QUALITATIVE AND QUANTITATIVE ANALYSIS OF L'ORÉAL

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L'ORÉAL

BECAUSE YOU'RE WORTH IT

BEAUTY FOR ALL

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1. COMPANY OVERVIEW

- FIRM STRUCTURE

L'Oréal, the world leader in the manufacture of cosmetics was created in 1907 by chemist Eugène Schueller in France.

It is a company incorporated under the regime of anonymous meaning that it has a limited capital with shares traded in Eurostocks. L'Oréal was constituted on 31 of December, 1962 in Paris, France.

***See annex 1** –page:26-27-

- MISSION

The main mission for L'Oréal is: BEAUTY FOR ALL. More in detail we can distinguish that ones:

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

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

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

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

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

- HISTORY

In 1907, Eugène Schueller, a young French chemist, developed a hair dye formula called *Auréale*. Schueller formulated and manufactured his own products, which he then sold to Parisian hairdressers.

On 31 July 1919, Schueller registered his company; the Société Française de Teintures Inoffensives pour Cheveux (Safe Hair Dye Company of France). The guiding principles of the company, which eventually became L'Oréal, were research and innovation in the field of beauty.

L'Oréal's famous advertising slogan is "Because I'm worth it". In the mid-2000s, this was replaced by "Because you're worth it". In late 2009, the slogan was changed again to "Because we're worth it" following motivation analysis and work into consumer. L'Oréal also owns a Hair and Body products line for kids called L'Oréal Kids, the slogan for which is "Because we're worth it too".

In 1987, L'Oréal and 3 Suisses founded Le Club des Créateurs de Beauté specializing in mail order sales of cosmetic products.

February 2011: L'Oreal will have the largest factory in the Jababeka Industrial Park, Cikarang, Indonesia. The production will be absorbed 25 percent by domestic market and the rest will be exported. In 2010 significant growth occurred at Indonesia with 61 percent increase of unit sales or 28 percent of net sales.

L'Oréal got its start in the hair-color business, but the company soon branched out into other cleansing and beauty products. L'Oréal currently markets over 500 brands and many thousands of individual products in all sectors of the beauty business. The company's products are found in a wide variety of distribution channels, from hair salons and perfumeries to hyper - and supermarkets, health/beauty outlets, pharmacies and direct mail.

L'Oréal has five worldwide research and development centres: two in France, one in the U.S., one in Japan and in 2005, one was established in China. A future facility in the US will be in Berkeley Heights, New Jersey.

From 1988 to 1989, L'Oréal controlled the film company Paravision, whose properties included the Filmation and De Laurentiis libraries. StudioCanal acquired the Paravision properties in 1994.

Later, in 1993, L'Oreal was faced with problems due to animal rights activists who constantly protested about the use of animal testing by the company. However, L'Oreal decided to keep their good reputation, as they were a growing company, by ending animal testing.

On 17 March 2006, L'Oréal purchased cosmetics company The Body Shop for £562 million.

The company has recently faced discrimination lawsuits in France related to the hiring of spokesmodels and institutional racism. In the UK, L'Oréal has faced widespread.

- FACTS AND FIGURES

Inside this point, we can divide between five different groups:

1-. Group Profile:

- In 2011, L'Oreal had a 20,3 billions € of consolidates sales.
- It has 27 different brands that their annual sales are superior to 50 million €
- The company is present in 130 countries.
- Around the world, the firm has 68.900 employees in different countries.
- And, in 2011, 613 patents were filed.

2-. Finance:

The L'Oreal's annual report in 2011 was:

- 20,3 billion € in sales.
- 3,3 billion € in operating profits.
- A net earnings per share of 4,32 €.
- The dividend was 2 €.

3-. Research & Innovation:

- 3.676 employees of 60 different nationalities are working.
- In 2011, 721 million € were dedicated to cosmetic and dermatologic research.
- L'Oreal has 19 research centers, 16 evaluation centers, 50 scientific and regulatory department around the world.

4-. Human Resources:

A commitment to developing the competencies and expertise of all employees to support the group's continued growth:
- 5 development centers in Shanghai, Rio de Janeiro, Dubai, New York and Paris.
- An online, next-generation learning offer
- A wide range of in-house tailored training programmes

A global recruitment strategy:
- Ground-breaking business platforms.
- A strategy of continuous recruitment of talented graduates.
- A vigorous management trainee programme strongly focused on our rapidly developing markets.

5-. Operations:

- L'Oreal company has 41 factories around the world.
- And 5.8 billion of unites were manufactured in 2011.
- The group has different certifications like: quality, safety and environment.

- POLICY

The policy of l'Oréal is composed by its ambitions and the principles of action for to achieve it.

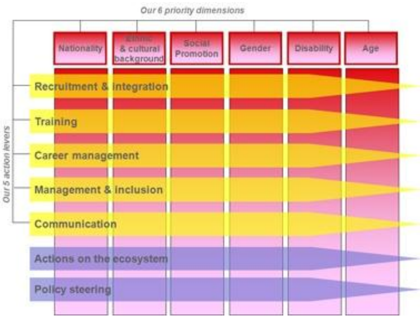
Related to the main ambitions of the firm, we can distinguish:

- Reflect the consumer's diversity of origins within their teams at every level
- Promote gender equity within their teams
- Encourage the employment people with disabilities
- Valorize work experience
- Develop an inclusive managerial culture

The principles of action are those ones:

- Respect their standards of excellence
- Attract candidates from outside their usual talent sources
- Promote the emergent of a diversified ecosystem
- Measure and report their progress

L'Oréal bases their approach on this Matrix:



- MANAGEMENT

The Executive Committee

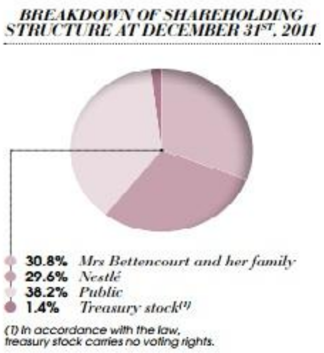
The management of the company is executed by the L'Oréal's Executive Committee, composed of 15 members, which is in charge of the group's operational and functional divisions or major geographical zones. Since 2006 it has been steered by Jean-Paul Agon, who became L'Oréal's Chairman and CEO in March 2011.

*See annex 2 –page:28-29-

The Broad of Directors

Moreover, L’Oréal has a Board of Directors, which consists of 14 members and its composition is balanced, with in particular three directors who are members of the Bettencourt family, three directors from Nestlé S.A, as well as a reference shareholder, and six independent directors. Each director brings a unique perspective and expertise acquired over a career. This combination is conductive to dynamic and constructive exchanges that senior management and the executive committee can rely on to accompany the implementation of group’s strategy.

The mission of the Board of Directors is to ensure control of the economic and financial management of the group, to validate the strategic directions proposed to the Board by senior management, and to ensure their implementation. It works in a cooperative spirit, with the active support of four committees: <u>The Strategy and Sustainable Development Committee, The Audit Committee, The Human Resources and Remuneration Committee, and the Appointments and Governance Committee.</u> Strategy is regularly examined through the development of brands, countries and markets in which the group is active.



- WORLD PRESENCE

The presence of L’Oréal is extended around the world. Specially, we can divide it in five zones:

- Europe

Austria, Belgium, Bosnia, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia – Montenegro, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kindom

- North America

Canada, United States of America

- Latin America

Argentina, Brazil, Chile, Colombia, Guatemala, Mexico, Panama, Peru, Puerto Rico, Uruguay, Venezuela

- Asia

China, Cambodia, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam

- Africa, Orient, Pacific

Australia, Bahrain, Egypt, Iraq, Israel, Jordan, Kazakhstan, Kuwait, Lebanon, Morroco, New Zealand, Oman, Pakistan, Qatar, Saudi Arabia, South Africa, Syria, United Arab Emirates, Yemen

- INNOVATION AND RESEARCH

L'Oréal tries to be constantly aware or the men and woman around the world for anticipate their dreams. This firm dedicates a big quantity of millions in cosmetic and dermatological research. It has 19 research centres and 16 evaluation centres. The human diversity in their research teams benefit from on unparalleled knowledge of the different types of skin and hair found around the world.

Research is the heart of L'Oréal. One example of innovation performed on their centres is the development of the LR 2412 molecule in 211, an active antiageing ingredient with remarkable properties, and the opening of a predictive evaluation centre, which has no equivalent anywhere in the world.

This firm focuses its innovation and research on three dimensions: skin, hair, and colour. Furthermore, thought out the innovation chain, research at L'Oréal endeavours to respect five principles of sustainable development: Consumer care, environmental protection, social and societal impact, equity in international trade, and ethics.

2. BRANDS

L'Oréal is richly endowed with a portfolio of international brands that is unique in the world and that covers all the lines of cosmetics and responds to the diverse needs of consumers the world over.

- CONSUMER PRODUCTS

- L'ORÉAL PARIS

L'Oréal Paris is a brand created by L'Oréal with 50 products sold every second worldwide, L'Oréal Paris offers from all continents male and female beauty products of all types (makeup, skin care, hair care styling, hair color and men), from the excellence of its Research Laboratories. The worldwide success of legendary franchises such as Color Rich lipstick, Revitalift skin care, Elnett hairspray, Preference hair color or Hydra Energetic skin care for man, reflect the bran's unique expertise from the greatest beauty experts. Including Christophe Robin for hair color, Stéphane Lancien and John Nollet for jaircare and styling, Joëlle Ciocco for skin care, Tom Bachik, manicurist to the stars, or Orrea Light, Color Designer.

- GARNIER

Garnier is a mass market cosmetics brand of L'Oréal that produces hair care and skin care products. The company started as Laboratoires Garnier in 1904, and was acquired by L'Oréal in the 1970s.

Pioneer in home hair coloring since 1950, with Belle Color, Garnier has continued to innovate and expand around the world with Nutrisse Color

Naturals. The brand has forged strong links in the field of hair care, especially in the 1980 with Ultra Soft, which symbolized naturally soft hair for several generations of consumers. Garnier repeated the success in the 1990s with Fructs. As a true skin care expert, Garnier also offers a large selection of products, skin care for the face and sun care products. Among Garnier's skin care products includes essential brands such as Ambre Solaire, Garnier Skin Naturals or the all new Garbier BB Cream.

- MAYBELLINE NEW-YORK

In 1914 Mabel Williams, a young woman from Chicago, singed her eyelashes and eyebrows in a kitchen fire. To restore her former look, she mixed ash and coal dust with petroleum jelly and applied the misture to her eyelashes and eyebrows. Inspired by the hidden potential of her homespun invention, her brother Thomas Lyle Williams created the world's first modern mascara. Williams founded Maybell Laboratories, and began selling mascara through the mail. Women all over the US were soon clamoring for Maybelline, and in 1932 the company responded by selling to local variety stores. From then on, the range of legendary products grew.

In 1996, L'Oreal acquired Maybelline. This new partnership, Maybelline gives the opportunity to create the most innovative and advanced through a research and development team first. Maybelline is established as an authority on color, and development of technologically advanced products becomes the priority of the company.

- SOFTSHEEN.CARSON

It is almost impossible to find a wider scope of beauty rituals than for the people of African descent. Only beauty products that are dedicated, adapted and efficient can answer the specificities of their nature of hair and skin and enhance their beauty. As the world leader in afro-specific hair care, L'Oréal puts all their energy in bringing innovation with the obsession of the maximum respect for hair and skin inner nature.

SoftSheen.Carson, adquired by L'Oréal, provides consumers of African descendent with superior, tailor-made and safe beauty products to allow them express their personality in full confidence.

- CREATEURS DE BEAUTE.COM

Created in 1987 by L'Oréal, Createurs de beaute.com, was launched as part of an innovative concept: provide women, wherever they are, innovative consmetics and access to the latest trends.

- **ESSIE**

Founded in 1981 by Essie Weingarten, current president of the company, and later acquired by L'Oréal, the Essie's portfolio covers nail polishes, treatments, accessories, spa products and lip glosses.

Essie nail polish offers more than 250 color shades and the collection keeps on growing. Moreover, Essie nail polish offers nourishing base coats, shiny fast drying top coats and other exclusive formulas that enrich, correct, protect and strengthen nails for perfect results.

- PROFESSIONAL PRODUCTS

- **L'ORÉAL PROFESSIONEL**

Created by L'Oréal, L'Oréal Professionnel is the number-one choice and source of inspiration for hairdressers around the world. It combines highly effective products with exclusive services in colouring, texture, haircare and styling products.

- **KÉRASTASTE**

Established in 1964 in France, the brand first expanded through Europe, followed by Japan in 1990 and in North America in 1999. Kérastase is exclusively distributed through high-end hair salons. It is a leading brand in several countries in the professional and luxury haircare segments.

- **REDKEN**

Founded in 1960 by an American actress, Paula Kent, and her hairdresser, Jheri Redding (thus the name "REDKEN"), Redken's foundation is still based on extensive scientific knowledge and the belief in, and support of, the expertise of the salon professional.

In 1993, L'Oréal purchased Redken and moved the company to 5th Avenue NYC, where the brand developed a strong presence backstage with top designers at Fashion Week. Today, Redken is known as a trendsetting urban brand and is a global leader in professional haircare products and services.

- **MATRIX**

Matrix was founded in 1980 by the America husband and wife hairdressing team, Arnie and Sydell Miller. The Millers wanted to provide hairdressers with a comprehensive range of produtcts that would help them grow their businesses and provide the means to take full advantage of their talent ande creativity. Now, adquired by l'Oréal and more than thirty years later, their original ideas still stand strong and Matrix is the number one American professional hair care company in the world.

- **PUREOLOGY**

Founded in 2001 in Orange Country, California, and adquired by l'Oréal in 2007, Pureology began with a simple idea: To create the very best care for colour-treated hair. The brand enjoys huge success in the United States, and is growing strong globally.

- **SHU UEMURA ART OF HAIR**

Shu Uemura Art of Hair, owned by l'Oréal, the pinnacle of Janapese luxury: mirroring the traditional Japanese tea ceremony, the brand offers a beauty ritual for the hair. Built around the philosophy of Mr Shu Uemura and his experience in the field, the company supplies haircare and styling products to the finest of salons, drawing on rare, natural ingredients magnified by science.

- **MIZANI**

Launched in 1991, the MIZANI brand maintains a premium, salon-exclusive franchise with a portfolio of power brands, while continuing to offer the most technologically advanced products engineered to treat multi-textured hair. MIZANI which means "balance" in Swahili, offers a specialized, salon-exclusive hair care system designed to restore every curl type to its ultimate state of balance. Today, MIZANI, a division of l'Oréal, is sold in premium multi-ethnic salons globally and has established a solid reputation among leading professional stylist and their clients as the professional authority for all curl textures.

- LUXURY PRODUCTS

L'Oréal Luxe opens a unique world of beauty Its international brands incarnate all the facets of elegance and refinement in three major specializations: skin care, make-up and perfume. L'Oréal Luxe products are available at department stores, cosmetics stores, *travel retail*, but also own-brand boutiques and dedicated *e-commerce* websites.

- **LANCOME**

Lancôme Paris is a French luxury cosmetics house. Owned by L'Oréal since 1964, Lancôme is part of the Luxury Products division, which offers skin care, fragrances, and makeup at higher-end prices.

Petitjean’s motive was simple: to create a beauty brand that would deliver French elegance around the world. The name “Lancôme” was inspired by the ruins of a castle, Le Château de Lancosme, while the roses in the area inspired the company’s symbol of the single golden rose.

The brand is represented by actresses, global supermodels, makeup artists, and perfumers.

- GIORGIO ARMANI

The name Giorgio Armani is synonymous with classic style. The Italian fashion designer's high-end clothing line, founded in 1975, is just one arm of the Armani empire. Armani's name can be found on sports uniforms, Olympic flag bearer outfits, cell phones, home interior goods, eye wear and cosmetics.

The Giorgio Armani cosmetics line debuted in 2000. The cosmetics are produced and distributed by the L'Oreal company, as part of a partnership agreement.

- YVES SAINT LAURENT

In just 40 years, Yves Saint Laurent, the man, has fashioned a legend, while the Yves Saint Laurent company, Groupe Yves Saint Laurent, has grown to become one of the world's leading labels for clothing, perfumes, accessories, makeup, and skin care products, and, of course, haute couture.

As such, Yves Saint Laurent Perfumes forms the core of Sanofi's FFr 3.8 billion beauty division, the industry's third largest perfumes and cosmetics group behind L'Oréal and Estée Lauder, joined by such other labels as Roger & Gallet, Van Cleef & Arpels, and Oscar de la Renta.

- BIOTHERM

Biotherm is a French luxury skin care company owned by L'Oréal under the Luxury Products division. Biotherm was acquired by L'Oréal in 1970. It is developed and manufactured in research laboratories in Monaco, under the direction of biologist Lucien Aubert and his team of researchers.

Biotherm originated from mineral water. In early 20th century, the French biologist Mme Jeanine MARISSAL discovered mineral thermal spring waters under Pyrenees mountain in the southern part of France which contained thermal plankton, supposedly a key to healthy skin and a potent skin rejuvenator.

- **KIEHL'S**

Kiehl's is an American cosmetics brand retailer that specializes in making premium skin, hair, and body care products. Founded as a single pharmacy in New York City's East Village in 1851, Kiehl's was purchased by the L'Oréal Group in 2000 and currently has more than 30 retail stores worldwide, supplemented by sales in high-end department stores.

In contrast to its market competitors, Kiehl's is distinguished for its unorthodox marketing approach, exceptionally large male clientele base and its products' simple and straightforward packaging.

- **RALPH LAUREN**

Ralph Lauren corporation has launched various fragrances and related body care products for men and women since 1978. The products are manufactured under license by L'Oreal.

In 1978, Ralph Lauren Polo partnered with L'Oreal and introduced his first two fragrances, Polo and Lauren by Ralph Lauren. This marked the first time a designer launched two fragrances for men and women, both went on to become international classics.

- **SHU UEMURA**

Shu Uemura was a Japanese make-up artist and founder of the Shu Uemura international cosmetics line which bears his name.

Shu Uemura sold his controlling interest in his company to French cosmetics maker L'Oréal in 2004 for an undisclosed amount of money. However, he remained the creative force behind Shu Uemura Cosmetics after the sale. It is estimated that as of early 2008, Shu Uemura Cosmetics now makes approximately $100 million dollars a year in global sales at its stores worldwide.

- **CACHAREL**

Cacharel is a French brand of ready-to-wear clothing, perfume and accessories. It was created in 1962 by Jean Bousquet, in Nîmes, who founded the company of the same name in 1964. Cacharel is named after the local name of the garganey in the Camargue.

- **HELEN RUBINSTEIN**

L'Oreal, the French cosmetics conglomerate, has bought Helena Rubinstein Inc., the company named for the famed business executive who built an international cosmetics empire that until 1985 was a major force in the United States industry.

- **CLARISONIC**

L’Oréal announced it has completed its acquisition of Pacific Bioscience Laboratories Inc. In early November, the two companies signed a merger agreement paving the way for L’Oréal USA to buy Pacific Bioscience Laboratories, and now the shareholders of Pacific Bioscience Laboratories have approved the transaction. The move gives L’Oréal access to patented sonic skin care technology, enabling the company to acquire strategic positions in the quickly emerging skin care devices category.

- **DIESEL**

Diesel S.p.A. is an Italian design company. It is best known for luxury, *prêt-à-porter* clothing aimed at the young adult market. The company is owned by its founder Renzo Rosso, and is based in the former Laverda building area in Breganze, northern Italy.

Diesel's licensed collections are eyewear (made with Marcolin), jewellery and watches (Fossil), and fragrances (L'Oréal). L'Oreal and Diesel launched Fuel for Life (for him and for her) in the fall of 2007.

- **VIKTOR & ROLF**

Viktor & Rolf’s first fragrance ‘Flowerbomb’ was released in collaboration with L’Oreal in 2005. According to Dana Thomas' book "Deluxe - How Luxury lost it's Luster", the 'juice' that would come to be known as Flowerbomb was first created by L'Oreal in response to a brief given by another perfume house. After the initial perfume house rejected the proposal, L'Oreal sat on it for three years before Viktor and Rolf chose it for Flowerbomb. Talk of the designers having creative input into the actual fragrance are, therefore, nothing more than marketing hype. Flowerbomb was L'Oreal's first collaboration with a fashion designer for seventeen years, when they worked with Giorgio Armani.

- **YUE SAI**

Founded in 1992 by the Media icon and businesswoman, Mrs. Yue-Sai Kan, the Yue Sai brand has been a pioneer in the cosmetics market in China ever since. As part of the L'Oréal Luxury Division, it has been offering unique beauty solutions through a complete knowledge of Chinese women's skin tones and needs for over 20 years.

In 1998, Yue Sai was already the leading brand of cosmetics on the high-end Chinese market. L'Oréal expanded into China in 2004, it was further enhanced by acquiring one of the prides of China, Traditional Chinese Medicine (TCM), and the combination of advanced extraction techniques for both skin care products and makeup.

- **STELLA MCCARTNEY**

Fragrances have been available under the Stella McCartney label since 2003. Stella McCartney fragrances are offered in conjunction with L'Oreal. Her first fragrance, Stella, was introduced in 2003, with limited "Sheer" editions being offered each Spring in newly-designed bottles, and a "Print Collection" of special editions issued in 2011.

- **MAISON MARTIN MARGIELA**

Fragrance, in association with L'Oreal's Luxury Products Division.

- **URBAN DECAY**

Urban Decay is an American cosmetics company founded in 1996 by David Soward, Wende Zomnir, Patricia Holmes, and Sandy Lerner. There was a significant dispute as to whether Sandy Lerner wrongfully ousted her former friend and horse trainer, Patricia Holmes, from a "founders role" in the upstart brand. The brand is primarily sold in mid to high-end beauty stores, such as Ulta, Sephora, and recently Macy's. Urban Decay was bought by Moet-Hennessy Louis Vuitton in 2000, before being sold again in 2002 to the Falic Group. In 2009 it was acquired by Castanea Partners, a private equity firm. The label is based in Newport Beach, California, and has a distribution center in Hialeah, Florida.

On November 26, 2012, L'Oreal announced it will buy Urban Decay Cosmetics.

- ACTIVE COSMETICS

The Active Cosmetic division brands meets a range of different skin care needs from normal to blemish-proned, in healthcare outlets worldwide, including, pharmacies, drugstores, and medi-spas. Thanks to its highly complementary brands, developed and endorsed by health professionals- dermatologists, pediatricians, cosmetic doctors- the divison is the world leader in dermocosmetics.

- **VICHY**

Vichy is a premium brand of skincare, bodycare, make-up and anti-aging products owned byL'Oréal under its Active Cosmetics division and is sold exclusively in pharmacies. Thermal spa water from the hot springs of the town of Vichy, France, is the only water source used in its formulations. The company was founded in 1931.

The company is one of two ‘active cosmetics’ brands in the L'Oreal group, the other being La Roche-Posay. Vichy is most popular in Europe, and the company is known for their 'Dermablend' range of foundations and concealers.

- ## LA ROCHE POSAY

In 1989 the L’Oreal group takes over La Roche Posay, that has worked with dermatologists throughout the world to invent skincare and make-up products that meet their needs and requirements.

- ## SKINCEUTICALS

SkinCeuticals is the name of a skin care line founded in 1994. The products were based on a combination of antioxidant ingredients developed and patented by Sheldon R. Pinnell, M.D., the J. Lamar Callaway Professor Emeritus of Dermatology at Duke University Medical Center. Dr. Pinnell’s research demonstrated that certain combinations of antioxidants in specific concentrations could protect human skin from damage caused by sunlight and pollution resulting in oxidative stress. Specifically, the antioxidants had an anti-inflammatory effect on skin.

L’Oreal purchased SkinCeuticals in 2005, in what was honored as the “Deal of Year/Southwest” award from The Deal finance and business magazine.

- ## INNEOV

Innéov is born from the union of two companies that have strong belief in research: Nestlé and L’Oréal.
Innéov Laboratories develop nutritional supplements for the beauty that improve the appearance of skin, hair and nails.

- ## ROGER & GALLET

Roger & Gallet is a French perfume house, founded in 1862 in Paris. Brand specialized in cosmetics and well-being by the scent, it operates in three businesses: perfumery, toiletries and body care.
It is distributed in pharmacy, drugstore, perfumery, department stores and airport shops.
Absorbed by Sanofi in 1977, Roger & Gallet is a trademark since 2008 in L'Oréal.

- ## SANOFLORE

Founded in 1986 in the French Vercors, acquired by L'Oréal group in 2006, Sanoflore is specialized in aromatherapy products and organic cosmetics with essential oils. It offers complete ranges of cares for face and body, as well as flower waters and baby products.

- THE BODY SHOP

The Body Shop International plc, known as The Body Shop, has 2,400 stores in 61countries. The company, which has its headquarters in Littlehampton, West Sussex, England, was founded in 1976 by Anita Roddick and is now part of the L'Oréal corporate group.

All natural, distinctive and socially engaged. The Body Shop values are more elevant the the 21st century than ever. Its creative and innovative products that really work appeal to consumers worldwile.

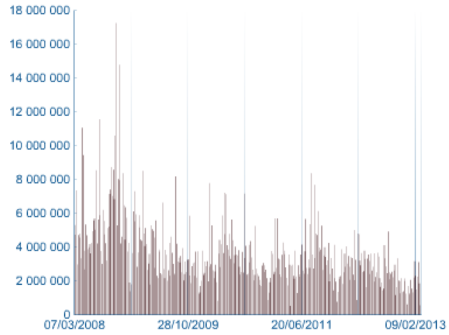
3. FINANCE

The L'Oréal Group is the world's largest cosmetics and beuaty company. With its registered office in Paris and head office in the Paris suburb of Clichy, Hauts-de-Seine, France, it has developed activities in the field of cosmetics. Concentrating on hair colour, skin care, sun protection, make-up, perfumes and hair care, the company is active in the dermatological, tissue engineering and pharmaceutical fields and is the top nanotechnology patent-holder in the United States.

L'Oréal is a listed company, but the founder's daughter Liliane Bettencourt and the Swiss food company Nestlé each control around 30 percent of the shares and voting rights.As we mention before, L’Oreal is an active anonymous company (S.A.) with shares traded.

The L’Oreal share was introduced to the Paris Stock Market on October 8th, 1963.
Nowadays L’Oreal has a total number of shares equal to 602.984.082 with a market price that changes every day but is approximately around 118,45€ and growing each day.
In the following pictures we can appreciate their fluctuating movements over the time as its tendency:

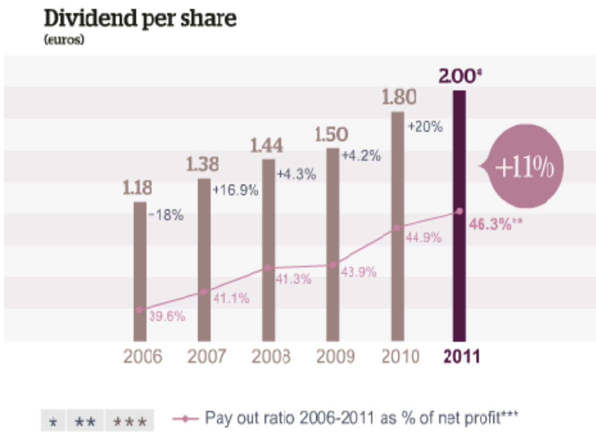
Comparison: L’Oreal / 5 years



In that point, we have a graph that give us information about dividends per share along the time, that's why we can compare and we can observe too the pay out ratio between 2006 and 2011 as a % of net profits:

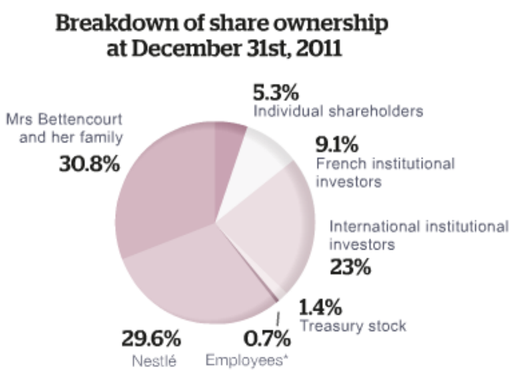
The interpretation of this graph, in a column chart, show as how the dividends of the company have been growing for the last six years.

And the line with a clear upward trend, indicates the percentage of payout as ratio.



In the below circle graph we can see the different share ownership.

Viewing the representation , we conclude that Mrs Bellecourt and her family is the maximum representative with a 30.8% of share ownership followed by Nestlé with a representation of 29.6% of the total. And also emphasizes the participation of International institutional investors with a 23%.



*See annex 3 –page:29-30-

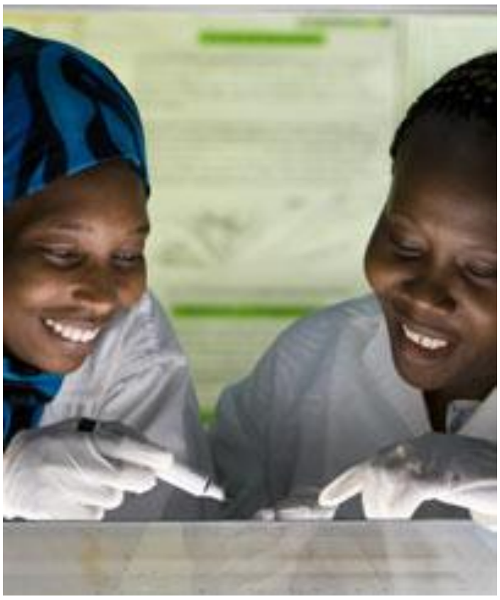
4. ETHICS AND PHILANTROPHY

- FOUNDATION

The founding values of the company – respect integrity and excellence – are not just words, but make up the reality of their day-to-day work and should be expressed every single day in their behaviour. L'oréal knows kite well that the global leaders of tomorrow are those companies who have integrated ethics into their strategic planning but also their every-day business practices.

L'oréal has a fundation, which is based in three objectives: make science more accessible to women, make education more widely available and restoring dignity and confidence.

- <u>Make science more accessible to women:</u>
  This programme, created by L'Oréal and UNESCO in 1998, was the first international distinction dedicated to women in science. It is designed to showcase scientific scellence and encourage young women to pursue a career in science.



- <u>Make education more widely available:</u>
  Launched in 2005, joined with UNESCO, the Hairdressers Against AIDS campaign aims to provide hairdressing professionals with the resources needed to inform people or risks related to the disease and raise awareness of how to prevent the spread of AIDS.

A special training programme for hairdressers is taught by over 3,000 instructors around the world at academies, salons and conferences organized by L'Oréal, which is constantly expanding and now covers some 26 countries around the world.

- Restoring dignity and confidence:
  For 20 years, surgical teams have been literally putting the smile back on the faces of thousands of men, woman and children disfigured by war, illness, deformity and cultural practices. In each case, patients undergo one or more operations to repair facial damage or give them back the use of their limbs. Beyond the physical repair by surgery, patients are given the chance to return to a normal life among families and communities, allowing them to again find their way in society, go to school, make friends, get a job and start a family. The campaign also trains local surgeons to handle cases on their own. As the exclusive partner of Opération Sourire, the L'Oréal Foundation funded more than 500 surgical operations in 2009, during 15 missions in 7 countries: Benin, Cambodia, Madagascar, Mali, Mongolia, Niger and Chad.

- SUSTAINABLE DEVELOPMENT

In a world facing an increasing number of challenges, the ethical values of L'Oréal are the basis or coherent policies in terms of responsible innovation, the environment, social and societal responsibility and philanthropy. Their ambition is to be one of the best companies in the world in terms of environment, health and safety. They are particularly proud to have supported the principles of the United Nations Global Compact since 2003, and to be renewing their commitment through concrete projects that are constantly progressing. Some examples of the last year are the followings.

We can remark that in 2011 we saw the launch of the 97% biodegradable Ultra Doux Almond and Lotus Flower shampoo and conditioner, and the 94% biodegradable Fructis Pure Brilliance shampoo and conditioner, which are products that minimize the environmental impact of ingredients on improving the biodegradability of formulas.

Related to the environmental care since 2007, L'Oréal has been committed to a strict policy of forestry certification for its paper and cardboard packaging through the active promotion of Forest Stewardship Council (FSC) certification. Produced via responsible forestry operations that guarantee the forest's sustainable management, FSC-certified materials are committed to the employment of local and regional workforces and the enforcement of stringent safety standards.

Another action, now related with the Human Resources of the company, is the creation of an international ethical guide for purchasing, for all staff in the group who deals with suppliers. It is an integral part of the group's Ethical Charter, and shows how L'Oréal ethical values such as integrity, mutual respect and excellence lie at the heart of the purchasing process. L'Oréal's purchasing is extremely varied, and covers raw materials, packaging, packaging machinery and buying services alike. For all these areas, the company has produced an ethical guide to help all the professional and occasional buyers involved in purchasing decisions in their daily relations with suppliers.

5. SUPPLIERS AND CLIENTS

- SUPPLIERS

Ethics and suppliers:

L'Oreal is committed to building strong and sustainable relationship with its suppliers, based on trust, mutual benefits and high standards.
L'Oreal relationship with its suppliers go beyond purchasing and supply of goods and services, They are essential to the long-term success of the business.

Trust and mutual benefits:

L'Oréal bases its relationships with its suppliers on a fundamental respect for their business, their culture, their growth, and the individuals who work there. The Group is committed to remaining loyal to both our local and international suppliers.

Sustainable development:

L'Oréal wants to be more than just economically successful. It also wants to be environmentally friendly and serve as a role model in social issues.
With this in mind, the Group, through its L'Oréal Buy&Care Program, has gotten its suppliers involved in a policy of making responsible and sustainable sourcing.

Innovation:

It teams of researchers and technicians work with our suppliers to offer new technologies and innovative solutions, and to develop the products and services of tomorrow.

The External Packaging Innovation process is built on a close collaboration between the Departments of External Prospective Innovation and Purchasing Innovation & Supplier Partnerships.

Quality:

With its suppliers, L'Oréal continuously seeks out quality and safety. For the L'Oréal Group, they are key factors in building trust with its consumers.
To reach these goals, L’Oréal draws its inspiration namely from international standards. It is also the result of the synergy between L'Oréal's and its suppliers' quality policies. L'Oréal shares a strong commitment with its suppliers in this area.

Logistics:

Whether moving physical objects or data, L’Oréal directly collaborates with its suppliers to continuously optimize the management of the supply chain, from the source to the consumer, in order to: improving responsiveness, optimally using production facilities and logistical means, cutting time-to-market, costs, and stock in a comprehensive policy of applying international standards.

L’Oreal and it’s suppliers: A new stage

Second edition of the Cherry Pack:

In 24 November 2011 was celebrated the second Cherry Pack in Saint Ouen. This edition, allow L’Oreal to develop close relations with its suppliers, once again provided rich moments of dialogue around numerous innovations.
For the second year running, L’Oreal staged its internal packaging innovation show, known as the “Cherry Pack”. During two days, 7 of around 15 preselected suppliers had the opportunity to present their innovations.

The format of this event certainly furthers L’Oreal ambition to develop long-term relations with its suppliers. The Cherry Pack provides the perfect opportunity for two days of direct, informal discussions between the Group’s brands and its suppliers.

The seven suppliers selected this year by L’Oreal are:

- Primary packaging category: JACKEL, REXAM, RPC and YONWOOD.
- Secondary packaging category: RLC.
- Sample and single dose category: BIOPLAN.
- Finishing and decoration category: POCHET-QUALIPAC-SOLEV Group.

- CLIENTS

It is known that the beauty gesture is at the heart of L’Oréal’s profession. It expresses an eternal and universal need: taking care of oneself and enhancing the appearance, to feel a sense of inner harmony and attunement with others.

L’Oréal has set itself the mission of offering all woman and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety. For this reason L’Oréal has a big range of consumers. It pursues this goal by meeting the infinite divertisy of beauty needs and desires all over the world.

This company tries to target new consumers applying the facts that beauty for all also means beauty for each individual, observing the local beauty needs and customs of every place, facilitating the access to cosmetic products and accelerating the regionalization of all kinds of expertise.

6. BIBLIOGRAPHY

- www.loreal-finance.com/eng
- Amadeus Program

7. ANNEXES

- ANNEX 1

Direct participation;

		HOLDING	
FIRMS	100%	50%<X<100%	<25%
	global integration	equity method	
AVENAMITE SA			
BANQUE DE RÉALISATIONS DE GESTION ET DE FINANCEMENT REGEFI	X		
BEAUTE CREATEURS	X		
BEAUTE RECHERCHE & INDUSTRIES	X		
BEAUTYCOS INTERNATIONAL CO. LIMITED	X		
BELCOS LTD.	X		
CANAN KOZMETIK SANAYI VE TICARET A S	X		
CANAN TUKETIM URUNLERI	X		
CHIMEX	X		
COSMELOR K.K	X		
ARECA ET CIE	X		
CENTREX		X	
COSMETIQUE ACTIVE INTERNATIONAL		X	
COSMETIQUE ACTIVE PRODUCTION		X	
FAPAGAU ET COMPAGNIE		X	
L OREAL PRODUITS DE LUXE INTERNATIONAL		X	
SUZHOU SHANGMEI INTERNATIONAL COSMETIC CO.,LTD		X	
COSMETIQUE ACTIVE FRANCE		X	
FAPROGI FABRICATION		X	

PRODUCTION LABO GARNIER IN			
TGROUPE CADUM		X	
INTER EDITION DIFFUS REVUE JOURN PERIO			X
aSANOFI			X
LOA3			X
LOGISTICA 93 SRL			X

p
art

Total participation:

	HOLDING	
FIRMS	100%	50%<X<1000%
	global integration	equity method
CADUM	X	
CENTRE LOGISTIQUE D'ESSIGNY	X	
COBELSA COSMETICOS SA	X	
COLAINAF	X	
CONSORTIUM GENERAL DE PUBLICITE	X	
COSBEL, S.A. DE C.V.	X	
EPISKIN BIOMATERIAUX	X	
FRABEL, S.A. DE C.V.	X	
HELENA RUBINSTEIN ITALIA SPA	X	
L OREAL MAROC	X	
G PRODUCTION INC		X
GALDERMA Q MED		X
GALDERMA ARGENTINA S.A.		X
GALDERMA HELLAS S.A.		X
INNEOV (SHANGHAI) TRADING		X
INNEOV ADRIA D.O.O.		X
INNEOV ARGENTINA SA		X
INNEOV BELGIQUE		X
INNEOV CANADA INC		X
INNEOV CHILE SA		X

- ANNEX 2

The members of the Executive Committee:

- Jean-Paul Agon: Chairman and Chief Executive Officer
- Laurent Attal: Executive Vice-President Research & Innovation
- Jean-Philippe Blanpain: Executive Vice-President Operations
- Nicolas Hieronimus: President L'Oréal Luxe
- Jean-Jacques Lebel: President Consumer Products Division
- Brigitte Liberman: President Active Cosmetics Division
- Marc Menesguen: Executive Vice-President Strategic Marketing
- Christian Mulliez: Executive Vice-President Administration and Finance
- Alexandre Popoff: Executive Vice-President Latin America Zone
- Sara Ravella: Executive Vice-President Communication, Sustainability and Public Affairs
- Frédéric Rozé: Executive Vice-President North America Zone
- Geoff Skingsley: Executive Vice-President Africa – Middle East Zone
- Jérôme Tixier: Executive Vice-President Human Resources and Advisor to the Chairman
- An Verhulst-Santos: President Professionnal Products Division
- Jochen Zaumseil: Executive Vice-President Asia, Pacific Zone

The Broad of Directors is composed by:

Jean-Paul Agon	Chairman and Chief Executive Officer since March 18, 2011 Director (term of office renewed in 2010)
Sir Lindsay Owen-Jones	Honorary Chairman Director (term of office renewed in 2010)
Jean-Pierre Meyers	Vice-Chairman of the Board of Directors (term of office renewed in 2012)
Peter Brabeck-Letmathe	Vice-Chairman of the Board of Directors (term of office renewed in 2009)
Françoise Bettencourt Meyers	Director (term of office renewed in 2009)
Paul Bulcke	Director since April 17, 2012
Charles-Henri Filippi	Director (term of office renewed in 2011)
Xavier Fontanet	Director (term of office renewed in 2010)
Bernard Kasriel	Director (term of office renewed in 2012)
Christiane Kuehne	Director since April 17, 2012
Marc Ladreit de Lacharrière	Director (term of office renewed in 2010)
Jean-Victor Meyers	Director since 2012
Annette Roux	Director (term of office renewed in 2011)
Louis Schweitzer	Director (term of office renewed in 2009)

- ANNEX 3

Subsidiaries:

- Avenamite S.A.
- Banque De Réalisations De Gestion Et De Financement Refefi
- Beaute Createurs
- Beaute Recherche & Industries
- Beautycos International Co. Limited
- Belcos LTD.
- Canan Kozmetik Sanayi Ve Ticaret A S
- Canan Tuketim Urunleri
- Chimex
- Cosmelor K.K.
- Cosmelor LTD.
- Cosmephil Holdings Corporation
- Cosmetique Active Ireland Limited
- Elebelle (PTY) LTD
- Episkin
- Erwiton S.A.
- L & J RE
- L'Oreal Argentina S.A.
- L'Oreal Balkan
- L'Oreal Beautylux International
- L'Oreal Brasil Comercial
- L'Oreal Central West Africa
- L'Oreal Egypt LLC
- L'Oreal France
- L'Oreal Italia SPA
- L'Oreal SLP SA De CV
- L'Oreal Verwaltungs GMBH
- L'Oreal vietnam Co LTD
- L'Oreal West Africa LTD
- L'Oreal México Servicios, S.A. De C.V.
- L'Oreal (China) Co., LTD.
- L'Oreal (Thailand) LTD
- L'Oreal Australia PTY Limited
- L'Oreal Maltic Sia Lietuvos Filialas
- L'Oreal Brasil Licienciamentos Empresariais Cosmeticos e Perfumes LTDA
- L'Oreal Danmark A/S
- L'Oreal Magyarorszag Kozmetikai KFT
- L'Oreal Middle East
- L'Oreal Slovensko, S.R.O.
- L'Oreal Ukraina
- L'Oreal USA
- L'Oreal Adria D.O.O.
- L'Oreal México, S.A. De C.V.
- Marigny Manufacturing Australia
- Masrelor LLC
- Meike Cosmetic (Shanghai) CO.,LTD
- Nihon L'Oreal K.K.
- NLO KK
- Oomes B.V.
- Oreal
- Parbel Of Florida, INC.
- Parfums Guy Laroche SA
- Procosa Produtos De Beleza Ltda.
- Roger & Gallet
- Sam Biotherm
- Scental Limited Hong Kong
- Sofamo
- Soprocos
- Sparlys
- The Body Shop International PLC
- Venprobel
- Yichang Tianmei International
- Ysl Beaute (Hong Kong) LTD
- Ysl Beaute Middle East FZCO
- Ysl Beaute Singapore PTE LTD
- Cadum
- Centre Logistique D'Essigny
- Cobelsa Cosmeticos SA
- Colainaf
- Consortium General De Publicite
- Cosbel, S.A. De C.V.
- Episkin Biomateriaux
- Frabel, S.A. De C.V.
- Holdial
- L'Oreal Belgilux
- L'Oreal (U.K.) Limited
- L'Oreal Malaysia SDN BHD
- L'Oreal Philippines, INC
- L'Oreal Colombia SA
- L'Oreal Istrael LTD
- L'Oreal Hellas S.A.
- Ysl Beaute
- Prestige Et Collections International
- Cosmetique Active International
- Cosmetique Active Production
- Sicos Et CIE
- Fapagau Et Compagnie
- L'Oreal Produits De Luxe International
- Suzhou Shangmei International Cosmetic CO., LTD
- L'Oreal Produits de Luxe France
- Gemey Maybelline Garnier Garier Gemey Paris Maybelline New York
- Maybelline Suzhou Cosmetics LTD
- L'Oreal España SA
- Cosmetique Active France
- Faprogi fabrication Production Labo Garnier IN
- Groupe Cadum
- Laboratorios De Cosmeticos Vogue SAS
- Pacific Bioscience Laboratories
- Caribel Fragnaces INC
- L'Oreal USA Skinceuticals
- L'Oreal Baltic SIA
- G Production INC
- Gaderma Q MED
- Galderma Argentina S.A.
- Galderma Belgilux
- Galderma De Colombia SA
- Galderma Hellas S.A.
- Galderma Holding AB
- Galderma Laboratories

- L'Oreal Bulgaria EOOD
- L'Oreal Ceska Republika, S.R.O.
- L'Oreal Hile S.A.
- L'Oreal Deutschland GMBH
- L'Oreal Finland OY
- L'Oreal India PVT. LTD.
- L'Oreal Investment B.V.
- L'Oreal Kazakstan
- L'Oreal Manufacturing Midrand (PTY) LTD
- L'Oreal Middle East
- L'Oreal Nederland Consumenten-en Kappersproducten BV
- L'Oreal New Zealand Limited
- L'Oreal Norge AS
- L'Oreal Oesterreich GMBH
- L'Oreal Peru S.A.
- L'Oreal Polska SP. ZO.O.
- L'Oreal Portugal – Unipessoal, LDA.
- L'Oreal Romania SRL
- L'Oreal Singapore PTE LTD
- L'Oreal Slovenija, Kozmetika, D.O.O.
- L'Oreal Soith Africa Holdings (PTY) LTD
- L'Oreal Suisse SA
- L'Oreal Sverige AB
- L'Oreal Taiwan CO LTD
- L'Oreal Turkiye Kozmetik Sanayi
- L'Oreal Uruguay
- L'Oreal Venezuela
- L'Oreal Zao
- L'Oreal Japan LTD
- L'Oreal Canada INC
- L'Oreal Panama S.A.
- L'Oreal Guatemala S.A.
- L'Oreal Nederland B.V.
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- Lancome Parfums Et Beaute & CIE
- Lancos
- Le Club Des Createurs De Beaute
- Lehoux Et Jacque
- L'Oreal Co.
- Helena Rubinstein Italia SPA
- L'Oreal Maroc
- L'Oreal Saipo Industriale SPA
- L'Oreal Produktion Deutschland Beteiligungs-Gesellschaft MBH
- L'Oreal Produktion Deutschland BMBH & Co. KG
- Le Club Des Createurs Cosmetocversand Verwaltungs GMBH
- Matrix Distribution GMBH
- Productos Capilares L'Oreal SA
- Redken France
- Hydrominerale De La Roche Posay
- Skinethic
- Areca ET CIE
- Centrex
- Cie Thermale Hoteliere & Financeire
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- Finval
- Gemey Paris Maybelline New York
- Goldys International
- Helena Rubinstein
- Kosmepol SP. ZO.O.
- L'Oreal Cosmetic Industry SAE
- L'Oreal Pakistan
- L'Oreal Hong Kong Limited
- L'Oreal Indonesia
- La Roche Posay laboratoire Pharmaceutique
- Lascad
- L'Oreal Liban SAL
- Perfums Cacharel & CIE
- Parfums Paloma Picasso
- Parfums Ralph Lauren
- PT Yasulor Indonesia
- Seda Plastik Ve Boya Sanayi Ithracat Ticaret AS
- Soc De Developpment Artistique
- Soproreal
- Viktor & Rolf Parfums
- Ysl Beuate Vostok

South Africa (PTY) LTD

- Galderma Pharma SA
- Galderma Philippines, INC
- Galderma Uruguay SA
- Inneov (Shanghai) Trading
- Inneov Argentina SA
- Inneov Belgique
- Inneov Canada INC
- Inneov Chile SA
- Inneov CZ, S.R.O.
- Inneov France
- Inneov Hellas S.A.
- Inneov Italia S.P.A.
- Inneov Mexico SA De CV
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- Inneov Nutrikozmetik Ticaret VE
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- Inneov Polska Sp. ZO.O.
- Inneov SK SRO

Inneov Suisse SA

- Inneov, Prehrambeni Dodatki, D.O.O.
- Laboratoires Inneov
- Laboratoires Inneov Portugal, Unipessoal, LDA.
- Laboratorios Galderma Chile LTDA
- Liability Limited Company Galderma
- Q-Med Holding Sweden AB
- Societe A Reponsabilite Limitee Inneov
- Cosmetil
- Inter Edition Diffus Revue Journ Perio
- Sanofi Aventis Groupe
- Sanofi
- LOA3
- Logistica 93 SRL
- L'Oreal Libramont

L'ORÉAL

BECAUSE YOU'RE WORTH IT

RISK ANALYSIS

Names: *Corominas Sotero, Àfrica*
García Santos, Laura
Subject: *Analysis of financial statements*
Professor: *Martí Fidelaserra, Jordi*

CONTENTS

8. RISK FACTORS

L'Oréal operates in a changing environment. Like any company, it is necessarily exposed to risks which, if they were to materialize, could have a negative impact on its business activities, its financial situation and its assets. We are going to present the main risks to which the Group considers that it is exposed: those specific to the business activities of L'Oréal, then the legal, industrial and environmental risks, and finally the risks of an economic and financial nature.

- **BUSINESS RISK**

Image and reputation

No company is safe from an undesirable event whether this involves the use or misuse of a product or reprehensible individual conduct. In order to reduce the risks that may arise from events of this kind, L'Oréal has set up a crisis management procedure, whose global task is to prevent, manage and limit the consequences of undesirable events on the Company. The Group crisis management officer reports directly to the Chief Executive Officer. Furthermore, the deployment of the Code of Business Ethics throughout the whole Group aims at reinforcing the spreading of the rules of good conduct which ensure L'Oréal's integrity and strengthen its ethics. The circulation in the media of detrimental information, whether founded or not, which has been facilitated by the introduction of new technologies and development of the social networks, could also affect the Company's reputation and its brand image.

Product quality and safety

L'Oréal goes one step further in the safety evaluation by monitoring the potential adverse effects that may arise when the product is marketed.

Faced with the questions that civil society may ask regarding certain substances and their effects on health and the environment, L'Oréal's position may be summed up in three points:

- vigilance with regard to any new scientific data;
- cooperation with the relevant authorities;
- precautions leading to substitution of ingredients in the event

of a proven risk or a strongly suspected risk.

Responsible Communication

In spite of all the care L'Oréal take to guarantee the accuracy and fairness of the claims made in these communications, there is always a possibility that they may be challenged by the authorities, organizations or consumers.

Seasonal nature of the business

The pace of sales may, in certain cases, and for specific products, be linked to climate conditions, such as for example suncare products.

Geographic presence and economic and political environment

In periods of major economic slowdown or in sovereign debt crisis situations in certain countries (for example) growth in the Group's sales may however be affected.

This happens since l' Oréal is a cosmetics company, being so, is not a product of first necessity and, therefore, a product that you easily do without it. L'Oreal fought so the factor in the crisis with a better quality of their products and always differentiates from its competitors.

Distribution network

The concentration or disappearance of distribution chains and changes in the regulations with regard to selective distribution could have an impact on the development of the Group's brands in the country or countries concerned.

In our case, we can say that l' Oréal is a clear example of one of the companies of cosmetics with best distribution network since it operates with more than 2000 points of sale around the world. That is why the factor distribution network in our company has little risk.

Competition

Due to its size and the positioning of its brands, L'Oréal is subject to constant pressure from local and international competitors in all countries.

Thus as we have indicated in previous sections, l' Oréal tries to differentiate itself from its competitors giving a higher quality in their products, however, still are powerful competitors increasing factor risk of our company.

Innovation and consumer expectations

If the Group fails to anticipate or interpret changes in consumer behavior and new trends, its sales could be affected.

So l'Oreal wants to combat this risk in anticipation of new creations and enhancements of existing products with a large and complex R & D department with daily investigates new techniques to deal with the constantly changing needs of consumers.

External growth transactions

Information systems

The risk of a malfunction or breakdown in these systems for exogenous or endogenous reasons (including intrusions, malicious acts, etc.) cannot be precluded.

Risks related to Human Resources management

Should L'Oréal not succeed in identifying, attracting, keeping and training competent employees who behave responsibly, the development of its activities and its results could be affected.

Risk of an Internal Control failure

- **LEGAL RISK**

Intellectual property

The trademark name, the products themselves and the models may be infringed or counterfeited by economic players wishing to illegally and illegitimately claim the benefits of their reputation.

Industrial property: patents

Changes in the regulations

L'Oréal is subject to the laws which apply to all companies and strives to adopt an attitude beyond reproach.

- **INDUSTRIAL AND ENVIRONMENTAL RISK**

Production and supply Chain

A major stoppage of activity in a factory or a distribution centre could have an adverse effect on the achievement of commercial objectives.

In order to prevent this risk, business continuity plans exist for each operational site. They aim at anticipating the unavailability of part of the Group supply chain as far as possible and at restarting activities as quickly as possible.

Supplier dependence

L'Oréal is dependent on its external suppliers for the delivery of materials (raw materials and packaging items) that are essential for the manufacture of finished products, which may therefore suffer disruption as the result of a default by an important supplier.

In order to prevent these risks, L'Oréal has prepared business continuity plans for production which aim notably at looking for replacement solutions (for example: supplier back-up, availability of several moulds for strategic products).

Environment and safety

The main risk faced in the Group's industrial sites is fire due to the inflammable materials used in products (alcohol, propellant gases, powders, oxidants and solvents) and the storage of combustible products and chemicals.

Constant concern for the safety of employees

An International business travel assistance programme provides their employees with health and safety information on the countries they are visiting.

- **COUNTERPARY RISK**

The Group enters into financial relations in priority with international banks and insurance companies given the best ratings by the three main specialized rating agencies.

- **CUSTOMER RISK**

The customer risk may result from non-collection of receivables due to cash problems encountered by customers or due to the disappearance of customers. However, this risk is limited by Group policy which is to take out customer insurance cover inasmuch as this is permitted by local conditions. Furthermore, due to the large number and variety of distribution channels at worldwide level, the likelihood of occurrence of significant damage on the scale of the Group remains limited.

The 10 largest customers/distributors represent around 19 % of the Group's sales.

- **LIQUIDITY RISK**

The Group's Financial Services Department centralizes all the subsidiaries' financing needs and also negotiations with financial institutions in order to have better command over financing conditions. Any transactions that may be carried out directly by subsidiaries are closely supervised.

- **FINANCIAL AND MARKET RISK**

Financial risks include interest rate risk, currency risk, the risk relating to the impairment of intangible assets, equity risk, risks with regard to the assets hedging employee commitments, the risk relating to changes in tax regulations and the core commodity risk.

Interest rate risk

For the requirements of its development and its capital expenditure policy, L'Oréal uses borrowings and short-term papers. In order to limit the negative impact of interest rate variations, the Group has a <u>non-speculative interest rate management policy using derivatives</u>.

Currency risk

Due to its international presence, L'Oréal is naturally exposed to currency variations. The fluctuations between the main currencies may therefore have an impact on the Group's results, at the time of translation into Euro of the non-Euro financial statements of subsidiaries, and may therefore make it difficult to compare performances between two financial years. In addition, commercial flows involving the purchase and sale of items and products are carried out between subsidiaries in different countries. In order to limit currency risk, the Group adopts a conservative approach of hedging at year-end a significant portion of annual requirements for the following year through forward purchases or sales contracts or through options. Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress. In order to benefit from better visibility of the flows generated, currency risk management is centralized with the Treasury Department at head office (Financial Services Department) which uses a specific tool for centralizing the subsidiaries' requirements by currency (FX report).

Risk relating to the impairment of intangible assets

Equity risk

L'Oréal does not invest its cash in shares. For L'Oréal, the main equity risk lies in the 8.91% stake that it holds as of December 31st, 2012 in the capital of Sanofi. If the Sanofi share price were to fall below the initial share price significantly or on a prolonged basis, this would potentially expose L'Oréal to impairing its assets through the income statement.

Risks with regard to the assets hedging employee commitments

The assets used as financial hedges for employee commitments are, by nature, exposed to the fluctuations on the markets on which such assets are invested. Pursuant to the provisions of the Charter on the Management of assets dedicated to the hedging of the Group's employee commitments, the allocation by category of assets is subject to limits aimed in particular at reducing volatility risks and correlation risks between these different categories of assets. A Supervisory Committee for the pension and benefit schemes offered by the Group's subsidiaries, ensures that these principles are implemented and monitored.

Risk relating to the change in tax regulations

The Group is exposed to risks of an increase in existing taxes, the introduction of new taxes, or double taxation concerning in particular corporate income tax, customs duties, and import taxes, the repatriation of dividends or social levies, which could have an adverse impact on the Company's results.

Core commodity risk

The production of cosmetics depends on the purchase of raw materials, at fluctuating prices. These raw materials or components enter into the composition of products or their packaging. The main core raw materials are polyethylene, polypropylene, aluminium and vegetable oils and their by-products. An exceptionally large increase in the price of these raw materials or energy prices on the world market could have a direct effect on the manufacturing cost of the cosmetics. It is nevertheless estimated that the impact of this rise on gross margin would remain limited. In order to anticipate the effect of these fluctuations and as a preventive measure, L'Oréal negotiates price indices with its main suppliers of raw materials and packaging items. The Group therefore does not use hedging.

- **INSURANCE**

The objective of the Group's policy on insurance is to protect the Group's assets and property from the occurrence of identified material risks that could adversely affect it. This risk transfer forms an integral part of the Group's risk management process.

9. VARIATION (%) ANALYSIS

In this section we are going to compute some statistical calculus and try to show their interpretation in relation to the analysis risk of L'Oréal. It is based on the variation of the share price of L'Oréal of the lasts four years.

$$\overline{variation(\%)} = 0{,}028$$

As we can see, the mean of the variation of the share price is 0,028.

$$Semi\ variance\ negative = 0{,}495$$

The negative semi variance shows the % of negative variations in the last four years. In our case is 49,5%. We could think that if we buy one share of L'Oréal, the next day or in the near future the probability of that this share will have a negative variation is 49,5%.

$$\overline{variation\ (\%) rank} = 1{,}693$$

The mean of the variation rank, which consist on the difference between the maximum price and the minimum price of the share is 1,693.

$$\overline{daily\ variation} = 0{,}0003$$

The mean of the daily variation is 0,003

$$\overline{annual\ variation} = 0{,}107$$

that converted in annual variation is 0,107.

$$variance = 3{,}078$$

The variance of the variation (%) is 3,078

$$Standard\ deviation = 1{,}755$$

And the Standard deviation is 1,755. If we consider that this Standard deviation is low, we can say that the variation (%) of the share price is homogeneous.

$$Variation\ coefficient = 63{,}214$$

The variation coefficient, which is the Standard deviation divided by the mean, is equal to 63,214.

$$Interval\ 95\% = [-3{,}48; 3{,}54]$$

The interval with a probability of 95% is [-3,48;3,54], it means that with a probability of 95%, in the worst of the cases the minimum variation of the share price will be -3,48 and the maximum 3,54.

$$Interval\ 66\% = [-1{,}73; 1{,}78]$$

The interval with a probability of 65% is [-1,73;1,78], it means that with a probability of 66%, in the worst of the cases the minimum variation will be -1,73 and the maximum one 1,78.

10. LONG AND SHORT TERM RISK

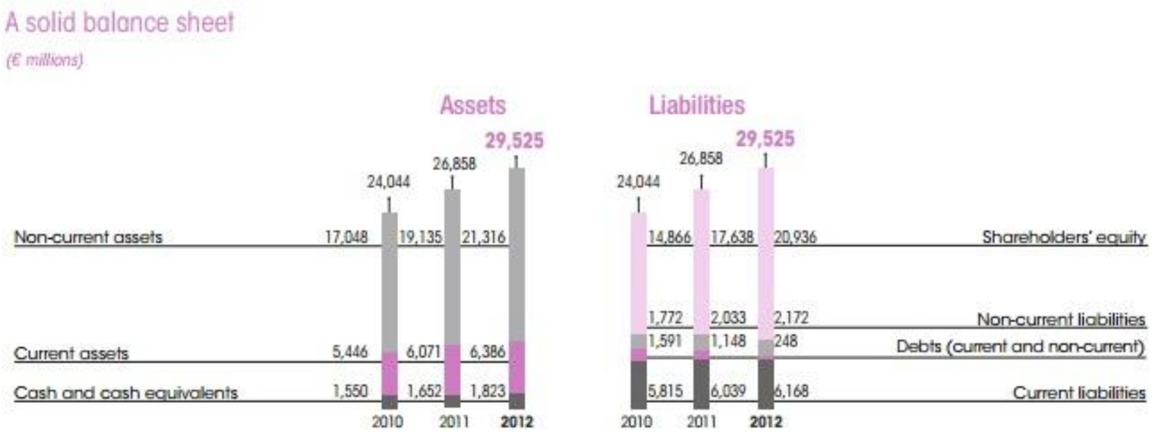
After analyzing the situations of the company L'Oreal and found the information in a synthesized form we obtained the following tables that will serve us to calculate the ratios and the risk.

ASSETS

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Non-current assets		21,315.5	19,135.0	17,048.2
Goodwill	11	6,478.2	6,204.6	5,729.6
Other intangible assets	12	2,625.4	2,477.3	2,177.5
Property, plant and equipment	14	2,962.8	2,880.8	2,677.5
Non-current financial assets	15	8,531.3	6,900.9	5,837.5
Deferred tax assets	9	717.8	671.4	626.1
Current assets		8,209.6	7,722.6	6,996.3
Inventories	16	2,033.8	2,052.1	1,810.1
Trade accounts receivable	17	3,208.8	2,996.2	2,685.3
Other current assets	18	1,006.6	904.1	846.0
Current tax assets		137.2	118.0	104.5
Cash and cash equivalents	19	1,823.2	1,652.2	1,550.4
TOTAL		29,525.1	26,857.6	24,044.5

EQUITY & LIABILITIES

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Equity	20	20,936.4	17,637.5	14,865.8
Share capital		121.8	120.6	120.2
Additional paid-in capital		1,679.0	1,271.4	1,148.3
Other reserves		13,690.6	12,368.8	11,107.1
Items recognised directly in equity		3,586.4	2,054.7	1,188.1
Cumulative translation adjustments		-109.4	24.9	-89.6
Treasury stock		-904.5	-644.4	-850.9
Net profit attributable to owners of the company		2,867.7	2,438.4	2,239.7
Equity attributable to owners of the company		20,931.6	17,634.4	14,862.9
Non-controlling interests		4.8	3.1	2.9
Non-current liabilities		2,219.2	2,090.2	2,596.6
Provisions for employee retirement obligations and related benefits	21	1,226.2	1,128.9	1,129.0
Provisions for liabilities and charges	22	181.7	226.1	181.3
Deferred tax liabilities	9	764.4	677.7	462.0
Non-current borrowings and debt	23	46.9	57.5	824.3
Current liabilities		6,369.5	7,129.9	6,582.1
Trade accounts payable		3,318.0	3,247.7	3,153.5
Provisions for liabilities and charges	22	552.3	500.7	536.9
Other current liabilities	25	2,141.1	2,066.7	1,958.1
Income tax		157.0	224.0	166.6
Current borrowings and debt	23	201.1	1,090.8	767.0
TOTAL		29,525.1	26,857.6	24,044.5



Once we have the data of current assets and current liabilities we can apply the formula of working capital and interpret the results of each year:

	Working capital
2010	414,2
2011	592,7
2012	1840,1

Working capital are the long-term resources that a company has to finance short-term operating needs, once it has financed its assets.

Working Capital (WC) = Current Assets – Current Liabilities

- If WC is > 0 : current assets > current liabilities
- If WC is = 0 : current assets = current liabilities
- If WC < 0 : current assets < current liabilities

As seen in the last three years l'Oreal has a positive working capital, that is to say its current assets exceed current liabilities. So our company can finance its short-term needs.

From a short-term risk we can distinguish three different ratios:

Solvency ratio: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$\frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$

Acid test ratio: $\frac{\text{Current Assets} - \text{Receivables} - \text{Inventories}}{\text{Current Liabilities}}$

The solvency ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities.

The acid test ratio measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Quick assets include those current assets that presumably can be quickly converted to cash at close to their book values. A company with a Quick Ratio of less than 1 cannot currently pay back its current liabilities.

In l'Oreal we have the next ratios:

	Solvency ratio	**(CA-Inv.)/CL**	**Acid test ratio**
2010	1,0629	0,7879	0,2355
2011	1,0831	0,7953	0,2317
2012	1,2888	0,9695	0,2862

Solvency ratio:

Comparing 2010 with 2011 we can see that both the current assets and the current liabilities have increased, which the solvency ratio remains more or less constant. However, in 2012, we observed a significant decrease in current liabilities and an increase in current assets, resulting in the solvency ratio increases to 1,288.

The ideal result would be equal to 1 ratio.

<1 = The company does not possess the reliability necessary to meet its short-term payments.

> 1 = The company can take the risk of having too many current assets, such as cash on hand, to not having invested can lose value over time.

As in the table we can fix, our company has a solvency ratio bigger than 1 in the last three years. So the company can pay its debts.

The second ratio is very similar to the first but excluding the inventories.

As we can observe again in the summary table, this ratio is more or less homogeneous in 2010 and 2011 (0.78 and 0.79 respectively), however, up 0.17 points in 2012 due to the decrease in current liabilities and also a small decrease of inventories, which indicates that this past year, our company has less short-term debt and less inventory to keep, so this ratio in 2012 increased significantly.

Acid test ratio:

If the test acid test of an organization is less than one, you do not have enough current assets to meet its current responsibilities. So it is very important for businesses to maintain a high test acid ratio, that is to say more than one.

In our particular case of L'Oreal, we note that the acid test of each year ratios are below 1, keeping almost constant between 2010 and 2011 (0.2355 and 0.2317 respectively) while in 2012 it increased to 0.2862 which means that in the last year we have a little more current assets (by subtracting the receivables and inventories) related to previous years.

The next step is the activity ratios (efficiency ratios) that measure the effectiveness of the firm use of resources:

Average Collection Period (APC): $\frac{\text{Receivables}}{\text{Sales}}$ x 365 days

Measures the number of days it takes to charge customers, and is defined by the relationship between the accounts receivable at the end of a certain period and the daily sales of that period, all multiplied by 365 days that is one year.

L'ORÉAL 2006-2012

€ millions	2006	2007 (1)	2008 (1)	2009	2010	2011	2012
Results							
Consolidated sales	15,790	17,063	17,542	17,473	19,496	20,343	22,463
Operating profit	2,541	2,827	2,725	2,578	3,057	3,293	3,697
As a percentage of consolidated sales	16.1%	16.6%	15.5%	14.8%	15.7%	16.2%	16.5%
Profit before tax and non-controlling interests	2,638	2,896	2,788	2,749	3,305	3,563	4,000
Net profit excluding non-recurring items after non-controlling interests	1,833	2,039	2,064	1,997	2,371	2,583	2,972
Net profit attributable to owners of the company	2,061	2,656	1,948	1,792	2,240	2,438	2,868
Total dividend	739	843	862	899	1,082	1,212	1,397 (2)
Balance sheet							
Non-current assets	19,155	17,030	16,380	17,350	17,048	19,135	21,315
Current assets excl. cash and cash equivalents	4,847	5,015	5,450	4,768	5,446	6,071	6,386
Cash and cash equivalents	781	1,087	1,077	1,173	1,550	1,652	1,823
Equity (2)	14,624	13,463	11,563	13,598	14,866	17,638	20,936
Net current and non-current debt (3)	3,329	2,373	3,700	1,958	41	-504	-1,575
Gross cash flow	2,410	2,720	2,746	2,758	3,171	3,226	3,661
Per share data (€)							
Diluted earnings per share attributable to owners of the company excluding non-recurring items	2.98	3.36	3.49	3.42	4.01	4.32	4.91
Dividend (5)	1.18	1.38	1.44	1.50	1.80	2.00	2.30 (5)
Share price at December 31st (4)	75.90	97.98	62.30	78.00	83.08	80.70	104.90
Highest share price during the year (4)	84.05	99.97	99.26	79.32	88.00	91.24	106.40
Lowest share price during the year (4)	62.30	74.25	53.32	46.00	70.90	68.83	79.22
Diluted weighted average number of shares outstanding (4)	615,723,220	606,012,471	590,920,078	583,797,566	591,392,449	597,633,103	605,305,458

As it is shown in the table, sales in 2010 were 19496 million €, in 2011 were 20343 million € and in 2012 sales were 22463 million € (thus we see positive trend with respect to sales). Receivables also increased each year.

	APC	APP
2010	50,27	202,05
2011	53,75	202,58
2012	52,13	183,82

The interpretation of these data is this:

In 2010 it takes 50,27 days to collect from customers. In 2011 the period increase to 53,75 days. And in 2012 the period is reduced slightly to 52,13 days.

Average Payment Period: $\frac{\text{Payables}}{\text{Purchases}}$ x 365 days

Measures the number of days it takes to pay suppliers, and is therefore the relationship between the average balance of accounts paid and everyday purchases, all multiplied by 365 days.

We deduced that purchases are sales minus gross profit. Thus we interpret that in 2010 it took 202,05 days to pay our suppliers, in 2011, 202,58 days (very slight increase over the previous year) and in 2012 the average payment period is reduced to 183, 82 days.

We conclude that the company L'Oreal takes longer to pay their suppliers than receive money from sales to customers. And that we calculate by using:

Liquidity Cash Cycle: APP – APC

	Liquidity Cash Cycle
2010	151,77
2011	148,82
2012	131,69

Finally we have calculated the Leverage ratio that measures the relationship between foreign capital (funds or resources provided by creditors) and equity (funds provided by the partners or shareholders, and which has caused the company), as well as the degree of indebtedness of assets.

Leverage ratio: $1 + \left(\frac{\text{Liabilities}}{\text{Equity}}\right)$

	Leverage ratio
2010	1,61
2011	1,52
2012	1,41

In the three years we observe that the equity is greater than liabilities, this is why the leverage ratio is greater than 1.

11. GRAPHICS

With the table that we have placed at the top we can see the trend in the value of shares in L'Oreal closing price compared to the Eurostoxx.

We see that until October 2008 approximately, the shares trading in Eurostoxx were above l’Oreal shares but even thought these last ones follows closely. From the beginning of October we see a change in the sense that the shares of L'Oreal are always above those of Eurostoxx and in most cases (last three years) well above them.

This second graph, we used moving averages of 50, 100 and 200 compared to the shares of L'Oreal and Eurostoxx.

The interpretation of this graph is that when the lines comes between them there are a change of trend either positive (bullish) or negative (bearish).

12. ROE, ROE BEFORE TAXES AND ROA

Return on equity (ROE) relates the economic benefit from the resources needed for that profit. Within the company, shows the return to shareholders. This ratio is used as a measure of the profitability of a company and allows comparisons of different companies.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equities}}$$

Or also expressed as: $\text{ROE} = \frac{\text{Net Income}}{\text{Revenues}} \times \frac{\text{Revenues}}{\text{Asstes}} \times \frac{\text{Assets}}{\text{Equity}}$

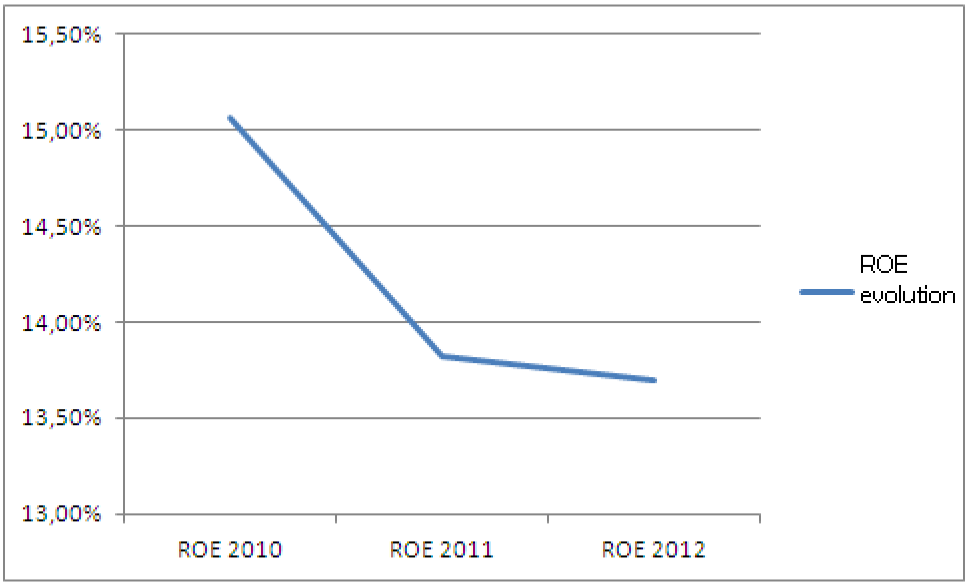
In our company, L' Oréal, have analyzed the Return on equities in 2010, 2011 and 2012 and has given us the following results:

$$\text{ROE 2010} = \frac{2.239{,}7}{19.496} \text{ x } \frac{19.496}{24.044} \text{ x } \frac{24.044}{14.866} = 0{,}150659222 = 15{,}06\%$$

$$\text{ROE 2011} = \frac{2.438}{20.343} \text{ x } \frac{20.343}{26.858} \text{ x } \frac{26.858}{17.638} = 0{,}138224288 = 13{,}82\%$$

$$\text{ROE 2012} = \frac{2.868}{22.463} \text{ x } \frac{22.463}{29.525} \text{ x } \frac{29.525}{20.936} = 0{,}136971972 = 13{,}70\%$$

What we can observe is that the ROE in 2010 to 2011 ROE was reduced in 2011 because the equity increases proportionally more than the net income and, 2011 to 2012, it has experienced a slight decline due to a more than proportional increase in the equity than in the net income of the previous year.



The definition of ROE involves us three different formulas to analyze:

- Margin ratio: measures the amount of every euro of sales of a company that actually keeps the profits. A high profit margin indicates that a company is more profitable since you have better control of your costs in comparison with its competitors.

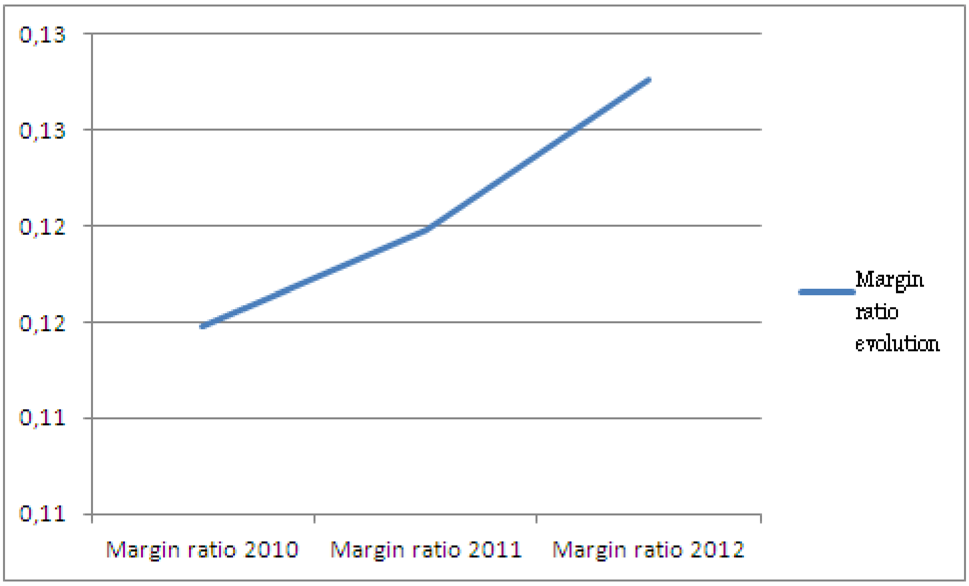
$$\text{Margin ratio 2010} = \frac{2.239,7}{19.496} = 0,1148$$

The margin ratio of 11.48% indicates that the company has a net profit of 0.1148 € per euro sales.

$$\text{Margin ratio 2011} = \frac{2.438}{20.343} = 0,1198$$

$$\text{Margin ratio 2012} = \frac{2.868}{22.463} = 0,1276$$

Comparing with the previous years, L' Oréal in 2012 gets more net benefits for every euro of sales. We appreciate a positive and growing trend.



- <u>Turnover ratio</u>: is a measure of the efficiency with which the assets of the company generate revenue.

$$\text{Turnover ratio 2010} = \frac{19.496}{24.044} = 0,8108$$

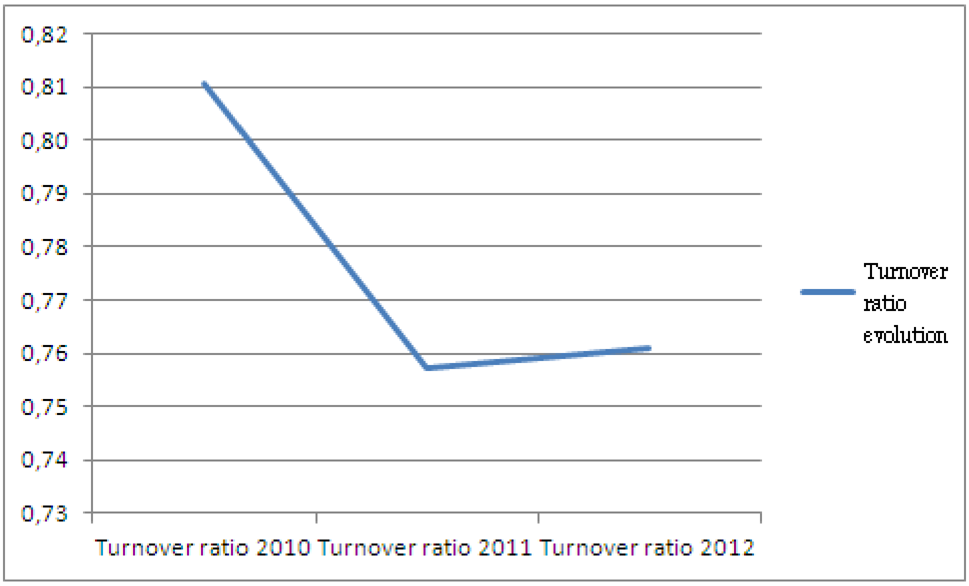
Which means that for every euro of assets of L' Oréal, the company generates 0.81 euros of income.

$$\text{Turnover ratio 2011} = \frac{20.343}{26.858} = 0,7572$$

Which means that for every euro of assets of L' Oréal, the company generates 0.75 euros of income.

$$\text{Turnover ratio 2012} = \frac{22.463}{29.525} = 0{,}7608$$

In 2012, the company, for each euro invest in assets, it generates 0,76 euros of income.



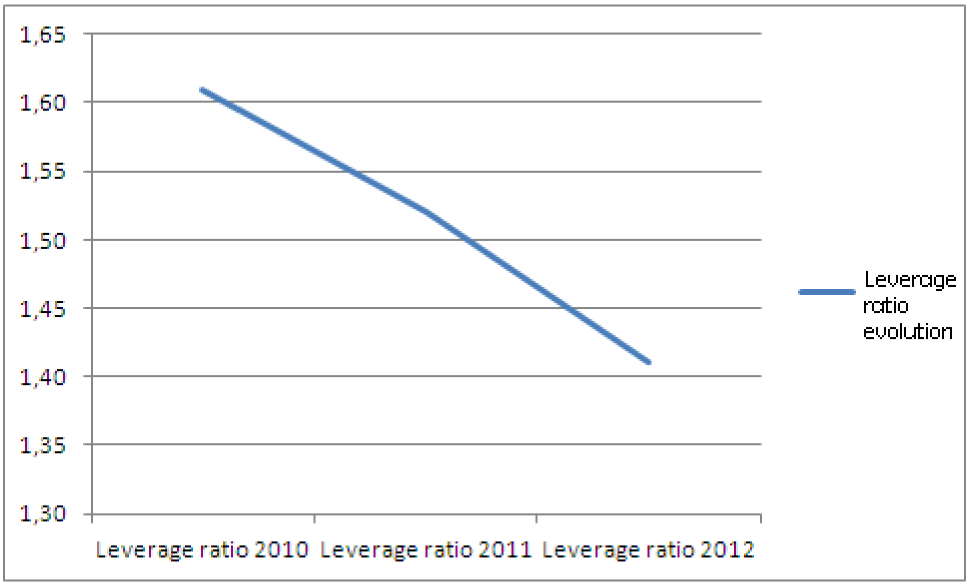
- Leverage ratio: indicates the leverage of a company, the amount of equity used to finance the assets.

$$\text{Leverage ratio 2010} = \frac{24.044}{14.866} = 1{,}61$$

$$\text{Leverage ratio 2011} = \frac{26.858}{17.638} = 1{,}52$$

$$\text{Leverage ratio 2012} = \frac{29.525}{20.936} = 1{,}41$$

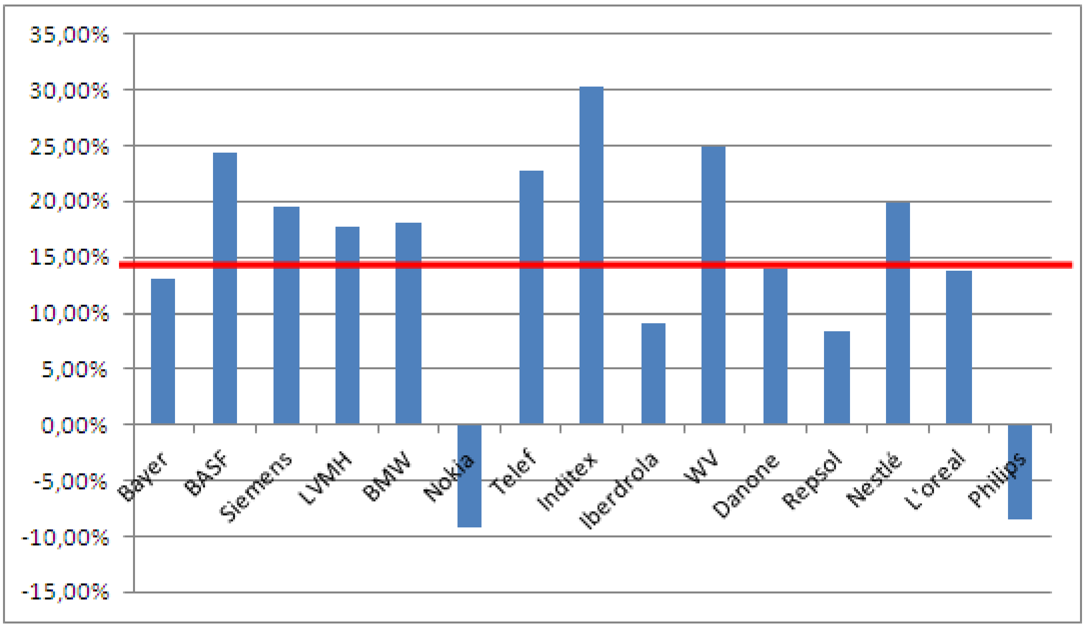
The degree of leverage in 2012 and 2011 has decreased compared to the 2010, which means that for each unit of equity, in 2010 it generated more assets than in 2011 and 2012.



In this section of the project, we are going to compare the ROE of our company with some other companies in the Eurostoxx.

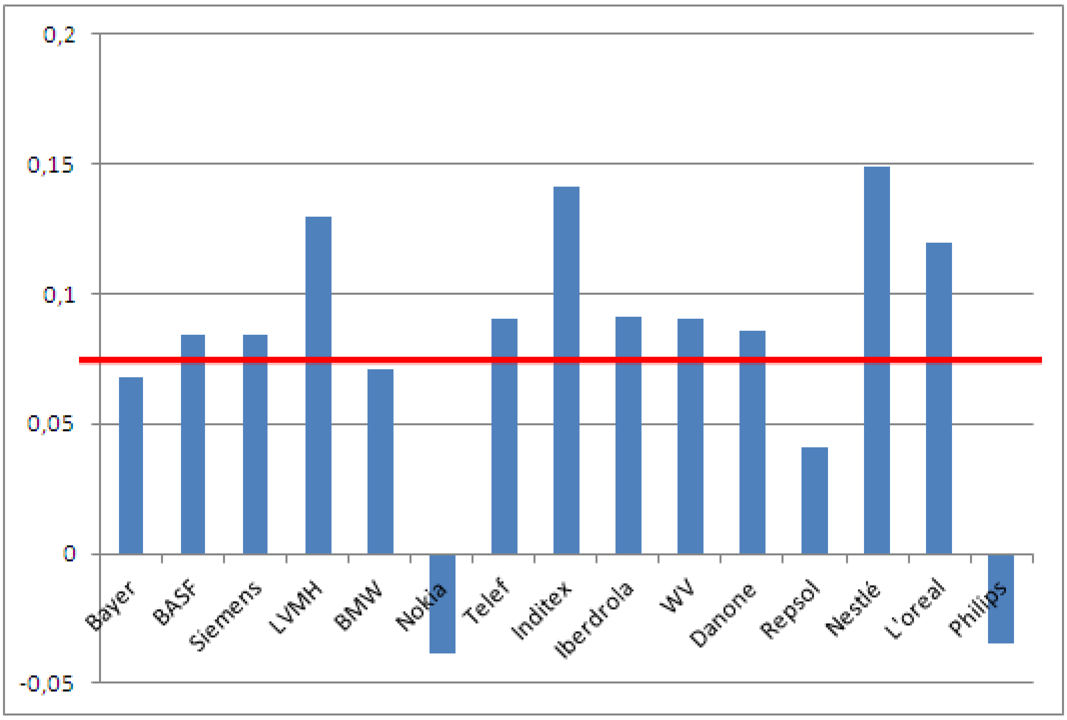
With this first chart, we see the ROE of the year 2011 the Eurostoxx enterprises.

The red line symbolizes the average of the 15 companies which corresponds to 14.57%. So we can conclude that l' Oréal has a ROE of 13.82% that is more or less in the middle.

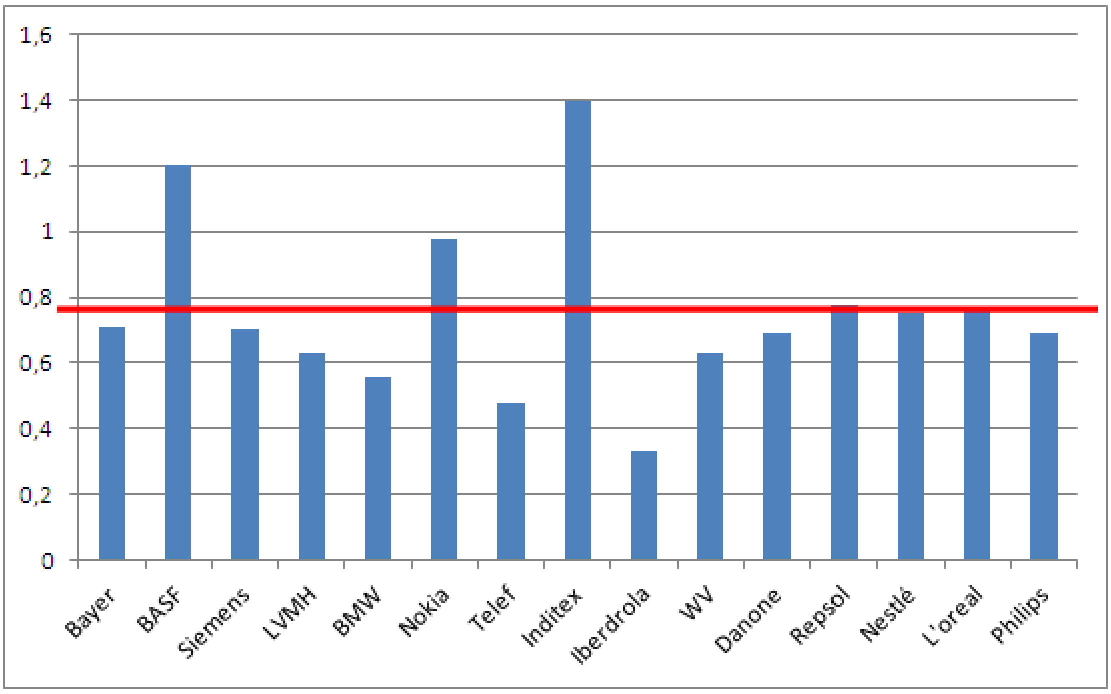


In the following chart we are comparing the margin ratio of companies of the Eurostoxx with L' Oréal. The red line shows again the average which in this case is 0,07808.

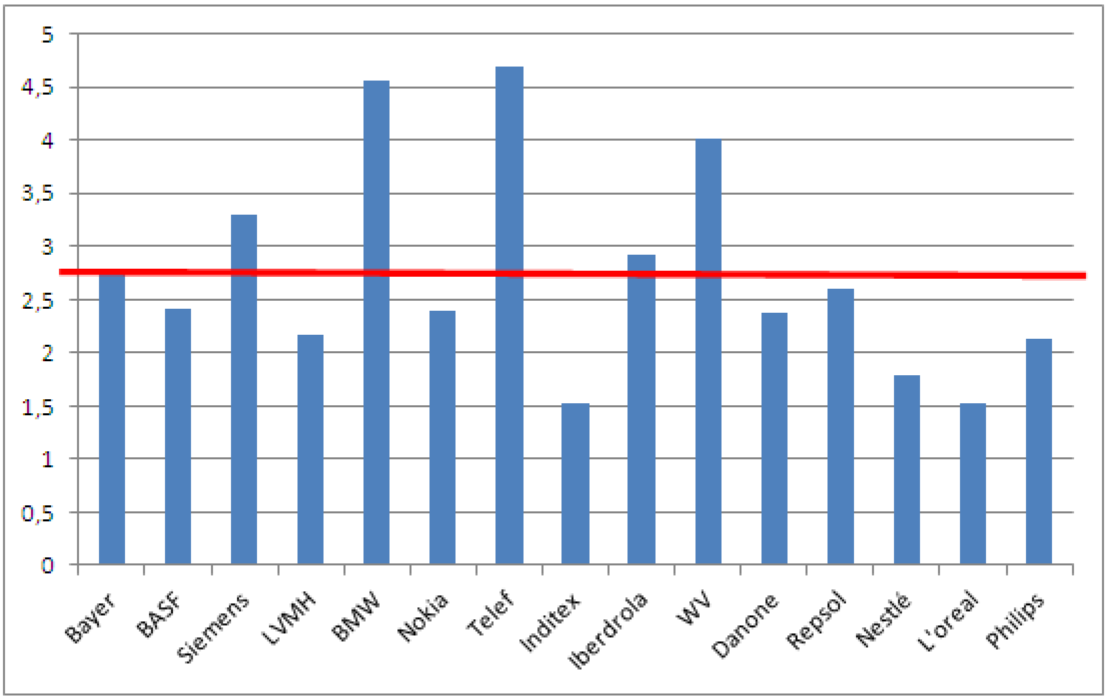
Thus we see that L'Oreal is well above the average, being the fourth company with more margin ratio.



In the third graph showing then we see the turnover ratio with an average of 0,75234. L' Oréal is this time right in the middle of the companies. Thus, we see that our company has an average turnover ratio.



The last graph refers to the leverage ratio with an average of 2,7429. It is curious to note that in this regard, L' Oréal is far from the average, really is the studied company with less leverage ratio.



Another term to take into account is the Return on equities before taxes (ROEbt), which as its name suggests, calculates the ROE before taxes.

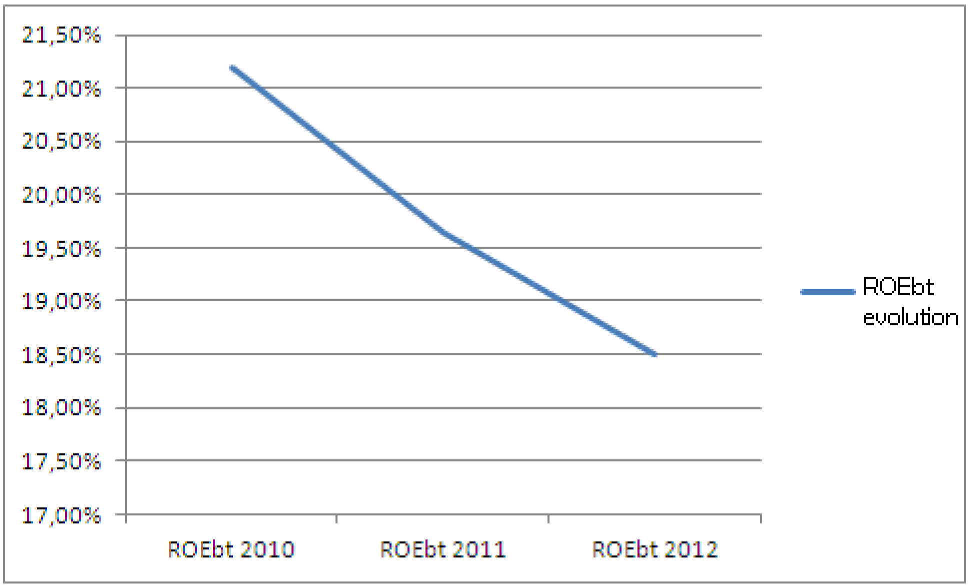
$$\text{ROEbt} = \frac{\text{EBT}}{\text{Equity}} = \frac{\text{Net income}(1-\text{real tax rate})}{\text{Equity}}$$

$$\text{ROE bt 2010} = \frac{3.152}{14.866} = 0{,}212027 = 21{,}20\%$$

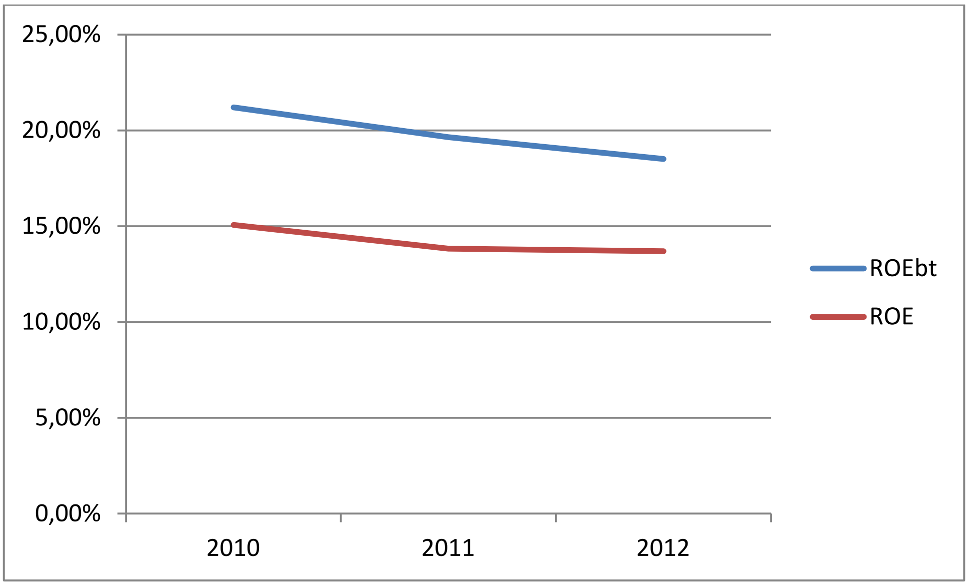
$$\text{ROE bt 2011} = \frac{3.467}{17.638} = 0{,}196564 = 19{,}65\%$$

$$\text{ROEbt 2012} = \frac{3.876}{20.936} = 0{,}185132 = 18{,}51\%$$

Seeing so and as is normal, comparing the ROE with the ROEbt is larger the second than the first because the ROE already we subtracted the interests and the ROEbt contains the interests.

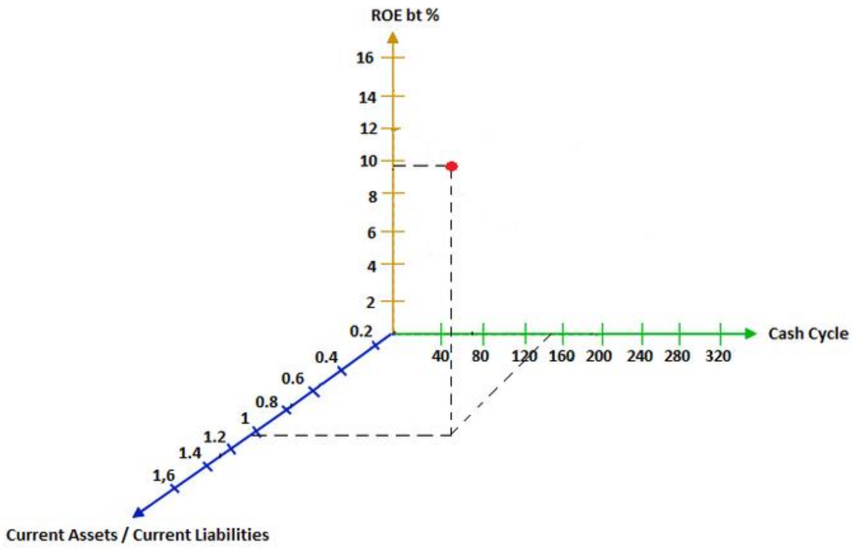


In the next graph we can appreciate the ROE vs ROEbt that the differences between these variables show us the taxes paid.



The next graph gives us information about the relation between ROEbt, Cash Cycle and Current Assets/Current Liabilities.

As in the previous project we say, our firm is in zone A as in the 3D chart is interpreted, so our firm is well positioned because the cash cycle is so large meaning that we have a lot of days to pay ours suppliers, the ROEbt is not so high but positive and, the current assets/current liabilities is positive to meaning that with our current assets we can pay our current liabilities.



We have another formula to calculate the ROEbt:

$$\text{ROEbt} = \text{ROA} + (\text{ROA} - e) \times \frac{\text{liabilities}}{\text{equities}} - j \times \left(\frac{\text{liabilities}}{\text{equities}}\right)^2$$

This way of calculating the ROEbt forces us to use the ROA which is an indicator of the profitability of the company in relation to its total assets. The ROA gives an idea of how efficient is the management of their assets to generate revenue.

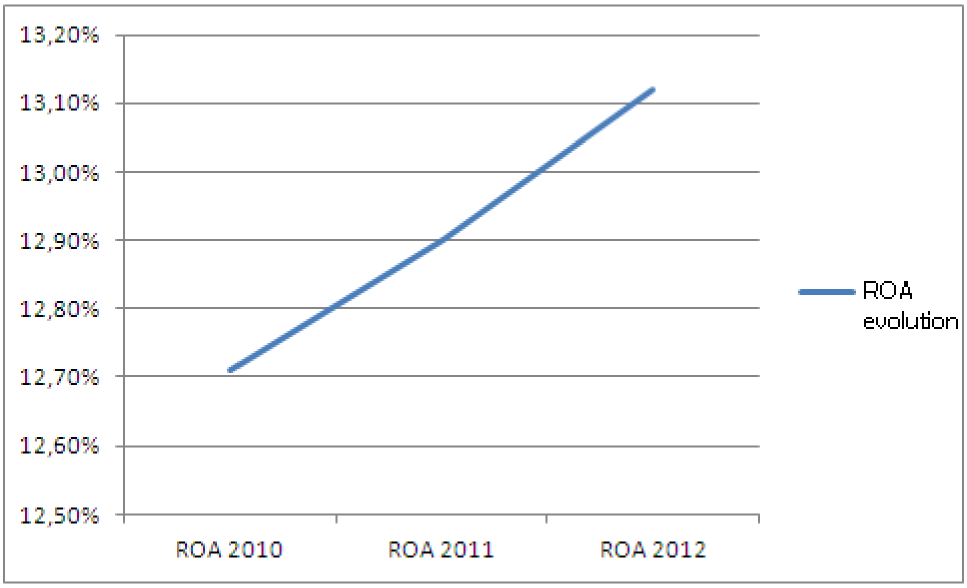
$$\text{ROA} = \frac{\text{EBIT}}{\text{Assets}} = \frac{\text{EBIT}}{\text{Revenues}} \times \frac{\text{Revenues}}{\text{Assets}}$$

$$\text{ROA 2010} = \frac{3.057}{24.044} = 0{,}1271 = 12{,}71\%$$

$$\text{ROA 2011} = \frac{3.467}{20.343} = 0{,}129086 = 12{,}90\%$$

$$\text{ROA 2012} = \frac{3.697}{22.463} = 0{,}131278 = 13{,}12\%$$

In this case, we see a positive trend from the evolution of these three years.



Following the formula of the ROEbt we meet another unknown: j.

j refers to the sensitivity of the banks to give to L' Oréal a loan.

It is calculated in the following way:

$$j = \frac{(k-e)}{\frac{\text{Liabilities}}{\text{Equity}}}$$

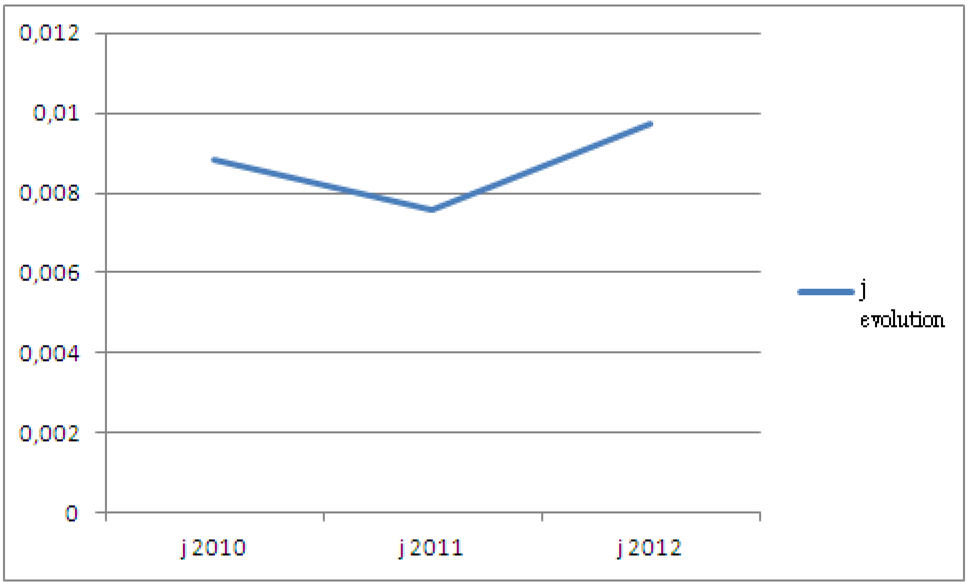
The e refers to the eurivor which is 0, 0049.

Returning to j:

$$j\ 2010 = \frac{(0{,}010350839 - 0{,}0049)}{\frac{9.178}{14.866}} = 0{,}008828958$$

$$j\ 2011 = \frac{(0{,}00094956 - 0{,}0049)}{\frac{9.220}{17.638}} = 0{,}007557242$$

$$j\ 2012 = \frac{(0{,}000901919 - 0{,}0049)}{\frac{8.589}{20936}} = 0{,}009745654$$



Having a small j, the Bank will give us the loan because it knows that we will refund without problems since the risk of our company is small.

The comparison between ROE and ROA is performed to determine the most convenient way to finance the total assets or the investment by the company. Or whatever it is to determine the financial (or passive) structure more suitable for the growth of the company.

The difference between the ROE and ROA is called effect leverage that can be:

-positive: when the ROE is superior to the ROA. This will be where the average cost of the debt is less than the economic profitability (ROA). In this case, part of the assets with debt funding has enabled the growth of the financial profitability (ROE).

-null: when both ratios match. This happens in the case in which all of the asset are financed with own funds.

-negative: when the ROE is inferior to the ROA. In this case the average cost of debt is higher than the economic profitability (ROA).

In the case of L' Oréal in 2011 and 2012, the ROE is greater than the ROA, thus reflected that our leverage effect is positive.

A company can increase the ROE either by increasing ROA or increasing the level of debt. As assets equals liabilities more heritage, then the ROA increases translate into increases of the ROE, since the financial cost remains constant as well as debt. If debt increases, it implies that they increase assets, leaving constant the heritage.

In our case, l' Oréal could increase its ROE increase financial leverage, i.e. increase the indebtedness of the company since when the company works well, with the increase in the debt, you will earn more money because it gains on equity more borrowed capital. However, it must be monitored with this level of debt since it can lead to an excess of debt that may enhance the risk of insolvency.

Another way to increase the ROE would be increasing the price of the product that the company sells. This can be done and consumers will accept the increase in the price, if the company manages to differentiate its products from the rest of the competition.

In order to increase the ROA we should watch the assets, thus check that there is too much because they have a negative impact on the financial performance of the company. Even the more modest reduction in the level of assets shall increase the ROA.

13. VALUE-ADDED

The value-added of l'Oréal is composed by the sum of EBITDA and wages or personnel costs of the company. In the case of this company will be:

$$Value - Added2010 = EBITDA + Wages = 3764{,}9 + 3791 = 7555{,}9\ MILIONS\ €$$

$$Value - Added2011 = EBITDA + Wages = 4182 + 3976{,}8 = 8158{,}8\ MILIONS\ €$$

$$Value - Added2012 = EBITDA + Wages = 4414{,}4 + 4389 = 8803{,}4\ MILIONS\ €$$

Now we have calculated the relationship between Wages and EBITDA:

$$Wages/EBITDA_{2010} = 3764{,}9/3791 = 0{,}993115$$

$$Wages/EBITDA_{2011} = 3976{,}8/4182 = 0{,}950932568$$

$$Wages/EBITDA_{2012} = 4414{,}4/4389 = 1{,}0057$$

In the case of 2011 for example, for every monetary unit of EBITDA we will find 0,95 monetary units of wages. For us, it means that L'Oréal doesn't need to pay low salaries for being profitable. It is very good that the value added of the company is increasing every year to.

14. REAL TAX RATE AND K RATE

This section is focused on taxes and interests of our company. For analyzing these two factors we are going to calculate "the real tax rate" and "k".

The real tax rate is the ratio obtained dividing taxes paid by EBT of L'Oréal.

$$Real\ tax\ rate = taxes/EBT = 978/3467 = 0{,}282088261$$

Our result is 28,21%, which means that for 1€ of Earnings Before Taxes 0,28€ will be designated on taxes.

In the table below, we can see reflected the reduction of EBT to Net Income due to taxes. We talk about amounts near to 1.000 million € of taxes.

Annual Income Statement Data

	Actuals in M €			Estimates in M €		
Fiscal Period **December**	2010	2011	2012	2013	2014	2015
Sales	**19 496**	**20 343**	**22 463**	**23 666**	**25 097**	**26 626**
Operating income (EBITDA)	**3 791**	**4 182**	**4 389**	**4 782**	**5 163**	**5 548**
Operating profit (EBIT)	**3 057**	**3 293**	**3 697**	**3 993**	**4 328**	**4 686**
Pre-Tax Profit (EBT)	**3 152**	**3 467**	**3 876**	**4 296**	**4 646**	**5 049**
Net income	**2 240**	**2 438**	**2 868**	**3 090**	**3 362**	**3 634**
EPS (€)	**3,79**	**4,08**	**4,74**	**5,13**	**5,54**	**5,97**
Dividend per Share (€)	**1,80**	**2,00**	**2,30**	**2,47**	**2,73**	**3,05**
Yield	**1,32%**	**1,47%**	**1,69%**	**1,82%**	**2,01%**	**2,24%**
Announcement Date	02/10/2011 06:14pm	02/13/2012 05:00pm	02/11/2013 06:51pm	-	-	-

The k ratio shows us the existent relationship between interests and non-current loans. In L'Oréal memories we found paid interest for year 2011 of 54.200€ and non-current loans of 57,5 million €.

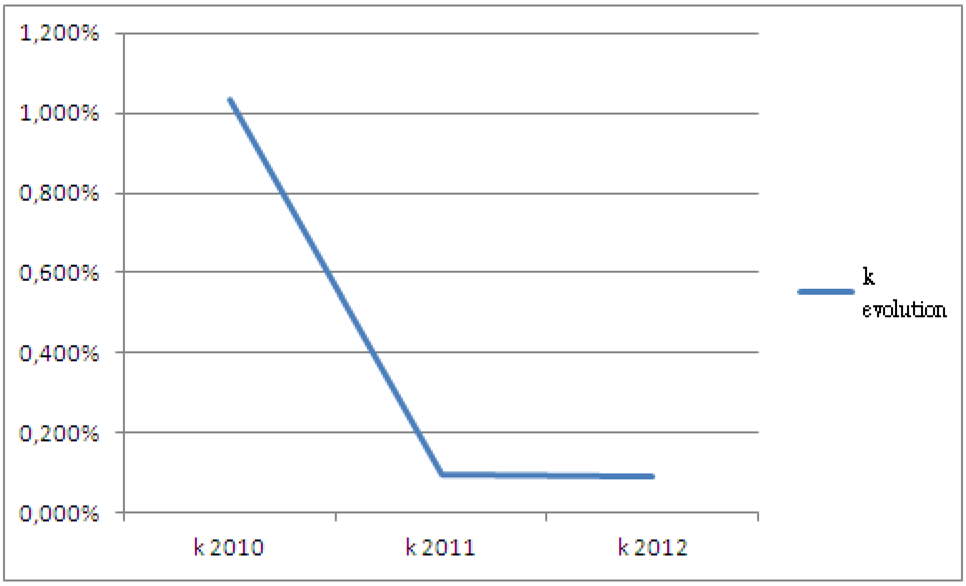
$$K\ = interests/loans = 0{,}0546/57{,}5 = 0{,}000949565$$

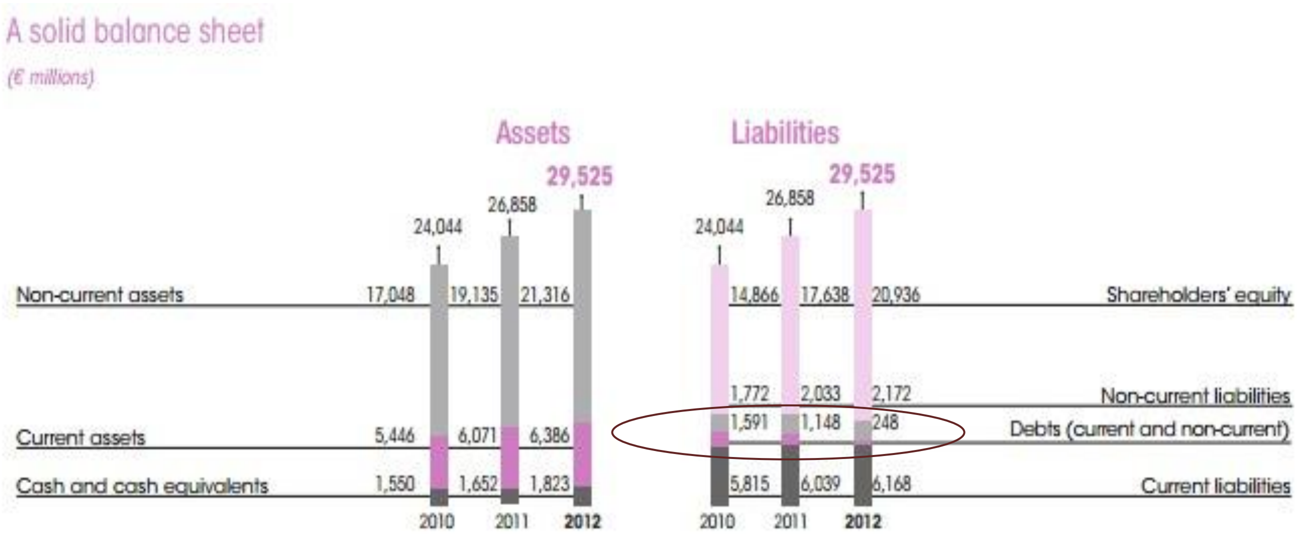
Dividing interests by loans, we obtain a result of 0,09%. It means that every € of loan generates 0,09€ interests. Our balance sheet reflects the low level of indebtedness of l'Oréal; we can conclude that the payment of interests is not a big problem for the company.

In 2010 the k is 0,010350839, meaning that for each euro of loans, we will get a 1,035% interest.

In 2011 the k is 0,000949565. It is said that for every euro of loans, we will get a 0,0949% interest.

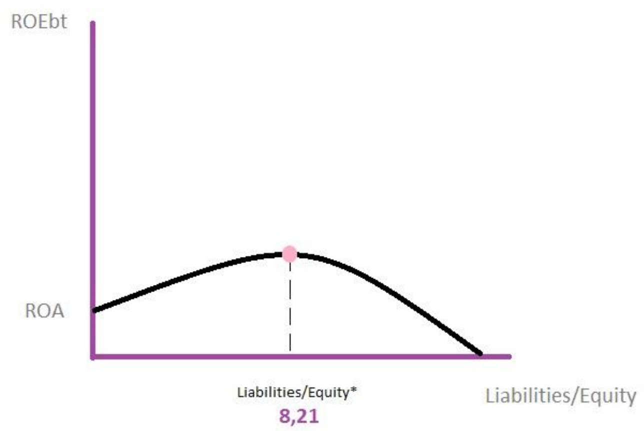
In 2012, the k is 0,000901919. Which means that this year we generate less tax for every euro in loans, in particular 0,0901%.





15. OPTIMUM LEVEL OF DEBT

It is very important to analyze the level of debt that would generate a better ROE before taxes. As we know, when the level of indebtedness increases, it expands the risk. In 2011 the relationship between liabilities and equity were:



$$Liabilities/Equity = 9220/\ 17638 = 0{,}5227$$

This reflects that the amount of liabilities is more or less a half part of l'Oréal's Equity. Now, if we want to search what would be the optimal level of indebtedness for 2011 we have to derivate ROEbt with respect (liabilities/equity):

$$ROEbt = ROA + (ROA - euribor) * (Liabilities/Equity) - j * ((Liabilities/Equity)^2)$$

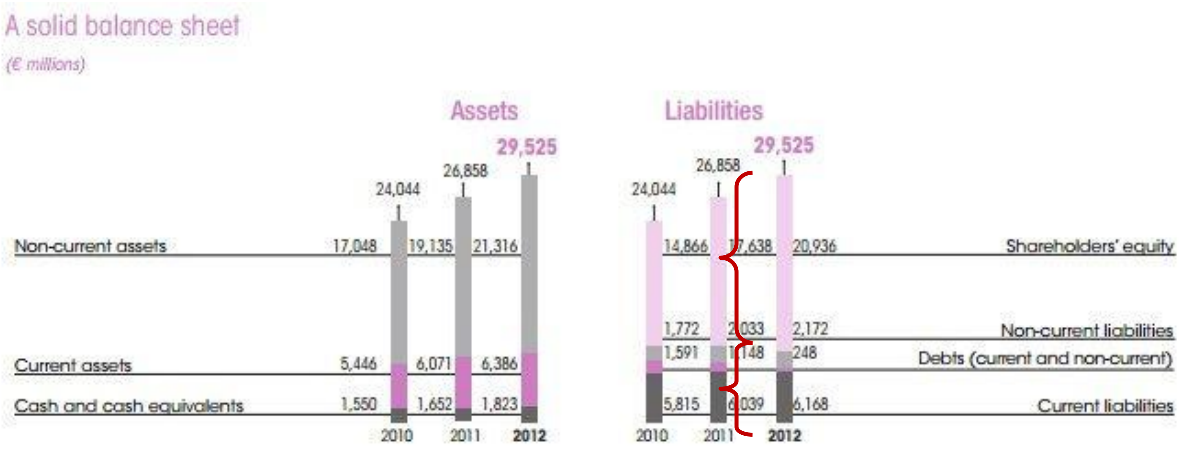
$$\frac{dROE}{d\left(\frac{Liabilities}{Equity}\right)} = 0 + (ROA - euribor) * 2 * j * \left(\frac{Liabilities}{equity}\right)$$

$$(ROA - euribor) - 2 * j * \left(\frac{Liabilities}{Equities}\right) = 0$$

$$\left(\frac{Liabilities}{Equity}\right)^* = \frac{ROA - euribor}{2 * j}$$

$$\left(\frac{Liabilities}{Equity}\right)^* = \frac{0{,}129 - 0{,}0049}{2 * 0{,}0075} = 8{,}21$$

Finally we found a optimal level of indebtedness of 8,21 with respect to equity. It is a very high value with respect of the reality of l'Oréal in 2011, with a value of 0,5227. It means that for improve the ROE before taxes, l'Oréal can increase its ratio of debt to 8,21 points. For every € of Equity, the optimum level of liabilities will be 8,21€. L'Oréal can increase more its liabilities. As we shown in the section of leverage ratio, we have one of the lowest leverage ratios in comparison with all companies. We conclude that l'Oréal can use more debt for financing their assets because the increase on benefits will compensate the increase of financial costs for sure. It is a company with a big amount of equity in relation liabilities as we can see in its balance sheet:



16. PER

The value of the PER (Price to Earnings Ratio) indicates how many times the net profit of a company is included in the price of a stock of the same company. When the PER is very high, meaning that investors are paying more for each unit of benefit.

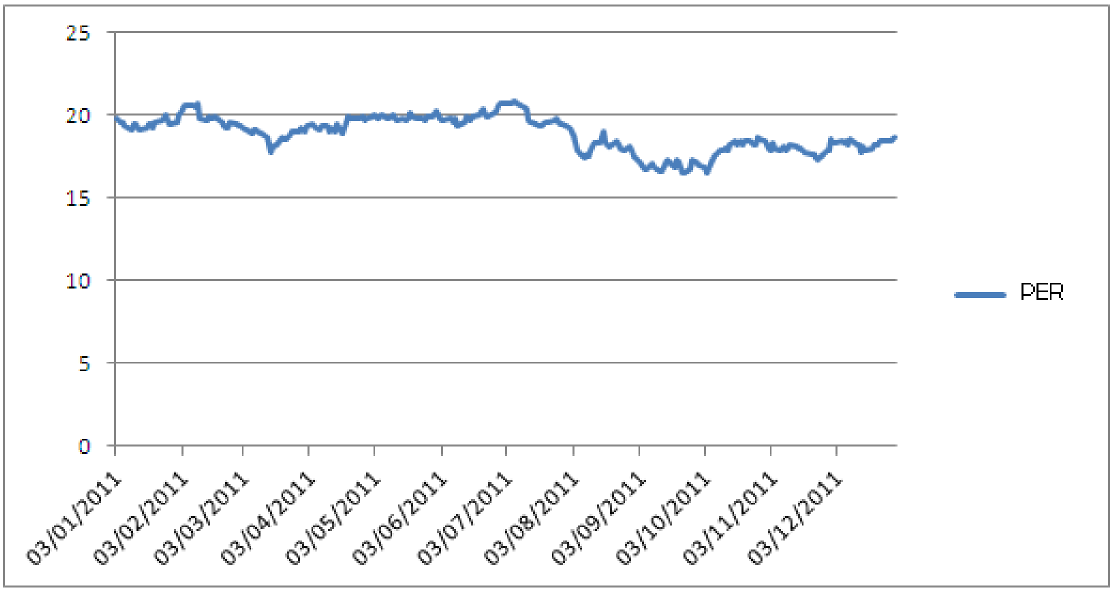
The interpretation of the PER is that if its value is high, can mean that the value expectations are good that is expected to grow from these or that shares are overvalued and, therefore, that the value of the share price it is unlikely to continue to rise.

On the contrary, a low PER it may mean that the action of the company is undervalued and may increase its price in the short term.

The ratio varies daily with the price variations experienced by the action. Many times, this ratio is used to find out what exciting is an action when you buy it.

The value of the PER in itself doesn't make much sense if not look at the evolution of it. Therefore we have prepared a chart where we can appreciate the evolution of the PER L' Oréal in 2011.

$$\text{PER} = \frac{\text{Price per share}}{\text{Earnings per share}}$$



The average of the PER in 2011 is 18,88 euros, which means company barnacle annual gains of 1.8 euros for every 10 euros which is worth action, so it should be more than 18 years for recovering the initial investment prices and current earnings.

17. NET PROFIT DISTRIBUTION

We have estudied what type of distribution of net profits l'Oréal applies and we found an interesting fact. Its policy seems to distribute more or less the 50% of benefits to dividends and the other 50% of benefits to reserves. A little percentatge of benefits is reinvested. This situation explains why l'Oréal has a big shareholder's equity with respect to liabilities. If we calculate the percentatge of equity growth from 2010 to 2012 we will find that:

$$\text{Equity Growth } 2010/2012 = \frac{20.936 - 14.866}{14.866} \text{x } 100 = \ 40{,}83\%$$

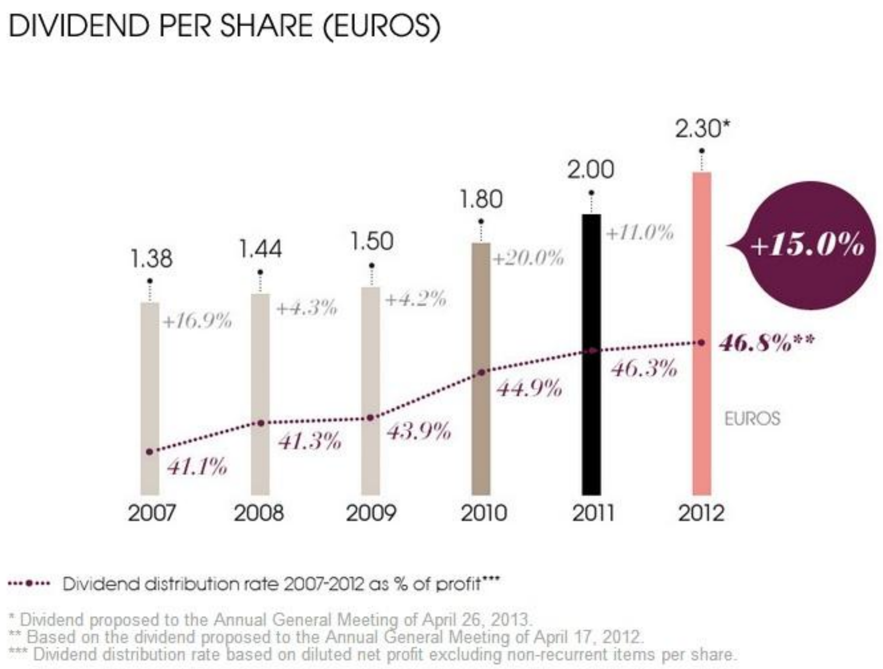
And the percentatge of liabilities growth from 2012 to 2012:

$$\text{Liabilities Growth} \frac{2010}{2012} = \frac{8.588 - 9.178}{9.178} \text{x } 100 = \ -6{,}43\%$$

It reflects that in two years, due to the net profit distribution policy of l'Oréal, the growth of equity was 40,83% and the liabilities have decreased 6,43%.

The majority of the increment in shareholder's equity produces an increment in non-current assets.

In this chart we observe the rising evolution of dividend per share in euros. It is interesting to focused on the purple line, that shows the divident distribution rate as % of profit. In 2011 it was 46,3%, nearly to the 40,83% that we have calculated before.



In the next table we highlight the big amount of reserves that has l'Oréal, which is the most important component of the shareholder's equity as we can see:

EQUITY & LIABILITIES

€ millions	Notes	12.31.2012	12.31.2011	12.31.2010
Equity	20	20,936.4	17,637.5	14,865.8
Share capital		121.8	120.6	120.2
Additional paid-in capital		1,679.0	1,271.4	1,148.3
Other reserves		13,690.6	12,368.8	11,107.1
Items recognised directly in equity		3,586.4	2,054.7	1,188.1
Cumulative translation adjustments		-109.4	24.9	-89.6
Treasury stock		-904.5	-644.4	-850.9
Net profit attributable to owners of the company		2,867.7	2,438.4	2,239.7
Equity attributable to owners of the company		20,931.6	17,634.4	14,862.9
Non-controlling interests		4.8	3.1	2.9

The reserves compose the 70,14% of l'Oréal's equity in 2011:

$$Reserves\%2011 = Reserves/Equity = \frac{12.368{,}8}{17.634{,}4} x100 = 70{,}14\%$$

If we do the difference between the reserves of 2010 and 2011 we will find the amount of net profit that goes to reserves in 2011:

$$Reserves\ 2011 - Reserves\ 2010 = 12.368{,}8 - 11.107{,}1 = 1.261{,}7\ million\ €$$

As we said before, the 50% approximately of net profits in 2011 (2.438 million €) will be distributed in reserves with an amount of 1.261,7 million € more or less.

In the table below it is shown that more or less the 50% of net profit attributable to owners of the company goes to dividends:

L'ORÉAL 2006-2012

€ millions	2006	2007 [1]	2008 [1]	2009	2010	2011	2012
Results							
Consolidated sales	15,790	17,063	17,542	17,473	19,496	20,343	22,463
Operating profit	2,541	2,827	2,725	2,578	3,057	3,293	3,697
As a percentage of consolidated sales	16.1%	16.6%	15.5%	14.8%	15.7%	16.2%	16.5%
Profit before tax and non-controlling interests	2,638	2,896	2,788	2,749	3,305	3,563	4,000
Net profit excluding non-recurring items after non-controlling interests	1,833	2,039	2,064	1,997	2,371	2,583	2,972
Net profit attributable to owners of the company	2,061	2,656	1,948	1,792	2,240	2,438	2,868
Total dividend	739	843	862	899	1,082	1,212	1,397 [2]

$$Dividends\%2011 = \frac{Dividends}{Net\ profit} = \frac{1.212}{2.438}x100 = 49{,}71\%$$

For analysing the profitability of l'Oreál we have found interesting to show other calculus like the ratio CashFlow/Investments:

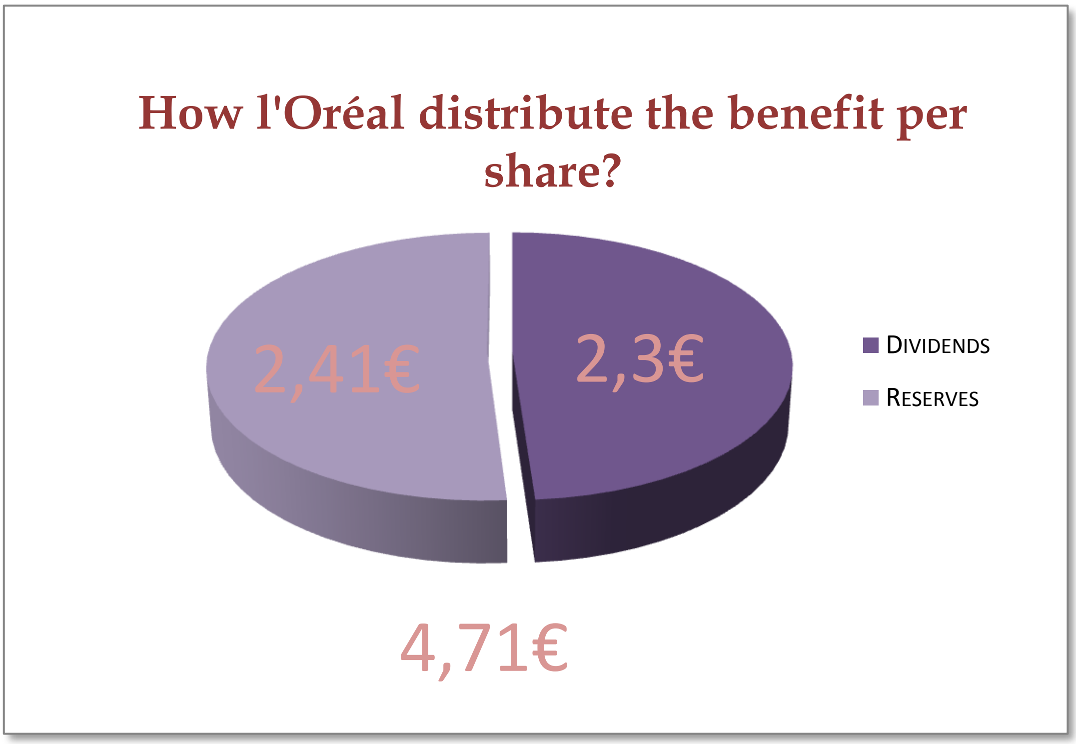
$$\frac{Cash\ Flow}{Investments} = 3{,}7\%$$

It highlight that for every unit wasted on investments, will produce an increase of 3,7% in cash flows.

Other relevant calculus is the benefit per share, independently if it goes to dividends or reserves:

$$Benefit\ per\ share2012 = Net\ profit/number\ of\ shares$$
$$= 2.867.700.000/\ \mathbf{608,810,827} = \mathbf{4,71}€$$

We know that 2,3€ of 4,71€ go to dividends and the rest 2,41€ go to reserves approximately.



18. GROWTH RATE

Growth rate is the amount of increase that a specific variable has gained within a specific period and context. For investors, this typically represents the compounded annualized rate of growth of a company's revenues, earnings, dividends and even macro concepts.

It’s represents with the following formulae:

g = (1-payout)*(1-tax rate)*ROA

payout = distributed dividends/EBT

payout 2010 = 2.240/3.152 = 0,7106

g 2010 = (1-0,7106)*(1-0,3)*0,12714 = 0,02575

payout 2011 = 2.438/3.467 = 0,7032

Meaning that in 2010, the company is growing around 2,57%

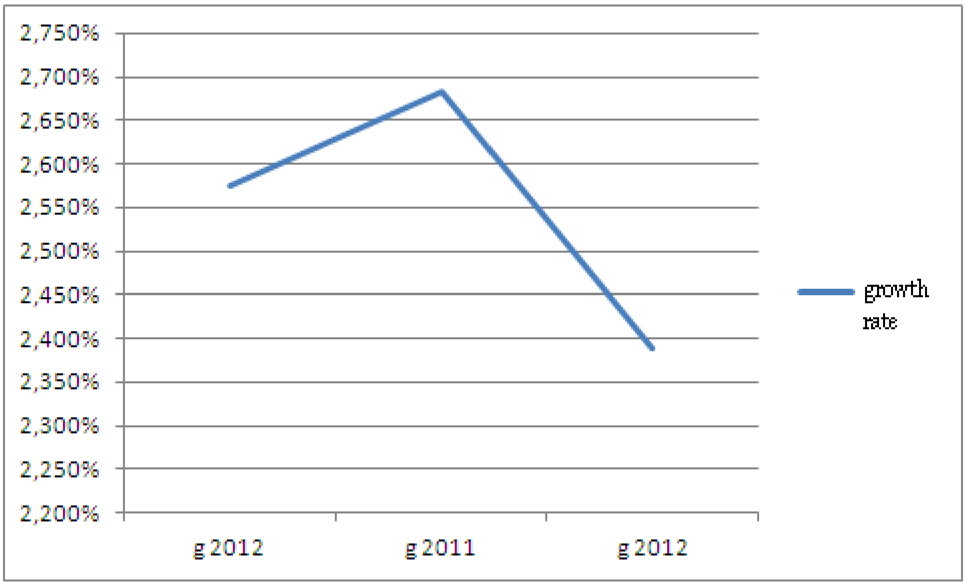
g 2011 = (1-0,7032)*(1-0,3)*0,12908 = 0,02681

Meaning that the company increased in 2011 around 2,68%.

Payout 2012 = 2.868/3.876 = 0,7399

g 2012 = (1-0,7399)*(1-0,3)*0,13127 = 0,02389

That means that l’Oreal growth around 2,38% that year.



12. CONCLUSIONS

After doing all the profitability analysis, what we can suggest to L'Oréal's managers to do for obtaining a greater ROE?

One possibility, as we have commented in other sections, is to increase the price of L'Oréal, but we think that it is possible that the consumers will not accept this increase and thus, it cannot be the best alternative.

Secondly, is by rising ROA, but L'Oréal has a good condition in terms of margin and turn over.

Finally, the best option is reducing the shareholder's equity and increasing the level of debt because as we have showed in the section of optimum level of indebtedness, this company has a big range to increase its debt ratio for obtaining a greater profitability, and thus, a bigger ROE.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Revenues}} \text{ x } \frac{\text{Revenues}}{\text{Asstes}} \text{ x } \frac{\text{Assets}}{\nabla\text{Equity}} \quad \rightarrow \quad \Delta \text{ ROE}$$