



SHAREHOLDER DIGEST **2005**

L'ORÉAL

www.loreal-finance.com

Contents

The L'Oréal group

- 02** Profile and Statement from Mr. Owen-Jones
- 03** A unique portfolio of global brands
- 04** Change in share ownership in 2004
- 05** L'Oréal financial highlights

Shareholder's corner

- 06** The L'Oréal share
- 08** Shareholder's information
- 09** The Annual General Meeting
- 10** The Board of Directors
- 11** Financial glossary

Profile

Since it was founded nearly a century ago by the chemist Eugène Schueller, L'Oréal has been focusing its research and expertise on one business: **cosmetics**.

L'Oréal has consistently applied its policy of investing in **research**, ensuring that its products fulfil the highest possible standards of quality, safety and innovation in order to meet the beauty and well-being needs of men and women around the world.

Because there is no single model of beauty, the group has **17 distinct and complementary brands** enjoying worldwide recognition, each with different roots and offering the variety needed to match different physical features, tastes and lifestyles.

Statement from Mr. Owen-Jones

Chairman and Chief Executive Officer of L'Oréal, at the end of the Board meeting of February 16th 2005



In 2004, thanks to the innovations of its laboratories and the success of its brands, L'Oréal once again increased its sales, by +6.8% excluding the impact of currency fluctuations, a rate considerably higher than the growth of the cosmetics market.

Our strategy of retail channel diversification and strong presence in new fast-growing markets has led to another year of strong growth. This expansion, combined with strict cost control, has enabled us once again to significantly improve our profitability.

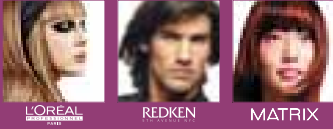
The merger of Sanofi-Synthélabo with Aventis has allowed us to deconsolidate our stake in pharmaceuticals, thus clarifying our focus on the core cosmetics business.



A unique portfolio of global brands

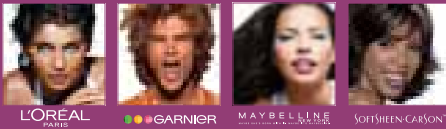
Professional Products

€1,998 million*



Consumer Products

€7,754 million*



Luxury Products

€3,520 million*



Active Cosmetics

€852 million*

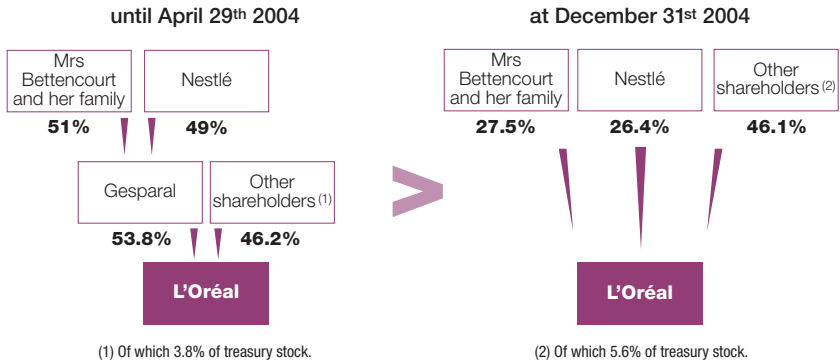


* 2004 consolidated sales.

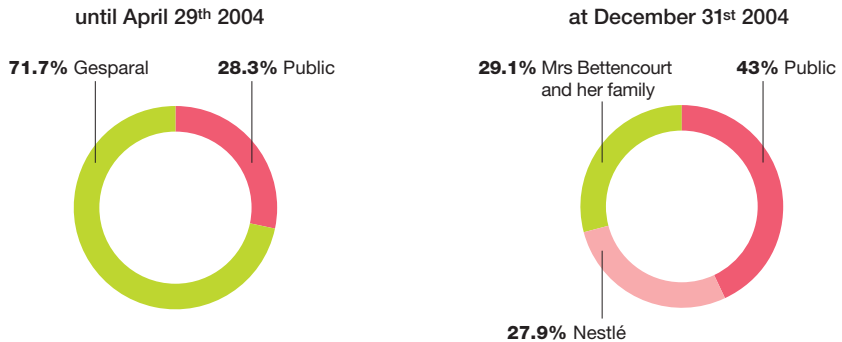
Change in share ownership in 2004

- February 2004: new agreements between L'Oréal's traditional shareholders
- Simplification of shareholding structure
- Elimination of double voting rights

Simplification of shareholding structure



Change in the breakdown of voting rights

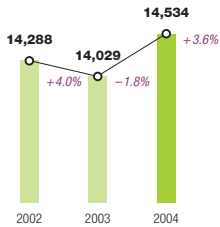


Elimination of double voting rights

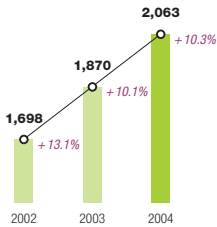
The shareholders of L'Oréal approved the elimination of double voting rights at the Extraordinary General Meeting held on April 29th 2004. L'Oréal now applies the principle of one voting right per share. The percentage of voting rights held by the public has increased from 28.3% to 43%.

L'Oréal financial highlights

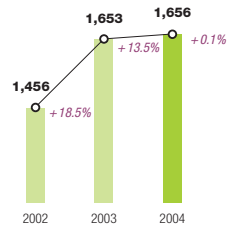
Group performance over 3 years



CONSOLIDATED SALES
(€ millions)



PRE-TAX PROFIT OF CONSOLIDATED COMPANIES
(€ millions)



NET OPERATIONAL PROFIT AFTER MINORITY INTERESTS
(€ millions)

Financial ratios

	2003	2004
Pre-tax profit consolidated companies Sales	13.3%	14.2%
Net operational profit of consolidated companies Sales	11.8%	11.4%
Net operational profit after minority interests Opening shareholders' equity	22.3%	20.4%
Gearing ⁽¹⁾	16.3%	15.9%

NET DIVIDEND PER SHARE (EXCLUDING TAX CREDIT) (€)



Employees and research

	2002	2003	2004
Global workforce	50,491	50,500	52,081
Number of employees of cosmetic and dermatology research	2,823	2,860	2,979
Research and development budget ⁽²⁾ (€ millions)	469	480	507
Number of patents	501	515	586

(1) Gearing = $\frac{\text{Debts} - \text{long-term loans and other debtors} - \text{marketable securities excluding treasury stock} - \text{cash and cash equivalents}}{\text{Shareholders' equity} - \text{treasury stock} + \text{minority interests}}$

(2) These figures incorporate all research costs for cosmetics and dermatology (100%).

The L'Oréal share

Information on the L'Oréal share

Fiscal year from January 1st to December 31st.

Share capital: 676,062,160 shares.

Par value: €0.2.

ISIN code: FR0000120321.

Minimum lot: 1 share.

Trading on the cash market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

Primary market until February 18th 2005.

Eurolist-compartment A (large caps) since February 21st 2005.

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

Share price

Final closing price: €55.85 at December 31st 2004

High: €69.90 at January 22nd 2004

Low: €51.50 at October 12th 2004

Market capitalisation: €37.76 billion at December 31st 2004

At December 31st 2004, the L'Oréal share accounted for in the main indexes:

- 2.92% of the CAC 40;
- 2.67% of the Euronext 100;
- 0.71% of the DJ Euro Stoxx 50.

> SHAREHOLDER'S CORNER

History of the L'Oréal share

Date	Milestone	Market capitalisation at the end of the year (€ millions)
October 8 th 1963	Listing on the cash settlement market	34
October 24 th 1983	Single listing on the monthly settlement market	1,409
1987	Bonus issue of shares and investment certificates (1 new share for every 5 held)	2,121
July 1990	Ten-for-one share split	4,201
September 1994	Listing of 3,271,021 shares contributed to Gesparal	9,432
July 1996	Bonus issue of 1 new share per 10 shares held	20,123
July 3 rd 2000	Ten-for-one share split	57,161
December 31 st 2004	End of fiscal year	37,758

10-year investment in L'Oréal shares

Purchase of 90 shares at €166.02 ⁽¹⁾ on December 31 st 1994	€14,941.80
Reinvestment of dividends	
Valuation at December 31 st 2004 (1,099 shares at €55.85)	€61,379.15
Initial capital multiplied by 4.1 in 10 years	
Total Shareholder Return:	14.5%

(1) There was a ten-for-one share split on July 3rd 2000.

Shareholder's information

Ever since its first listing on the Paris Bourse 40 years ago, L'Oréal has constantly been improving the sources of information available to its 250,000 French and international shareholders and investors. L'Oréal does everything possible to keep them regularly supplied with a wide range of clear and accessible information.

The group's shareholder information policy centres on several key events:

- two major **financial information meetings** for analysts and investors, to which journalists specialising in the cosmetics sector are invited. The annual presentation of the L'Oréal group's financial results is broadcast live online on the financial website www.loreal-finance.com, and the charts presented at these financial information meetings are also made available online on the same day, both for the annual results and the half-year results;
- the **Annual General Meeting**, which is of great importance in the dialogue with shareholders;
- **presentations by the group** throughout the year to shareholders in France, notably with Euronext and the *Cercle de Liaison des Informateurs Financiers en France* (CLIFF), and numerous meetings with institutional investors in the main international financial centres;
- participation in the **Actionaria Fair** at the *Palais des Congrès* in Paris on November 19th and 20th 2004, where each shareholder was able to meet representatives of the L'Oréal group face-to-face.

L'Oréal also offers its shareholders **a wide range of documents** presenting the group, its strategy and recent developments. The **Annual Report**, filed as a Reference Document, comprises 3 volumes. It is translated or summarised into English, German, Spanish and Italian. Four **Letters to Shareholders** are also published each year, together with a **Shareholder Digest**. All these documents are available on request, or can be downloaded from the financial website www.loreal-finance.com. News releases and financial announcements complete the list.

In 1997, L'Oréal created the specialised financial website **www.loreal-finance.com** for the use of international finance professionals and all its shareholders. This interactive resource, which is constantly updated, contains all the group's financial and stock market information, and indicates the price of the L'Oréal share in real time. Tens of thousands of visits are made to the site each month. A special corner is provided for shareholders, and can be entered with a single "click". As shareholders are increasingly on the move, there is also a mobile edition of www.loreal-finance.com, which presents the main information from the financial website for Personal Digital Assistant users.

Moreover, a **freephone service** has been available to L'Oréal shareholders calling from France or other countries, in French, English or Italian. The service provides practical information and enables shareholders to keep track of their L'Oréal share accounts; it also enables holders of registered shares to access a share trading service.

The Annual General Meeting

The Annual General Meeting of L'Oréal's shareholders will be held on Tuesday April 26th 2005, at the *Carrousel du Louvre* – 99, rue de Rivoli – 75001 Paris – France.

Shareholders will be admitted to the General Meeting, whatever the number of shares they hold.

To be entitled to attend or be represented at the AGM:

- owners of registered shares must be shareholders of record no later than the day of the AGM;
- owners of bearer shares must, at least 5 days before the date set for the AGM, ask the custodian of their shares for a certificate, stipulating that the shares will remain in a blocked account up to the date of the AGM.

To attend the AGM

To facilitate your admission to the Annual General Meeting, it is recommended that you obtain an entrance card before the AGM as follows:

- **the registered shareholder** must request the card from BNP Paribas Securities Services, Immeuble Tolbiac – 75450 Paris Cedex 09 – France;
- **the bearer shareholder** must, at least 5 days before the AGM, ask the custodian of his shares for a certificate, stipulating that his shares will remain in a blocked account up to the date of the AGM. The custodian will then send the certificate to BNP Paribas Securities Services, which will send the shareholder an entrance card.

Shareholders will be admitted to the Annual General Meeting provided that they have first provided proof of their identity during the registration process.

If you are unable to attend the AGM, you may cast your vote

You may choose from the following possibilities:

- to be represented by another shareholder or by your spouse;
- to cast a postal vote;
- to send a proxy form to the Chairman.

To do so, simply return to BNP Paribas Securities Services, at least 3 days before the AGM, the postal vote form or proxy form previously sent to your home address directly (registered shareholder) or at your request (bearer shareholder). Holders of bearer shares must enclose with the form a certificate issued by the financial institution which is the custodian of the shares, proving that the shares are in a blocked account no later than 5 days before the Annual General Meeting.

The Board of Directors at December 31st 2004

Lindsay Owen-Jones ⁽¹⁾

Age : 58. British.

Joined L'Oréal in 1969. During his international career with the group, he was Chief Executive of L'Oréal in Italy from 1978 to 1981, and President of L'Oréal USA from 1981 to 1984. He was appointed Deputy Chairman and Chief Executive Officer in 1984, and **Chairman and Chief Executive Officer** in 1988. L'Oréal Board member since 1984 (term of office renewed in 2002). Board member of BNP Paribas and Sanofi-Aventis. Member of the Supervisory Board of Air Liquide.

Jean-Pierre Meyers ⁽²⁾⁽⁶⁾

Age: 56.

L'Oréal Board member since 1987 (term of office renewed in 2001). **Vice-Chairman of the Board.** Nestlé S.A. (Switzerland) Board member.

Rainer E. Gut ⁽²⁾⁽⁴⁾

Age: 72. Swiss.

Began his banking career in England and in the United States. Joined Crédit Suisse in 1971. Chairman of the Board of Crédit Suisse Group from 1983 to 2000. Honorary Chairman thereafter. Chairman of the Board of Nestlé S.A. (Switzerland). L'Oréal Board member since 2000 (term of office renewed in 2004).

Vice-Chairman of the Board.

Liliane Bettencourt ⁽²⁾⁽³⁾

Age: over 70.

Daughter of Eugène Schueller, who founded L'Oréal in 1907. L'Oréal Board member since 1995 (term of office renewed in 2003).

Françoise Bettencourt Meyers

Age: 51.

Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2001).

Peter Brabeck-Letmathe

Age: 60. Austrian.

With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Officer of Nestlé S.A. (Switzerland) in 1997 and Vice-Chairman of the Board in 2001. L'Oréal Board member since 1997 (term of office renewed in 2001). Vice-Chairman of the Board of Crédit Suisse Group and Winterthur (Switzerland). Roche Holding Board member.

Francisco Castañer Basco ⁽²⁾⁽⁶⁾

Age: 60. Spanish.

With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board member since 1998 (term of office renewed in 2002). Board member of Alcon (Switzerland).

François Dalle

Age: 86.

With L'Oréal from 1942 to 1984, Group Executive Vice-President in 1948, Chairman and Chief Executive Officer from 1957 to 1984. Board member of Nestlé S.A. (Switzerland) from 1974 to 1989. L'Oréal Board member since 1950 (term of office renewed in 2001).

Jean-Louis Dumas ⁽⁴⁾

Age: 66.

Joined Hermès in 1964, Chief Executive Officer in 1971. Chairman of Hermès group since 1978. President of Holding Hermès International since 1994. L'Oréal Board member since 2002. Member of the Supervisory Board of PSA Peugeot Citroën.

Xavier Fontanet ⁽⁵⁾

Age: 56.

Appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995. Chairman and Chief Executive Officer since 1996. L'Oréal Board member since 2002. Board member of IMS (*Entreprendre pour la Cité*). Board member of Bénéteau and Crédit Agricole S.A.

Bernard Kasriel ⁽²⁾

Age: 58.

With the *Institut du développement industriel* from 1970 to 1975. Chief Executive Officer of Braud from 1972 to 1974. Executive Vice-President of the *Société phoséenne de métallurgie* from 1975 to 1977. Joined Lafarge in 1977, appointed Executive Vice-President in 1982. Seconded to the United States between 1987 and 1989, appointed Chief Executive Officer in 2003. L'Oréal Board member since April 29th 2004. Board member of Lafarge and Sonoco Products Company (United States).

Marc Ladreit de Lacharrière

Age: 64.

With L'Oréal from 1976 to 1991, formerly Vice-President in charge of Administration and Finance, Group Executive Vice-President from 1984 to 1991. Chairman and Chief Executive Officer of Fimalac. Chairman of Fitch Ratings, Inc. L'Oréal Board member since 1984 (term of office renewed in 2002). Board member of Renault and Casino.

Frank Riboud

Age: 49.

Joined BSN in 1980. Chairman and Chief Executive Officer of Danone group since 1996. L'Oréal Board member since 2002. Board member of Renault. Member of the Supervisory Board of Accor and Eurazeo (France). Board member of Quiksilver (United States) and ONA (Morocco).

Olivier Lecerf

finished his term of office as Board member on March 31st 2004.

(1) Chairman of the Committee for Strategy and Implementation.

(2) Member of the Committee for Strategy and Implementation.

(3) Chairwoman of the "Management and Remuneration" Committee.

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

(5) Chairman of the Audit Committee.

(6) Member of the Audit Committee.

Financial glossary

ADR (American Depositary Receipt):

fraction equivalent to one-fifth of a share, which is denominated in dollars and is negotiable on the American market. The ADR is not sponsored by L'Oréal and is freely traded in the United States through certain American banks.

AMF (Autorité des Marchés Financiers):

the French Stock Market authority is responsible for ensuring that transactions comply with the established rules, and for overseeing the quality of information issued by the company in order to protect investors.

Bearer share: share registered with an authorised financial intermediary.

CAC 40 (CAC = Cotation Assistée en Continu):

this index continuously monitors movements in the 40 shares with the largest market capitalisation in the Deferred Settlement Service (SRD) of the Paris Stock Exchange.

Cash flow: cash flow consisting of available resources (net profit + depreciation + provisions).

Deferred Settlement Service (Service de Règlement Différé):

replaced the Monthly Settlement Market in autumn 2000. This mechanism provides a limited credit line, for which a charge is made, for purchases of the major stocks listed on the Paris Stock Exchange.

Dividend: variable return on a share paid to all shareholders after a vote of the Ordinary General Meeting on a proposal by the Board of Directors.

DJ Stoxx 50: index consisting of the 50 companies whose market capitalisations are amongst the largest in the European Union and Switzerland.

Earnings Per Share (EPS): ratio of the net operational profit after minority interests to the weighted average number of shares in issue during the period in question.

Eurolist: since February 21st 2005, all companies listed on the regulated markets of Euronext Paris have been grouped together in a single regulated market: Euronext Eurolist. The stocks thus listed are classified in alphabetical order and are allocated an additional identification code, indicating their market capitalisation compartment. L'Oréal is listed in Eurolist compartment A.

Euronext 100: index consisting of the 100 companies whose market capitalisations are amongst the largest and most liquid in the Euronext listing.

Gearing: ratio of the net financial debt of a company to its shareholders' funds. It measures the debt burden of a company relative to its resources.

Market capitalisation: product of the share price and the total number of shares (or other listed securities if applicable).

Net operational profit after minority

interests: profit before allowing for the provision for depreciation of treasury stock, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill.

PER (Price Earnings Ratio): ratio of the share price on a given day to the estimated net profit per share for the current fiscal year.

Registered share: share whose owner's name is recorded in the books of the issuer.

ROE (Return On Equity): ratio of net operational profit after minority interests for an accounting period to opening shareholders' equity. It provides an indication of the efficiency of a company in making profit from its own resources.

Share split: operation consisting of multiplying the number of shares while dividing the par value of the share in the same proportion.

Treasury stock: shares in the company held by the company itself. Treasury stock do not carry any entitlement to voting rights.

Financial information calendar for 2005

Wednesday, January 26th 2005	2004 annual sales release
Thursday, February 17th 2005	Release of the 2004 certified results and annual financial information meeting
Tuesday, April 26th 2005	Annual General Meeting of Shareholders at the <i>Carousel du Louvre</i> (Paris, France)
Tuesday, July 12th 2005	First half 2005 sales release
Friday, September 2nd 2005	First half 2005 results release
Wednesday, October 19th 2005	First nine months 2005 sales release

Your contacts

By telephone

from France: Freephone number: 0 800 66 66 66

from abroad: + 33 1 40 14 80 50

By Internet

www.loreal-finance.com, its Shareholder's Corner or the mobile website for PDA:

loreal-finance.com *mobile edition*

By mail

Actionnariat L'Oréal

BNP Paribas Securities Services

Service aux émetteurs – Immeuble Tolbiac

75450 Paris Cedex 09 – France

L'Oréal

Headquarters

41, rue Martre – 92117 Clichy – France

Tel.: +33 1 47 56 70 00

Fax: +33 1 47 56 80 02

Persons to contact:

– for shareholders

Mr. Jean-Régis Carof, Director of International Financial Communications

– for analysts and institutional investors

Mrs Caroline Millot, Director of Investor Relations

– for French journalists

Mr. Lorrain Kressmann, Director of French Press Relations

– for international journalists

Mr. Mike Rumsby, Director of International Press Relations