→	"SATISFACTORY"	No non-conformity/best practices	Both commercial and production relationship go on
	"NEEDS IMPROVEMENT"	Isolated issues/continuous improvement	Both commercial and production relationship may go on Re-audit to be planned
	"NEEDS MAJOR IMPROVEMENT"	Major and recurrent issues	Interruption of commercial relationship Re-audit under 60 days maximum
	"ZERO TOLERANCE"	Child labour <16 years/concealed, forced, prison, dangerous labour with immediate life threat "Access denied" or "Needs major" twice consecutively	Interruption of all relationships (both commercial and production) Formal follow-up of children whenever stated
	"ACCESS DENIED"	Total or partial "Access denied" to some documents, workers/some parts of the plant, etc.	Re-audit to be planned as soon as alert received 2nd "Access denied" = zero tolerance

### MONITOR





## OUR OBJECTIVES FOR 2006



■ Worldwide internal communication to managers and directors who deal with suppliers, from development of new products to production, e.g. at international meetings of:

- Packaging Development Managers
- Industrial Technical Directors
- Purchasing Managers
- Quality Managers
- Logistics Directors
- L'Oréal Executive Committee

■ Create a intranet platform to share real time information worldwide within all teams involved in the programme

■ Communicate and share our values to suppliers worldwide: translation into 5 languages of our documents for communication to suppliers



Since 2002, 152 audits conducted, including 33 follow-up audits, in 8 different countries.

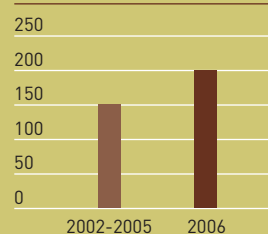
Group decision to extend our social audit programme of our suppliers and subcontractors in 2006 to cover:

- suppliers of packaging components, raw materials, and promotional items based on a list of high risk countries
- 100% of our factories and distribution centres and 100% of our subcontractors

L'Oréal aims to commission at least 200 social audits in 2006

### SUPPLIER SOCIAL AUDITS

Number of audits



L'Oréal is committed to progress on labour and social standards at all stages of the production process —at our own sites, and in our supply chain— at suppliers of our packaging, raw materials and promotional items.



Raw materials



Packaging



Production



Finished product



Promotional item

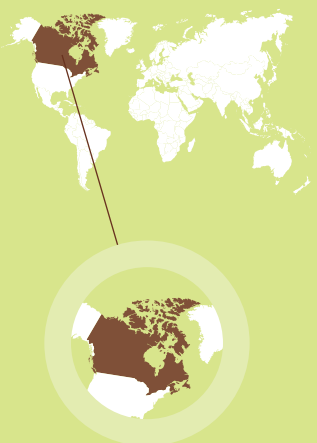
ENCOURAGING CONTINUOUS IMPROVEMENT OF OUR SUPPLIERS, WITH FOLLOW-UP AUDITS...

Saint-Laurent plant (Canada).



## L'ORÉAL'S COMMITMENT... TO REDUCE ENERGY CONSUMPTION

Every year, L'Oréal recognises five sites for their outstanding SHE achievements. This year, the award for the Best Environmental Initiative was won by our factory at Ville Saint-Laurent, in **Canada**, which carried out an assessment to identify where energy currently being lost could be reused. As a result, the hot waste water from cleaning mixing tanks, and heat generated by compressors are both now used to heat new washwater. We hope investment costs will be recouped in 18 months, and plan to use this approach elsewhere.



# SAFETY, HEALTH AND ENVIRONMENT

L'Oréal is committed to achieving excellence in our safety, health and environmental performance. We are constantly striving to reduce the number and severity of accidents and to diminish our impacts on the environment.

## SUMMARY OF ACHIEVEMENTS AND GOALS

› We believe overall that we have had a good year of SHE performance in 2005. Our key accomplishments for 2005 were:

- reducing the lost time injury rate by 20.5% for L'Oréal employees, and by 36% for temporary employees,
- performing "wall to wall" risk assessments at half our facilities as part of our Safety Hazard Assessment Programme (SHAP),
- reducing our water use by 4.1% per unit of

finished product, without increasing our Chemical Oxygen Demand (COD) index for waste water,

- reducing our total energy use by 1.1% per unit of finished product this year. We have cut our electricity consumption in factories by 7.6% since 2003, exceeding our goal of 4%,
- almost reaching our goal of certifying all our factories to ISO 14001, leaving just two to be registered in 2006,
- implementing a new data reporting and management system including new key performance indicators,

■ continuing our roll-out of a SHE management programme for administrative sites.

› We regret missing targets in the following areas:

- 19 of 42 factories and 20 of 75 warehouses had a lost time injury rate above our target of 2.5 per million hours worked,
- we produced more waste per unit of finished product, mainly due to the increased use of imported components whose shippers use more packaging than local suppliers.

► Our major SHE goals for 2006 are to:

- reduce our lost time injury rate by a further 24% to 2.5 per million hours worked for all industrial sites,
- perform “wall to wall” SHAP risk assessments at all sites not assessed within the last two years,
- produce a noise map for each factory for all areas above 80 decibels,
- reduce total energy use by 5% from 2004 per unit of finished product at factories and warehouses,
- reduce our direct carbon dioxide (CO<sub>2</sub>) emissions by 2% per unit of finished product from 2004 levels at factories and warehouses,
- reduce water consumed in factories by 10% per unit of finished product from 2002,
- reduce waste generated by factories and warehouses per unit of finished product by 5% from 2004 (excluding returnable packaging),
- reduce the total weight of regulated waste generated by factories and warehouses by 5% from 2005 (regulated in the producing country as ‘hazardous’).

**SHE pilot projects for 2006**

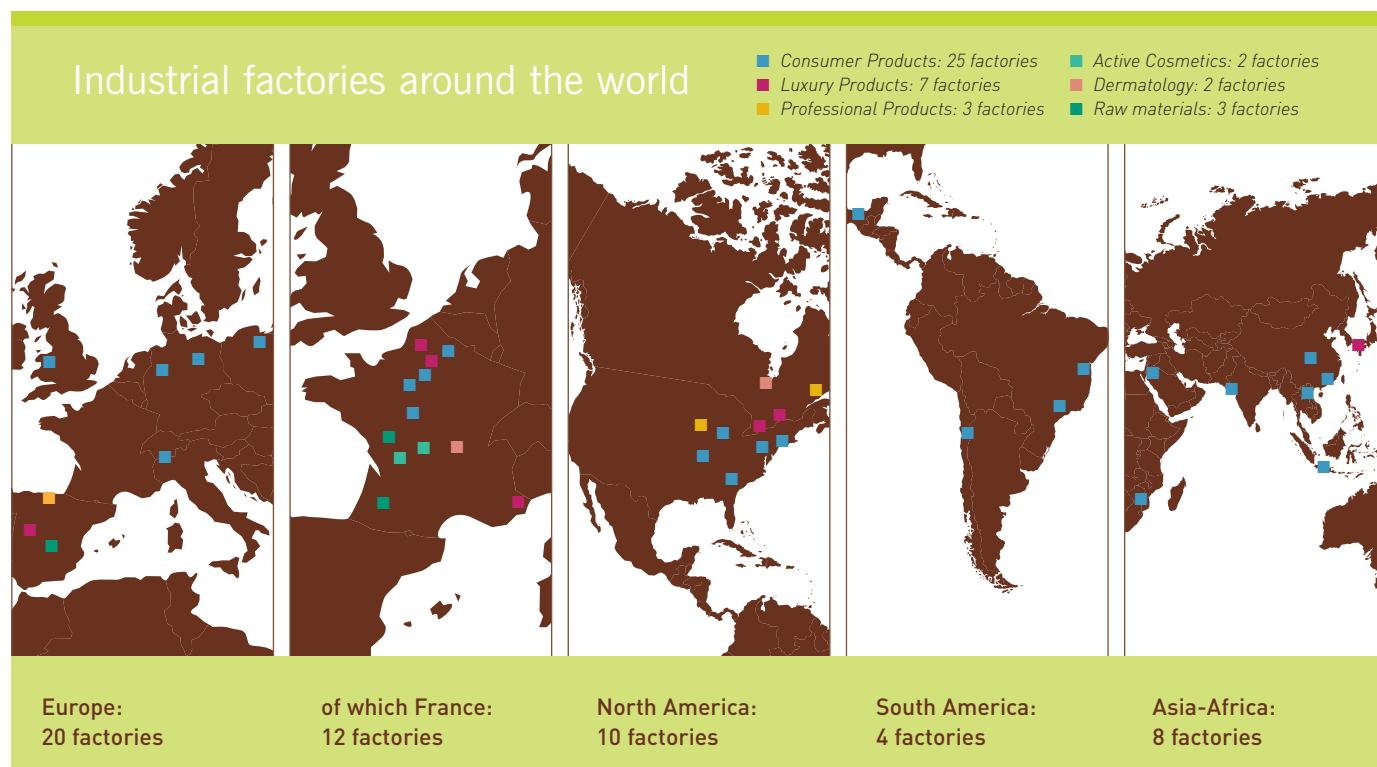
We have two key pilot projects for 2006. The first is networking with Alcan Packaging, one of our major packaging suppliers to identify ways of improving sustainability performance to benefit both companies. For example, we have been exchanging information and models of best practice on social responsibility. This joint effort has resulted in Alcan Packaging reviewing their social audit programmes both in their production facilities and at their suppliers, based on the L’Oréal model. We have also extended this networking to sharing information on SHE best practice. The second pilot is working with GEFCO, one of our major transporters to explore ways to reduce transportation impacts, in particular the generation of CO<sub>2</sub>. L’Oréal does not have its own trucking fleet, so all product transportation is subcontracted to regional, national and local transporters. Nevertheless, we are always exploring ways to reduce our transportation requirements. We hope

this pilot project will provide a model for working in each of our major production locations with transport companies to lessen these effects on the environment.

**Our operations**

This SHE performance data covers the year January-December 2005 and our performance at our 42 factories and 78 warehouses around the world. This includes Galderma, our joint venture with Nestlé.

The SHE policy and performance reporting requirements apply to all L’Oréal industrial activities (factories and warehouses world-wide). Those requirements that are applicable to administrative sites—as well as some unique requirements—will be applied to our administrative sites (offices) worldwide by 2007. Three years ago we developed a SHE self-inspection guide for these sites, and have since been implementing it worldwide.







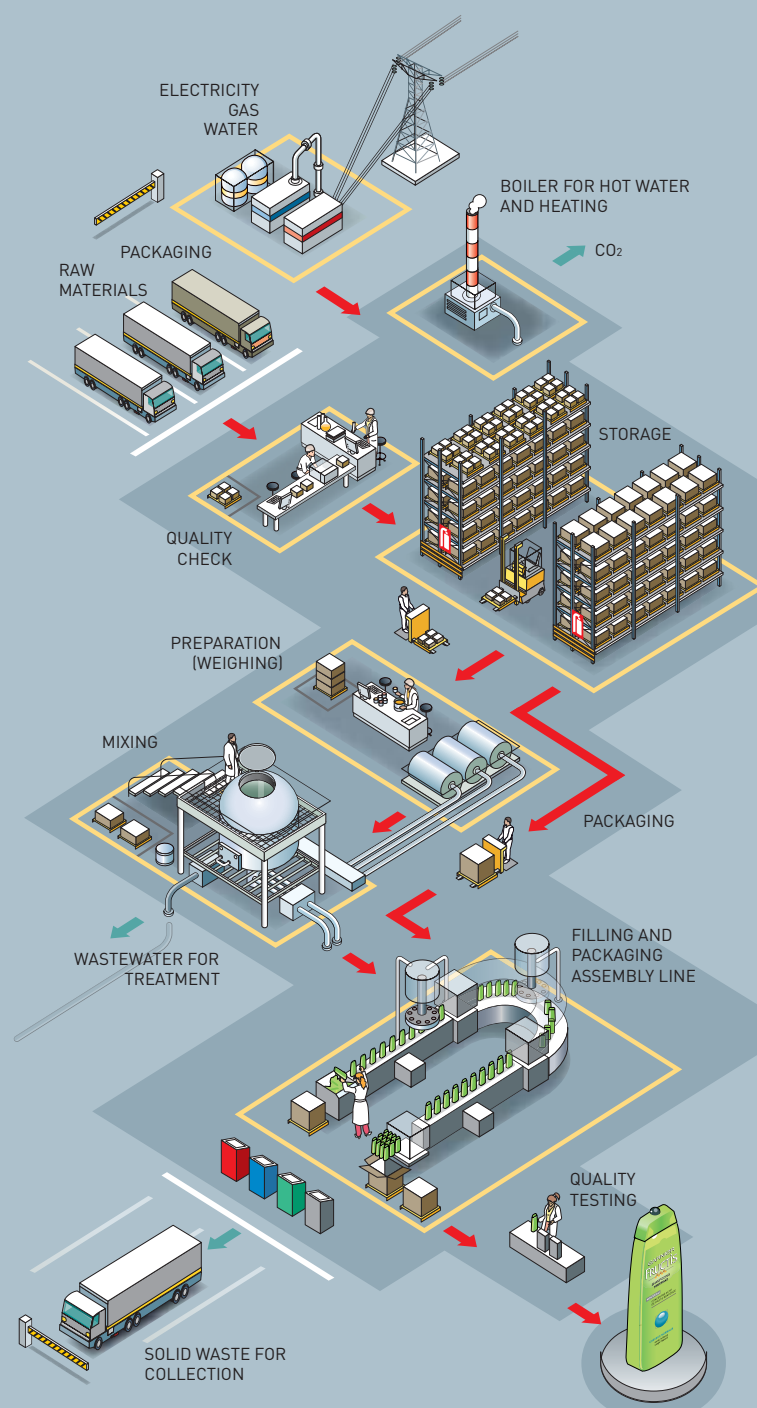
Shampoo packaging line, Rambouillet plant (France).

### The L'Oréal SHE policy

L'Oréal is committed to the development, production, distribution and sales of innovative products of the highest quality, to enhance beauty and improve well-being. We must fulfil this mission in an ethical manner, by minimising our impact on the environment and guaranteeing the safety and health of our employees, our customers and the communities in which we work. To achieve these goals, we undertake to:

- measure and publish our SHE performance,
- constantly improve all aspects of our SHE policy,
- comply with all laws and regulations in force regarding SHE, as well as internal standards, in all areas of our activities,
- promote a SHE management system both internally and among our sub-contractors and suppliers,
- promote the participation of our employees in our SHE approach,
- assess all new products and significant processes to minimise SHE risks,
- implement internal and external SHE audits,
- promote the concept of sustainable development and publish our progress in this area.

### Inputs, processes and outputs (simplified) of a typical L'Oréal shampoo factory



## ORGANISATION AND MANAGEMENT

### Organisation

The Executive Vice-President for the Production and Technology Department (DGT) has functional responsibility for SHE. He is a member of the L'Oréal Executive Committee reporting directly to the President of L'Oréal. He has a Senior Vice-President reporting to him who manages the SHE Department which is located within DGT. This Department is administratively tied to DGT but has group-level responsibilities across L'Oréal. The SHE Department is linked to each operational entity through SHE managers who coordinate the actions of local experts at each of their sites. Each Division or zone has a dedicated person or persons responsible for the management of SHE within their areas. This includes factories, warehouses, administrative sites, stores, and research. At the local level, SHE managers have responsibility for their operations. The number of people assigned this responsibility varies by the complexity of the operations and their size. For example, for a typical factory of 350 workers, 3 to 4 full time staff are usually found in SHE department, while administrative sites typically have one person assigned this responsibility on a country wide basis.

#### › The DGT SHE Department is responsible for:

- worldwide technical assistance in Safety, Industrial Hygiene and Environment,
- the technical supervision of experts and SHE specialists at all levels of the organisation on all sites and locations,
- developing and monitoring the application of internal standards and best practice through auditing and other measures,
- providing technical training on SHE matters,
- measuring and publishing our SHE performance internally.

#### Coordination with the Director of Sustainability

In 2005, the Department of External Affairs took over the management of Sustainability, previously the responsibility of the Production and Technology Department. The SHE Department maintains an active partnership

with the new Director for Sustainability and the Sustainable Development Steering Committee. For example, we have appointed a dedicated member of the DGT SHE department as responsible for sustainability. This person is responsible for producing a sustainability newsletter which is published quarterly and distributed throughout L'Oréal, and works on new sustainability initiatives.

### Sharing best practice

The SHE department organises many activities to share SHE best practice internally. This includes quarterly all day meetings in Paris of all regional SHE managers worldwide for factories and separately for warehouses. These meetings include a review of SHE performance, current issues and new initiatives. The SHE department also has a number of ongoing task forces comprising these members for the development of new standards, best practices, and technologies. Quarterly training sessions are held for new SHE staff to familiarise them with SHE management. Finally, a three day worldwide SHE conference is held every two years. We also participate in many technical organisations which allows for learning, benchmarking and sharing of best practice. Many of these organisations are international in their scope, such as the Conference Board (Health & Safety and Environmental Councils), International Occupational Hygiene

Association, World Business Council on Sustainable Development and others. We take part in quarterly meetings with the worldwide SHE managers of other multinationals to share best practice and compare our SHE performance data.

### SHE management systems

L'Oréal makes use of several different but internationally recognised SHE management systems including OHSAS 18001, the Occupational Safety and Health Administration Voluntary Protection Programme (OSHA VPP) in the United States, and ISO 14001.

As of March 2006, all but two factories were fully ISO 14001 accredited. The remaining two sites are expected to achieve their accreditation in 2006 thus fulfilling the goal set in 2003 to have every L'Oréal factory accredited. Six of our seven factories in the United States are in the OSHA VPP. This is a government supported management system that includes very strict entrance and performance requirements representing the best of the best in safety and health management. The remaining factory not in this programme is in the process of applying. This programme is available only in the United States. We are ahead of the public commitment we made three years ago to have all of our manufacturing sites in this programme within five years. In Europe, Africa and the Middle East, 15 of our 23 factories are registered to OHSAS

*100% factories certified to ISO 14001 by 2006, Piscataway plant (United States).*



18001 H&S system. The others are in Divisions that have chosen to use other systems, while our Asia factories use our internal standard. Whatever the safety and health management system chosen by the operating zones or Divisions, all sites must conform to the group standards for safety and health management.

#### ➔ TARGET

**For all factories to be in the OSHA VPP (United States only) or certified to OHSAS 18001 by 2008**

#### SHE risks

The cosmetics industry has a limited environmental risk profile, especially when compared to other industries. The majority of processes are essentially mixing ingredients approved for human use at atmospheric pressures and under low heat conditions. Nevertheless, there are risks as there are in any manufacturing and distribution operation. Some of the key aspects of these are discussed below:

■ fire is the single most significant risk, principally from alcohol used in products. Propellant gases used in aerosols, cosmetic powders with explosion sensitive components, hair bleach oxidants and solvents used in nail polish also present fire risks.

We control these risks with very strict internal standards for fire protection (we follow National Fire Protection Association-NFPA standards of protection worldwide), mandated safe practices for fire risks and a comprehensive inspection programme. As a result, we are considered a relatively low risk by our insurers,

■ chemical storage—from fuels and other chemicals stored underground and above. Underground fuels storage is quite limited, typically hundreds of gallons or less, and mostly for emergency generators, emergency pumps for fire fighting, and fuel in a few cases where there is no access to natural gas. Alcohols used in the manufacturing process, such as denatured ethanol and isopropanol, are also stored underground, presenting a very limited environmental hazard. All underground storage is strictly monitored for leakage. Storage of other liquid chemicals (for example, 20% aqueous ammonia) is generally in above ground tanks with concrete containment. Any materials or chemicals that are toxic (human or environmental), reactive, corrosive, or flammable are segregated and placed in containment. All sites undergo environmental due diligence before being bought or sold as well as involvement in our auditing programmes discussed later.

Four sites in Europe are closely regulated by the requirements of the EU Seveso Directive for the control of major accident hazards, due to the storage of chemicals. One of these sites

is a warehouse used exclusively for the storage of aerosol products containing flammable gases. This site has state of the art fire protection that is considered a model for Europe. There are other environmental risks such as flooding and the loss of our waste treatment operations for some factories. In this regard, all sites have on-going continuity and contingency planning to reduce these risks and to be able to maintain our operations. We consider historical risks from previous operations as negligible.

#### New investment SHE impact assessment

We have an internal standard which requires all manufacturing investments above approximately half a million euros to be reviewed and formally accepted for their impacts on safety, health and environment. No funding of such a project is permitted without this approval. Additionally, a risk assessment by an outside expert party is required, unless a standard design is used.

*Firemen Brigade, Franklin plant (United States).*







Fork lift truck driver's training, Midrand plant (South Africa).

## SHE management tools and training

A comprehensive set of manuals and training ensures that our employees are trained in SHE best practice. These include the following:

- the RIO and RIS are in-house documents that set out our internal standards on SHE. For each subject (for example, for the general instructions in an alert or for controlling pollution hazards for soil and rainwater), they define the responsibilities, the information systems, training, and measures for improvement to be implemented, as well as the means for monitoring results. In most cases, these internal standards are much more stringent than the prevailing legal requirements. Both our internal requirements and all legal requirements must be met unless they conflict, and the most stringent one applies. We have more than 80 internal standards, on issues such as storage and handling of ammonia and aerosols, machine safety, workplace atmosphere monitoring and carrying out SHE impact assessments for new investments,

## L'Oréal SHE awards

The **SHE awards** are in-house prizes designed to motivate employees to improve risk management and contribute to environmental protection. The purpose of the awards is to foster continuous improvement and encourage initiative and consistency. There are awards in five areas:

- **SHE excellence, best performance beyond our stated SHE goals (factories and distribution centres):** Karlsruhe factory, Germany.

- **The best safety and health initiative (factories):** Soprocos Saint-Quentin, France.

- **The best environmental initiative (factories):** Ville Saint-Laurent, Canada.

- **The best safety, health or environment initiative (distribution centres and office buildings):** San Agustín distribution centre, Spain.

- **The best community involvement (any site):** Suzhou, Pudong and Yichang factories, China.

These three factories are sited on the heavily industrialised Yangtze river, and set up an initiative to raise awareness among local schoolchildren of environmental problems and conservation of biodiversity, the white dolphin in particular. Around 6,500 children participated in the 'Save Mother River and Save the White Dolphins' initiative.



■ our Safety, Industrial Hygiene and Environmental References provide internal best practice guidelines. These cover issues such as planning for emergencies, water consumption, prevention of biological hazards and ergonomics,

■ technical training programmes: the DGT SHE Department carries out a number of technical training programmes including a hands-on three day regional training programme in industrial hygiene, a three day programme in industrial ventilation, a three day training programme in wastewater treatment, risk assessment (SHAP, see below) training programmes and a number of others. E-learning programmes have included noise, warehouse safety, environmental sensitisation and others,

■ our Safety Hazard Assessment Programme (SHAP) is a risk analysis programme for prevention of accidents and adverse events which assesses the risk of the hazards *via* an analysis performed by managers, supervisors and workers in a formalised process of risk assessment. It provides an estimated risk profile of operations throughout our manufacturing and distribution facilities,

■ training to raise awareness of SHE issues. Modules for raising employees' awareness of safety, health and environmental problems and sustainable development are incorporated into the group's training programmes so that everyone who joins the company is involved regardless of their job. L'Oréal is committed to an ongoing training approach, notably to maintain the ongoing vigilance of its employees and to improve its specialists' expertise. For example, an "Environmental Awareness" e-learning module was developed in 2004. This module targets all employees and explains the rules and best practices implemented at L'Oréal, and the role of each person in this area. Similarly, information about SHE initiatives carried out and the results obtained is disseminated within the company as a matter of course, particularly *via* internal publications such as "En Direct", the group intranet site, videos, and CD-ROMs.

#### Data collection – A new system

SHE performance indicators are collected monthly by all manufacturing and distribution sites. More than 100 measures are

collected monthly and reported: the most important of which can be found later in this section. The data are distributed to senior management, the zone or Division Directors for manufacturing and distribution, their SHE managers, and a number of other interested parties. Actual performance *versus* established goals are shown monthly as well as the other statistics. Therefore every senior manager knows their exact progress monthly as well as their benchmark against the other reporting groups. The remuneration of factory and distribution SHE managers is linked to SHE performance.

Over the last two years, we have implemented a new worldwide data collection and reporting system developed by an outside party. This new system allows for data entry *via* our intranet, verification at the zone or Division level, review of data at all levels by all sites for transparency, and the generation of reports at all levels. Several new indicators have been added, for example, an overall lost time accident rate frequency that includes temporary workers in the frequency rate, more details on waste generation, and the number and types of community complaints or government fines.

#### Auditing

A comprehensive group auditing programme for industrial sites has been in place for more than ten years to regularly assess risk and progress in terms of SHE management and performance.

In addition to the group level auditing programme, there is an active programme for inspections and audits on a zone or Division basis. Audits are also performed by our insurers (50 fire and environment audits in 2005), by ISO auditors (ISO 14001 and OHSAS), government agencies and others.

At the group level, our factories are audited for an average of one week by teams of between 4 and 7 experts for local SHE legal compliance, compliance with group standards and best practices. Outside consultants perform about a third of these audits as part of our programme. Normally, about one quarter of the plants are audited each year, which means that each plant undergoes an in-depth inspection approximately every 4 years. For each audit, a detailed report

is prepared with risk ranked recommendations. Actions plan to resolve any deficiencies found are prepared following the audits. Due to the significant number of ISO 14001 audits performed by SGS and other external auditors in 2005, we reduced our internal auditing programme to 7 factories (about 60% of our normal level). In 2006, we will resume our normal level of a scheduled 12 audits of our 42 factories.

#### Social audits

Social audits (see pages 37-39) carried out at our sites and those of our suppliers and subcontractors include key aspects of safety, industrial hygiene and environmental performance. These audits are independent of the audits described above and vary in intensity based on countries or locations considered 'at risk'. Suppliers or contractors with significant SHE issues to be resolved are referred to our technical experts who assist in resolving these issues or decide to no longer buy from them. Major subcontractors producing L'Oréal products also undergo quality audits which include SHE elements.

100%

factories certified to  
ISO 14001 by 2006

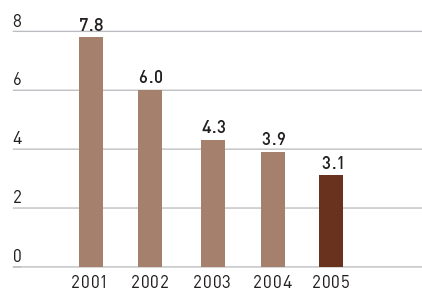
100

More than  
SHE measures are collected  
monthly and reported internally

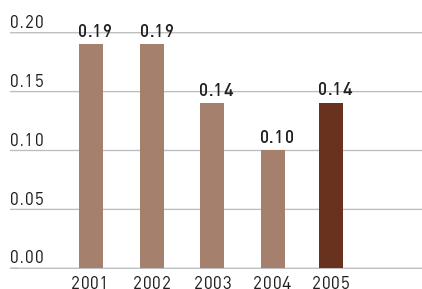
Every 4 years

an in-depth inspection  
of each plant

## LOST TIME INJURY RATE



## INJURY SEVERITY RATE



## HEALTH & SAFETY PERFORMANCE

We are committed to a safe and healthy workplace at L'Oréal. In this regard, we have dramatically reduced our lost time injury rates over the last 5 years by more than 60% as well as our severity rate by more than 26%.

› **The lost time injury rate** represents the number of L'Oréal personnel involved in an accident (absent from work on the day after the accident) per million hours worked. This indicator is for L'Oréal employees: temporary employees are measured separately. Our target for 2005 was for every factory and warehouse to be at a lost time injury rate of 2.5 or less, which corresponds to the OSHA industry benchmark rate of 0.25 per 200,000 hours worked. While 13 of 42 factories and 51 of 75 distribution centres had no lost time injuries in 2005, we unfortunately missed the target, with 19 of 42 factories and 20 of 75 warehouses over this target rate. For some of our smaller sites, a single accident in a year results in exceeding the goal. Nevertheless, we have restated this goal for 2006, driving to our ultimate goal of no lost time injuries.

## TARGET

**2006: lost time injury rate  
≤2.5 per million hours worked  
Long term target: zero accidents**

› **The injury severity rate** expresses the number of days lost by L'Oréal personnel (as a result of accidents at work) per 1,000 hours. Despite reducing the lost time injury rate for L'Oréal employees by 20.5% and by 36% for temporary employees, our injury severity rate index increased by 40%. The increase was mainly due to a few long term back injuries. Since we have fewer accidents, just one or two injuries involving long-term absence from work can have a very significant effect on this rate. Our focus is to reduce the number of accidents while at the same time also reducing the number of days lost. The vast majority of our accidents involve minor cuts and sprains, and we have not had any life-threatening injuries or the loss of limbs or other very serious injuries. We have had no employee, temporary employee or contractor or subcontractor deaths in 2005.

Suzhou plant (China).



## Awards around the world

In 2005, our factory in **Clark, New Jersey** won nine New Jersey Governor Safety Awards for its outstanding safety record. The site also was recognised by an award from the US Department of Labor for participation in "10 Years, Outstanding Worker Safety and Health Protection" in the OSHA STAR Programme.

Our SHE team at our **Suzhou site in China** won the 2005 Best Safety Production Model Team of Suzhou City award from the Suzhou Administration Bureau of Work and Suzhou Communist Youth League Committee.

## ENVIRONMENTAL PERFORMANCE

### Energy consumption

Our principle energy sources are natural gas, electricity and some light fuel oils. Our policy is to use natural gas where available since it is a cleaner fuel, and we use natural gas in 33 of our 42 factories and approximately 62 of 75 warehouses.

#### Fuels

Natural gas and fuel oils are used in our factories for:

- building heat —about 40% of total use. As would be expected, our heating consumption is highly dependent on weather conditions,
- the heating of water —about 60% of total use— to produce steam and hot water for washing and sanitisation,

- in our warehouses, all fuel use is for building heat (all but a few of our forklift trucks are electrical in both warehouses and factories). We are working on techniques and technologies that allow for lesser volumes and lower temperature hot water for washing and sanitisation since energy use has both financial and environmental consequences. Cogeneration for our factories is not economically feasible due to the small size of our boilers —we are well below the European standards of 20 megawatts for mandatory CO<sub>2</sub> reduction plans.

We have installed alternate energy sources where feasible. For example, we have a new geothermal heating system for our new research centre south of Paris. This demonstration project is expected to save more than 45,000 tonnes of CO<sub>2</sub> equivalent emissions.

### Goal setting

We use eco-efficiency goals where applicable, which measure our environmental impacts per unit of finished product (FG). Ratios based on other measures such as sales can be misleading since they can be affected by other factors such as average sales price per unit.

SHE goals are annual unless better managed on a longer term basis, for example where capital expenditure and the installation of equipment is required. Our goal for ISO 14001 registration was over three years, whilst we have annual, but escalating goals for water and electricity consumption.

### Electricity

We use electricity for the operation of machinery, pumps, compressors, lighting, ventilation, safety devices, operation of computers and other common uses.

We have an ambitious worldwide programme to reduce electricity use and to promote renewable energy.

Various studies using outside experts have/are being carried out in the majority of our factories to find ways to reduce our use of electricity.

At some locations, solar panels have been installed and we are working with local energy suppliers to find other means of obtaining renewable sources for both environmental and financial reasons.

### High standards around the world

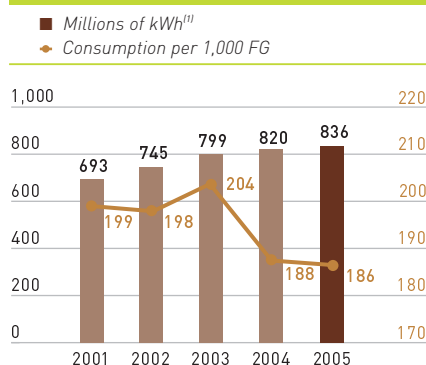
The factories and warehouses with zero lost time injuries are located in Australia, Belgium, Brazil, Canaries, China, Denmark, France, Germany, Ghana, Greece, Guatemala, Hong Kong, Hungary, India, Italy, Israel, Japan, Latvia, Morocco, Poland, Portugal, Romania, South Africa, Spain, Switzerland, Thailand, the Netherlands, Turkey, United Kingdom, Uruguay, United States and Venezuela. The list demonstrates that we apply the same high standards for SHE around the world.

### BREAKDOWN BY ENERGY SOURCE

In millions of kWh. One million kWh is equivalent to 3.6 gigajoules.

	2001	2002	2003	2004	2005	
Electricity	306	336	355	373	378	45%
Gas	333	354	387	397	409	49%
Fuel	54	55	57	50	49	6%
<b>Total</b>	<b>693</b>	<b>745</b>	<b>799</b>	<b>820</b>	<b>836</b>	<b>100%</b>

## TOTAL ENERGY USED



(1) One million kWh is equivalent to 3.6 gigajoules.

## TARGET

**2006: 5% reduction from 2004 in total energy used per finished product**

## Performance analysis

We have made great strides in reducing our energy use and increasing our eco-efficiency. Electricity has been the historical focus since it is least dependent on weather. Our goals are difficult since they also involve conflicting efforts —as we improve safety via automation (safety devices, ventilation, etc.) the electricity demand increases. Nevertheless, we aim to improve worker comfort and safety while increasing productivity and decreasing our use of electricity.

In 2005, L'Oréal set a goal of reducing electricity consumption at factories by 4% per finished product compared with 2003. We are proud to have achieved a drop in consumption of 7.6%. We have set a new goal of a 5% total energy reduction per finished product for 2006 —for all energy and not just electricity.

As mentioned earlier, we will continue to use external experts to help us find ways to improve energy efficiency.

## Water consumption

Water is used primarily in our manufacturing operations and to a lesser extent in our distribution, research and administrative centres. Product content represents about 20% of all of our water consumption in manufacturing. Almost one third is used for cleaning of production and other equipment since we must maintain a very strict level of hygiene in all of our factories.

Approximately 9% is used for sanitary (human use) uses such as in our cafeterias and wash-rooms.

The remaining 40% is used for heating, cooling, and other uses (for example, landscaping). Water use is also related to the types of products produced (for example, a shampoo versus a powder) and number of products produced.

Since 2003, total water use and the eco-efficiency of its use have been improving.

Wind energy used by Clark plant (United States).

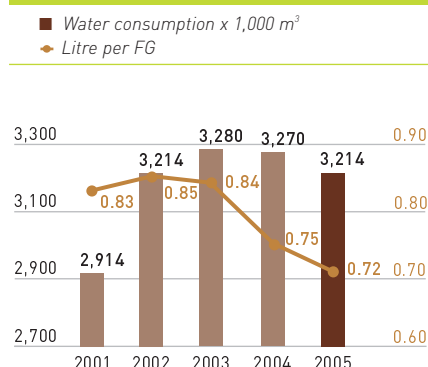
## Some examples of our energy reduction initiatives

- Our factory in Montreal, Canada won our award for the best environment initiative this year for design and construction of a system to recover waste heat from wastewater and compressors.
  - Our factory in Settimo, Italy won this award in 2003 for their implementation of a novel heat recovery project that recovers the waste heat from the boiler stacks and uses that heat for reducing the quantity of new energy required to heat water.
  - Our warehouse in San Agustin, Spain won our award for the installation of a photovoltaic system to reduce the lighting load on sunny days while maintaining safe levels of illumination.
  - Our engineering office in Clark, New Jersey, United States has implemented a motion detection system to turn off the lights in offices when unoccupied.
  - In March 2004 our Clark factory committed itself to sourcing 3% of its electricity demand —339,000 kWh— from 1.5 MW wind turbines located in nearby Pennsylvania. The incremental cost of approximately \$500 per month has been more than offset by an aggressive energy conservation programme, and an equivalent of 186 tonnes of greenhouse gases have been saved as a result.
- These examples and others have been gathered and distributed throughout the company in a best practices guide to reducing energy use.





## WATER CONSUMPTION



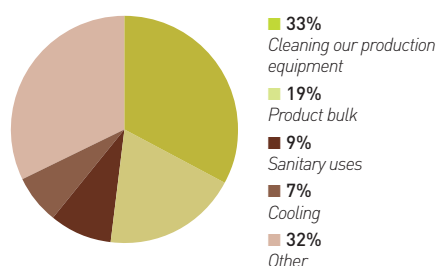
### Performance analysis

Our plants have achieved excellent water conservation results in recent years — a reduction of 15% per unit of finished product since 2002. Our target for 2005 was to cut water consumption by 8% per finished product from 2002 levels.

*Photovoltaics panels, San Agustín (Spain).*



## USES OF WATER



### Initiatives

For many years now machine-cooling water has been recycled and reused to reduce water consumption. Furthermore, several plants reuse the waste water generated by the demineralisation process for the first rinse of our vessels after being used, rather than demineralised water. This water is then sent to waste treatment. Since 2003, a special programme focussed on reducing water consumption has included the development of new cleaning technology as well as the identification and reduction of water loss.

### ➔ TARGET

**2006: 10% reduction in water consumption per finished product compared with 2002**

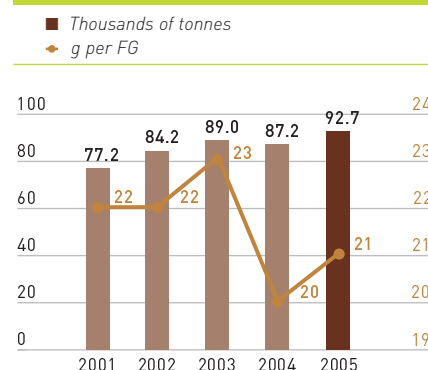
## Atmospheric emissions

Our principle atmospheric discharges or emissions consist of carbon dioxide (from fossil fuel use), sulphur dioxide (from light fuel oils), volatile organic compounds (VOC) and particles (from producing powders).

### Greenhouse gases

We generate greenhouse gas emissions mainly as CO<sub>2</sub> from the use of fossil fuels for the generation of steam and oil-fired heating of the group's buildings. In addition, CO<sub>2</sub> is generated indirectly through our electricity use, and by third party transportation of our products.

## DIRECT CO<sub>2</sub> EMISSIONS



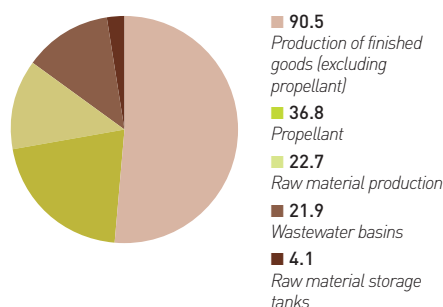
*Note: excludes indirect CO<sub>2</sub> emissions from electricity consumption and third party transportation of products.*

L'Oréal is exempt from the European regulations on CO<sub>2</sub> emission quotas due to the relatively small size of our energy requirements. However, we are committed to a voluntary approach to reducing these emissions by recommending the use of more efficient heating systems, use of techniques and technologies to reduce fuels and electricity use, reducing our transportation requirements and other means. Our targets to reduce energy use and waste should lead to a reduction in CO<sub>2</sub> emissions.

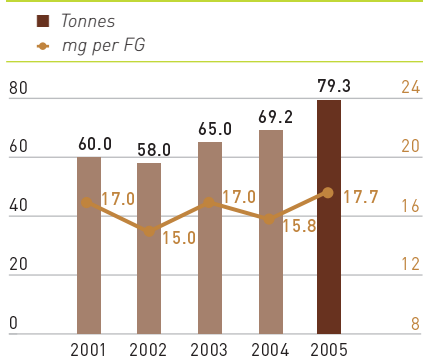
### ➔ TARGET

**2006: reduce direct CO<sub>2</sub> emissions by 2% per unit of finished product from 2004 levels**

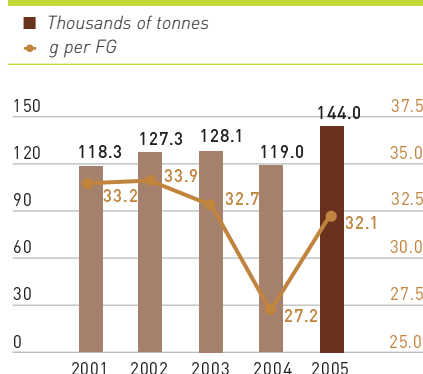
## ESTIMATE OF VOC EMISSIONS BY SOURCE (TONNES)



## SO<sub>2</sub> EMISSIONS



## WASTE



## Transport

The distribution of our products is sub-contracted. As such, CO<sub>2</sub> from transport is not part of our management accounts, as these sub-contractors have their own CO<sub>2</sub> emission reduction programmes and include their results in their reports.

Nonetheless, L'Oréal has for many years been developing less polluting transport solutions such as the adoption of combined road/rail transport methods. Some of the main initiatives in this area have been carried out on the France-Italy and France-Spain links and also for supplying northern Norway from the Copenhagen distribution centre.

For the last two years in partnership with GEFCO, EDF and ADEME, L'Oréal has been trialling three 10-tonne electric-powered lorries for the delivery of its products in Paris. However, this trial found the technology unviable, due to the low distances the lorries were able to travel. We are now working on a pilot project with one of our transport providers to reduce emissions — see page 42.

## Volatile organic compounds (VOCs)

Our VOC emissions result from the use of alcohol for fragrances and in other products, propellant gases for our aerosols (hairspray, etc.), and other sources such as wastewater effluent treatment. In 2004 and 2005, an outside expert firm was contracted to estimate our emissions of VOCs and to provide a means to continually monitor our progress in this area.

Our relative emissions sources by manufacturing activity are shown above.

VOCs are emitted when filling aerosol products, from raw materials, and evaporation from mixing products, from the wastewater basins, and from the inkjet inks used in the printing process. We will closely monitor our VOC emissions this year and investigate ways to reduce our evaporative and fugitive losses of the alcohols and gases used in our products.

## Sulphur dioxide (SO<sub>2</sub>)

SO<sub>2</sub> emissions are due to the use of fuel oil for heating. In order to limit these emissions, L'Oréal uses natural gas whenever possible. We have not set a specific goal for this emission, but expect it to decrease as a result of our efforts to reduce energy use by 5%.

## Waste

Reducing waste is a priority for L'Oréal and we set precise annual objectives at each manufacturing site. All material leaving the L'Oréal site other than in products is considered a waste, even if used again e.g. pallets. This also includes construction debris, products rejected for quality reasons, residues from manufacturing and other such wastes. However, the term 'waste' here excludes effluent and atmospheric emissions. The chart 'Waste' shows our performance in this area.

Our strategy is to minimise all solid waste and waste sent to landfill, and to recycle or recover the energy or essential content whenever possible. Our long term goal is to send zero waste to landfill. Some locations lack the infrastructure, markets or technology to allow the overall goal to be achieved in the short term on a global basis —for example, in many countries outside Europe, it is not possible to recover energy via incineration. We have had aggressive goals over the last five years for the reduction of solid wastes, especially cardboard and paper. However, our waste per finished product index has increased by 15% over the past year. We believe this is due to increased imports of components used in our products, which use more packing than materials from local suppliers. Nevertheless, we are committed to reducing this ratio and to increase our use of alternatives such as returnable packaging.

## CASE STUDY

### Zero landfill at Libramont, Belgium

The Libramont plant in Belgium has put in place best practices to enable it to achieve the zero landfill waste target. An analysis of each waste stream was carried out to identify the best recovery method. 34% of waste is reused, 48% recycled, and 18% incinerated with energy recovery.

## WASTE

In thousands of tonnes

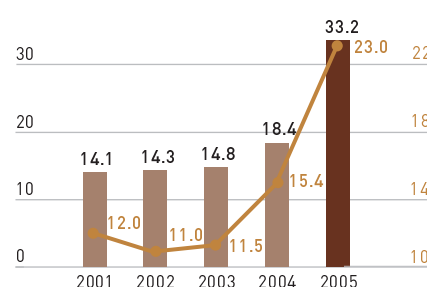
	2001	2002	2003	2004	2005	
Special wastes	34	39	40	32	36	25%
Sludges	8	10	10	10	10	7%
Returnable packaging	14	14	15	18	33	23%
Other common solid wastes	62	64	63	59	65	45%
<b>Total</b>	<b>118</b>	<b>127</b>	<b>128</b>	<b>119</b>	<b>144</b>	<b>100%</b>

Sludges are the material removed from wastewater during treatment, and 'special wastes' are those classified by local regulations as hazardous e.g. flammable waste products. Over the next year we have a target to reduce this regulated waste by 5% per unit of finished product.

In 2004, we set a target to reduce board and paper waste by 15% to 25% per finished product by 2005. This highly ambitious goal enabled all plants to reduce their waste by 9%. We also set a target to eliminate expanded polystyrene waste, and reduce the number of thermoformed trays by 20%. While unfortunately we missed both targets (we achieved a reduction of 25% and 5% respectively), our efforts continue.

## RETURNABLE PACKAGING

■ Thousands of tonnes  
◆ % total waste



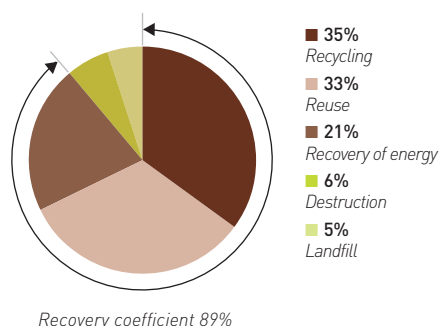
The chart 'Returnable packaging' shows that we significantly increased our use of returnable packaging in 2005 —packaging that we return to the supplier to be reused.

For example, we are moving from single use cardboard boxes to sturdier cardboard or plastic containers which can be returned to supplier and reused several times.

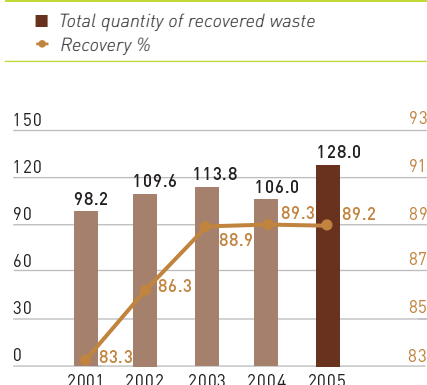
Waste recycling, Rio plant (Brazil).



## WASTE BY DISPOSAL METHOD



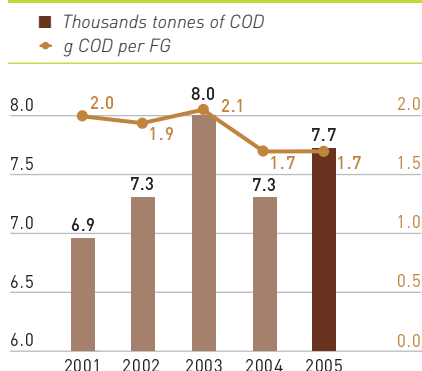
## RECOVERED WASTE



### Waste by disposal method

The fate of our wastes on a worldwide basis is shown in the chart 'Waste by disposal method'. Packaging such as wood pallets are reused. If damaged, they are repaired and recycled. We define 'destruction' as incineration without energy recovery. The recovery coefficient is the proportion of total waste that is reused, recycled or incinerated with energy recovery. We aim to continually increase this proportion.

## COD<sup>(1)</sup>



(1) Chemical oxygen demand (COD) is the amount of oxygen needed to oxidise all the pollutants contained in the effluent—a commonly used indicator to measure the properties of waste water.

This indicator concerns only industrial effluents from factories. The distribution centres do not discharge any waste water other than that resulting from the normal activity of an inhabited building (sanitary wastes) and are not therefore included in this indicator. 'Tonnes of COD' is calculated by multiplying the concentration (mg/l) by the number of litres of effluent generated.

Pre-treatment waste water basin, Rio plant (Brazil).



## TARGET

**Long term target: zero landfill for all sites**  
**In 2005, 48 of our 126 sites achieved zero landfill i.e. 38% of sites**

### Effluent

L'Oréal carries out pre-treatment appropriate for the type of effluent before discharging it into the external wastewater system.

In most cases wastewater is discharged to the municipal sewage system or the sewage system of an industrial park for final treatment. In 2006 nearly all L'Oréal factories which create effluents will be equipped with equalisation tanks, which store waste to ensure a homogenous mix and prevent spikes of waste content.

60% of sites further treat their wastewater with integrated state of the art treatment plants before discharge, using biological as well as physical and chemical processes. All wastewater is tested before being sent to such plants or discharged.

### Fines and prosecutions

In 2005, we had 8 complaints worldwide about our factories and warehouses, concerning parking, noise, odours and particulate discharge. Our factory in Midwest United States was fined \$1,000 for contamination of rain-water discharge with shampoo due to a process malfunction. All these problems have since been resolved.



## PACKAGING

The packaging of a product has several functions: the protection, conservation and dispensing of its content, safe transportation, marketing and ingredient information and instructions for use. L'Oréal uses cardboard and paper, plastics, glass and metals to fulfil these functions. We are very conscious that when packaging has fulfilled this purpose, it becomes household waste, and that is why since the 1990s, L'Oréal has had a proactive policy to ensure that our packaging has minimal impact on the environment. We design packaging according to the following principles:

- to reduce the amount of raw material used,
- to facilitate recycling by:
  - reducing the variety of materials involved,
  - labelling product with details of its components and their recyclability,
- to continually involve our packaging suppliers in our efforts.

Our Industrial Intelligence team is charged with keeping up to date with innovations in environmentally friendly packaging technology. For several years we have had a systematic weight-saving programme in place to use less material in our packaging. For example, our Fructis 250 ml shampoo bottle has currently a weight of 20 g compared to 24 g nine years ago when we launched it, with the same shape. Our goal is to achieve 19 g before end of 2006.

In 2005, we renewed our Life Cycle Analysis approach started many years ago with a typical shampoo bottle —Elsève 250 ml. Results are due in September 2006 and this research will help us work in the right direction.

We are a member of EUROPEN, the European Organisation for Packaging and the Environment. We hope European guidelines will help the whole industry to make progress.

### Recycling

We aim to facilitate the identification and sorting of materials in order to contribute to an increase in the recycling of household waste. We are also committed to reducing the variety of plastics employed, and to using plastics of a similar composition.

## Less material in packaging - container weight over time

1996  
24 g



2005  
20 g



1992  
27 g



2004  
22 g



*Note: weight without the cap.*

### Recycled components

To date, much of the aluminium, tin plate, glass and corrugated paper we use incorporates significant amounts of post-consumer recycled raw materials —often more than 50%. With regards to recycled plastic, we have identified minimum quality specifications and we hope to use these materials when they become regularly available and economically viable.

### PVC

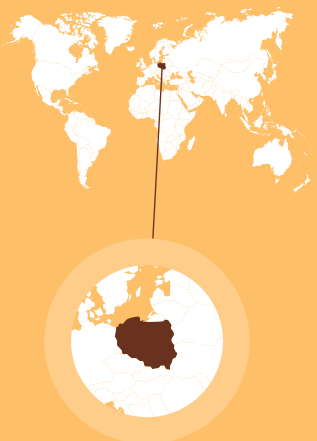
PVC plastic is well suited to packaging cosmetics as it is transparent, has high chemical resistance, is easy to shape and is low cost. However, its environmental impacts have been widely criticised, not least because it can release hydrochloric acid into the atmosphere when incinerated without suitable emission controls. Therefore in 1989 L'Oréal

started to avoid using PVC in all new products and to find substitutes for existing uses. By 1991 this had led to the effective substitution of PVC in virtually all our products.

However, for a small number of products, such as dyes and perms, there is no suitable substitute (other than glass, and breakages make this unsafe). Today, less than 2% of our total tonnage of packaging raw materials is PVC.

### Biodegradability

L'Oréal is aware of the potential environmental benefits of biodegradable packaging, and regularly tests new biodegradable materials. Unfortunately none of these materials have met our requirements to date, due to problems with the packaging degrading and deforming too quickly and excessive sensitivity to bacterial contamination. We hope these problems will be resolved.



## L'ORÉAL'S COMMITMENT... TO PROMOTE WOMEN IN SCIENCE

In 2004, of the 190 members of the French Academy of Sciences, only 14 were women. From 1903 to 2004, only 12 out of 503 Nobel Prizes for Science were awarded to women. Aware that women today are under-represented at the highest levels of science, and convinced that women researchers can influence the scientific orientations of tomorrow through a new social vision of science and its benefits, L'Oréal and Unesco joined forces in 1998 to promote women in scientific research by creating the For Women in Science Partnership. For the fifth consecutive year, five promising Polish women researchers received L'Oréal Poland For Women in Science Fellowships with the support of the Polish National Commission for Unesco.

# COMMUNITY AFFAIRS

As a company that believes in good corporate citizenship, L'Oréal is keen to contribute to projects that serve the wider community and that reflect the values we have upheld for almost a century. In every country where we do business, we support projects that contribute to the community at large through philanthropy and long-term partnerships. These local initiatives reflect our longstanding dedication to such worthy causes as promoting women in science, community solidarity and educational opportunity.

## FOR WOMEN IN SCIENCE

The most symbolic and notable example of L'Oréal's societal commitment is the international corporate programme "For Women in Science" launched in partnership with Unesco in 1998.

This programme demonstrates the desire of both partners to promote the role of women in scientific research and thus help to create new career opportunities worldwide.

*"I am delighted to see the role of women in science highlighted, particularly in the area of life sciences. The commitment of a large corporation like L'Oréal alongside an organisation like Unesco is a perfect example of the partnerships we can forge with the private sector. A cooperative venture like this, which aims to involve more and more women in the great scientific adventure, leads to progress not only in science but also in society."* Koichiro Matsuura, Director General of Unesco.

By supporting Unesco, an organisation that facilitates understanding of cultural identities and recognition of their diversity, L'Oréal seeks to participate in the dialogue between cultures and to work for a better understanding between men and women from different traditions.

For L'Oréal, women and science are the two best vehicles for progress for the global community. It was necessary therefore to encourage not only the women who are already

helping the modern world to move forward through their research work, but also female students who will be following in their footsteps in the future.

L'Oréal decided to form a partnership that goes far beyond the scope of private-sector support, in which the entire company is associated with a cause that it considers essential: the recognition of women and promoting their role in scientific research.

The group is all the more aware of the importance of the role of women in research because 55% of our scientists are women, a proportion unmatched in industry. The company's history is scattered with women research scientists who have contributed to its expansion.

The For Women in Science programme has three parts: the L'Oréal-Unesco Awards, the Unesco-L'Oréal Fellowships and the national initiatives.

### The L'Oréal-Unesco Awards

Each year, the L'Oréal-Unesco Awards go to five outstanding female research scientists, one from each continent, who have contributed to the advancement of science in areas not related to the group's activities. The L'Oréal-Unesco Awards are presented in

alternate years to women engaged in scientific research in Life Sciences and to those working in Material Sciences.

Since 1998, 36 scientists have received awards, their exceptional careers having opened up new and, in some cases, revolutionary avenues to making life better for humanity. L'Oréal gives each Laureate a personal award of \$100,000.

The two international juries for the L'Oréal-Unesco Awards are made up of eminent scientists from 20 countries who ensure the seriousness, quality and credibility of the awards in an independent manner. Each jury is chaired by a Nobel prize winner.

### The Unesco-L'Oréal Fellowships

The Unesco-L'Oréal Fellowships help women scientists involved in promising, exemplary projects to pursue their research in laboratories outside their country of origin. Each fellowship is worth a maximum of \$20,000. By sponsoring these young scientists and their

hopes for the future, the programme aims to increase the role of women working in scientific disciplines. Since the scheme started, fellowships have been awarded to 75 young scientists from as many different countries, including South Africa, Algeria, Cuba, New Zealand, Bangladesh, Brazil, Albania, Congo, Nigeria, Azerbaijan and China.

### The national initiatives

The L'Oréal-Unesco For Women in Science partnership reaches many different countries through National Fellowship programmes, which are launched with the support of the National Commissions to Unesco.

These fellowships are designed to encourage young women scientists, and have been launched in 14 countries by the end of 2005: Canada, China, Hungary, India, Indonesia, Italy, Korea, Latvia, Poland, Portugal, South Africa, Thailand, Turkey and the USA. Our goal is to launch National Fellowships in 50 countries by 2008.

“ WHEN YOU EDUCATE A MAN, YOU EDUCATE A PERSON.  
WHEN YOU EDUCATE A WOMAN, YOU EDUCATE A FAMILY, A NATION. ”

An African proverb quoted by Unesco on the occasion of its 50<sup>th</sup> anniversary.



Sir Lindsay Owen-Jones, Chairman and Chief Executive Officer of L'Oréal, and Koichiro Matsuura, General Manager of Unesco.

“ SCIENCE IS THE ROOT OF ALL  
PROGRESS AND THE CONTRIBUTION  
OF WOMEN IS ESSENTIAL  
TO ITS FUTURE. ”

Sir Lindsay Owen-Jones,  
Chairman and  
Chief Executive Officer of L'Oréal





Françoise Rivière, General sub-manager of Unesco and Jean-Jacques Lebel, President of Professional Products, L'Oréal.



Hairdressers of the world against AIDS (South Africa).

## A COMMITMENT TO THE COMMUNITY

Because L'Oréal's business is at the centre of people's everyday lives and well-being, the group is closely involved in the life of the communities in which its facilities are located. L'Oréal has a duty to conduct itself as a socially responsible company and seeks to support projects that are for the public good, in the form of long-term sponsorships and partnerships. These are often local initiatives focusing on specific, clearly identified issues —solidarity, education— and are consistent with the values that the group has advocated for almost a century. The aim of these initiatives is to provide a strong foothold in the economic and social life of the countries in question. The group endeavours to preserve what gives these initiatives their strength and effectiveness, namely the independence of our locally-based companies and their ability to adapt to specific cultural environments.

### AIDS prevention

In May 2005, Unesco and L'Oréal's Professional Products Division launched the preventative education programme "Hairdressers of the world against AIDS". This programme promotes awareness of the HIV virus through the regular training we provide to our global network of hairdressers. These hairdressers then pass on their knowledge to customers at their salons, which are centres for the exchange of ideas and dialogue all over the world. Training materials compiled with Unesco include an innovative film, presentation materials and an interactive quiz. Our efforts to combat HIV/AIDS began four years ago in South Africa where we offer our staff and their dependents a full service which includes education and prevention, anonymous HIV testing, and if needed, anti-retroviral therapy. Since then, over 200,000 hairdressers from 24 African countries have benefited from the training. Pilot programmes adapted for the culture of each country have since been

launched in India, Brazil and France. In 2006 we plan to expand the programme into the Baltic countries and the United Kingdom. This project has a potentially huge impact: our Professional Products Division has 115 technical training centres in more than 50 countries, with several thousand instructors committed to the success of this educational project. Aimed at 400,000 partner salons all over the world, the programme should eventually reach more than two million professionals and their estimated 500 million clients.



The "Look Good... Feel Better" programme helps women offset appearance related changes from cancer treatment.



Help for the tsunami victims.

### Look Good... Feel Better

"Look Good... Feel Better" is a programme in the United States to help women offset appearance-related changes from cancer treatment. In 1989, a cancer specialist called on the US Association of Cosmetic Industries on behalf of one of his patients suffering from cancer and badly affected by the physical damage caused by her treatment. The young woman regained a thirst for life and the courage to fight her cancer. The result was this industry programme for women who have undergone cancer treatment: it is now active in 16 countries. The programme consists of non-medical workshops held in hospitals, which teach the women to cope with some of the side effects of chemotherapy through a 12-step skin-care and make-up lesson. L'Oréal is one of the main drivers behind this worthy venture, notably in France where the programme is called "La Vie de plus belle".

■ [www.lookgoodfeelbetter.org](http://www.lookgoodfeelbetter.org)

### Restaurants du Cœur

For the past seven years, we have been providing the French charitable organisation "Restaurants du Cœur" with kits containing five of the group's hygiene products covering basic family needs. They are handed out during the association's winter campaign right across France. Through this gesture, L'Oréal seeks to put into practice its commitment to forming closer ties with people in difficulty and so help them regain their place in society by retaining a positive image of themselves.

■ [www.restosducoeur.org](http://www.restosducoeur.org)

### Supporting the Nicolas Hulot Foundation

In 1995 L'Oréal became a founder member of the Nicolas Hulot Foundation for Nature and Mankind, and has supported it ever since. The Foundation's mission is helping educate the public to be environmentally friendly. Since its creation in 1990, it raises awareness

among young people and adults of the riches and the fragility of our natural heritage and supports concrete initiatives in aid of the environment in a move for sustainable development. This complements L'Oréal's efforts to limit the impact of our industrial activity on the environment as much as possible.

■ [www.fondation-nicolas-hulot.org](http://www.fondation-nicolas-hulot.org)

### Staff volunteers for Planète Urgence

In 2005 we set up a partnership with Planète Urgence, a French organisation which sends volunteers overseas to participate in various humanitarian missions to help local populations in their development efforts or to work on environmental protection programmes. Two of our staff volunteered to work in Mali in 2005, and a formal pilot is commencing in 2006 with a further eight staff volunteers.

■ [www.planete-urgence.org](http://www.planete-urgence.org)



Jean-Philippe Charrier, General Manager of L'Oréal Thailand, and teacher Madame Toi, who runs a rehabilitation centre.

### Help for the tsunami victims

An exceptional contribution of one million euros was donated to help the countries affected by the tsunami; this amount was boosted by contributions and support actions from many employees around the world.

These initiatives are a way of asserting the group's social responsibility. But, for L'Oréal, sponsorship and partnership initiatives must on no account take the place of the number one priority for any company, that of behaving responsibly in its "role" as a citizen.

toward communities in the future, L'Oréal has decided to join the London Benchmarking group ([www.lbg-online.net](http://www.lbg-online.net)) as of 2006. A pilot project was launched in 2006, and plans are to roll-out the model worldwide in 2007. Through the use of this new process, L'Oréal hopes to take reporting beyond the scope of charitable donations in order to include the overall range of the group's contribution to communities, resulting in better management and maximised impacts both internally and for the beneficiaries.

## EVALUATION AND MEASUREMENT

Our current internal accounting reports €17 million of philanthropic activity and charitable donations worldwide.

With a view to putting a realistic and integrated value on the group's worldwide commitment

### Women at the centre of tsunami relief initiatives in Thailand

Having made immediate donations to the Tsunami Fund of the Royal Thai Government, the Red Cross, and the Ministry of Public Health following the tsunami, L'Oréal Thailand now plans to focus its future assistance on women: single mothers, new mothers with young children, and women in difficulty. The company has been working with various partners, including the humanitarian network of the French Embassy, the United Nations Development Program (UNDP), and the Royal Thai Government in analysing women's situations in many affected locations. A donation of \$150,000 will be made in the form of medical care, educational support for children, and also to sponsor income-generating projects.

For example, we have been supporting the activities of Madame Toi, a generous and charismatic lady who runs a rehabilitation shelter for 30 women, 30 children and 15 teenagers. Her activities aim to rebuild their lives by starting income-generating projects such as the production of bags and batik, and through art therapy for young children, and music therapy for teenagers.

# Verification statement: SHE Data

## SCOPE AND METHODOLOGY

Environmental Resources Management (ERM) was retained to verify the Safety, Health and Environmental (SHE) data for L'Oréal to be disclosed in this sustainable development report available on the Internet, focusing on:

- the SHE data collection process,
- the SHE data management process,
- the SHE data and tables presented in the report.

ERM reviewed both source data from the plants, as well as data management systems, including questionnaires, spreadsheets and databases for 2005.

A new reporting process has been deployed for testing purposes in 2005 (e.g. modification of the Key Performance Indicators, new web-based data collection software...). This tool will be rolled out in 2006. The 2005 data verification presented in this statement is based on the former reporting processes.

The review process focused on environmental, health and safety data and evidence of processes. ERM did not review information in relation to corporate social responsibility and community relations, nor were discussions held with external stakeholders.

To date, ERM has visited 21 plants out of 42, some several times, and a sample of distribution centres. We have interviewed corporate staff involved in data management as well as operational staff responsible for data collection and reporting.

## FINDINGS

The review indicated that, for the sample covered, the data collection and management systems provided accurate information. Slight minor inaccuracies were identified at each of the sites visited, but were found to be immaterial in the context of the overall consolidated group results.

Internal organisation changes (e.g. new sites, division changes) were taken into account in the data consolidation and analysis.

The performance indicators published are similar to former reports, and their choice is considered relevant.

The selection made regarding the disclosed indicators was similar to former issues of this report and was found to be reasonable.

Presentation of the SHE data evolution over 5 years is consistent with the 2005 report, both regarding scaling and easy-to-read graphics.

SHE data presented in this report address a perimeter including only manufacturing sites and distributions centres, and still do not include research centres and administrative buildings.

Some divergences previously noted still exist regarding the nature of accidents without lost time reported by the sites.

## OPINION

We believe that the SHE data presented in this report and set out in the text, tables and graphs, relating to the year 2005, provide a fair, transparent and reasonable representation of the SHE performance of L'Oréal's manufacturing sites and distribution centres.

Overall improvement in SHE performance appears to reflect real progress at the sites.

Paris, March 2006



**Jacques Roman**  
Corporate Advisory Services





## Statutory Auditors' statement on certain social information featured on the 2005 Sustainable Development report

Further to the request made by L'Oréal and in our capacity as Statutory Auditor, we have performed the work described below on the procedures for collating and consolidating certain information published in the current report and identified by the (\*) sign. Our engagement does not include reviewing either the application of procedures by subsidiaries or the data.

This information has been approved by Executive Management. Our role is to express our findings based on our work.

### NATURE AND SCOPE OF OUR WORK

We performed the following procedures:

- for each of the areas reviewed, we met with various representatives from the departments listed below who were in charge of organising the consolidation and reporting procedures for the group:
  - Social Relations Department, HR Information Systems Department, General Counsel for Human Resources, Training and Development Department, Corporate Learning for Development, Corporate HR Support Services, International Mobility Department, International Recruitment Department, Diversity and Inclusion Department,
- based on interviews with these representatives and documentary reviews of group consolidation manuals and subsidiary reporting schedules, we obtained assurance on the:
  - existence of instructions concerning definitions of data to be compiled and the related calculation methods,
  - existence of reporting and consolidation processes,
  - consistency of reported information with the scope set for this information,
  - due and proper inclusion in the consolidation packages of the data obtained from the reporting systems, assessed on a test basis.

We were assisted in our work by Sylvain Lambert, Partner in charge of our Sustainable Development Practice. The purpose of our work was not intended, and does not permit us, to express an opinion or provide moderate<sup>(1)</sup> or reasonable assurance on the information reviewed.

### FINDINGS

We have the following remarks to make as a result of our work:

- the L'Oréal group has defined, formally, documented and clear reporting and consolidation procedures, based on the information reviewed,
- the implementation of these procedures at head office level is based on clearly defined responsibilities.

Paris, June 2<sup>nd</sup>, 2006

**Pierre Coll**  
Partner

**PRICEWATERHOUSECOOPERS**   
PricewaterhouseCoopers Audit

*(1) Statutory Auditors' reports on Sustainable Development reports include an opinion expressing moderate or reasonable assurance (which is higher) on information and/or procedures. The statement issued above aims to describe our findings given the limited auditors' work performed.*

This is a free translation into English of the Statutory Auditors' statement issued in the French language and is provided solely for the convenience of English speaking readers. This statement should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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## KEY

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The Selected Secondary Fibers mark certifies the use of recycled (secondary) pulp fibres originating from selected materials to ensure high quality raw materials which are free of impurities and mechanically sound.



# L'ORÉAL

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