



LETTER TO SHAREHOLDERS

ANNUAL GENERAL MEETING OF APRIL 24TH, 2007

L'ORÉAL
PROFESSIONNEL
PARIS

KÉRASTASE
PARIS

REDKEN
5TH AVENUE NYC

MATRIX

L'ORÉAL
PARIS

GARNIER

MAYBELLINE

SOFTSHEEN·CARSON[®]

LANCÔME
PARIS

BIOtherm

HELENA
RUBINSTEIN

GIORGIO ARMANI
PARFUMS

RALPH LAUREN

eacharel

Kiehl's
SINCE 1851

shu uemura

VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE



1,607 shareholders attended the Annual General Meeting of L'Oréal shareholders, held on April 24th, 2007 at the *Carrousel du Louvre* in Paris, under the chairmanship of Sir Lindsay Owen-Jones.

Participation:

- > 1,607 shareholders present.
- > 515 shareholders represented.
- > 1,414 shareholders having voted by post.

The quorum was easily reached:

- > 472,339,901 shares, representing 78.32% of shares with voting rights forming the share capital of the company.

The 13 resolutions proposed to the Annual General Meeting were all adopted by a very large majority.

- > Renewal of the tenure as director of Mrs Liliane Bettencourt.



- > Appointment as director of Mrs Annette Roux.
- > Dividend: Declared at 1.18 euro net per share, representing an increase of +18% compared with 2005.



> Sir Lindsay OWEN-JONES, Chairman

> Jean-Paul AGON, Chief Executive Officer

"I am very pleased to confirm that the transition has been smooth and rapid, and free of any tension or ambiguity, without L'Oréal missing a single heartbeat. By infusing new energy into an already highly efficient business model and setting new priorities, Jean-Paul Agon and his team have presented to you 2006 results of extremely high quality. Once again therefore we are able to propose a substantial increase in dividend. Today more than ever we are proud to be part of a useful profession, and to prepare for its future with all our initiatives in the field of sustainable development. The continuity of our commitments, and the force of our values, mean that L'Oréal remains one of the most widely renowned and respected French groups across the world."

Sir Lindsay Owen-Jones, Chairman

"2006 was another year of strong value creation for your group, confirming the force and relevance of its business model. L'Oréal's teams have also worked hard to prepare for the future, and for 2007 in particular, so as to accelerate the growth rate this year once again.

A company that is experiencing major economic success, a company that people like working for and that generates enthusiasm in its employees, a company that respects the environment and demonstrates good citizenship across the world: these are my goals for L'Oréal as it moves forward in the 21st century."

Jean-Paul Agon, Chief Executive Officer

SURVEY of shareholders

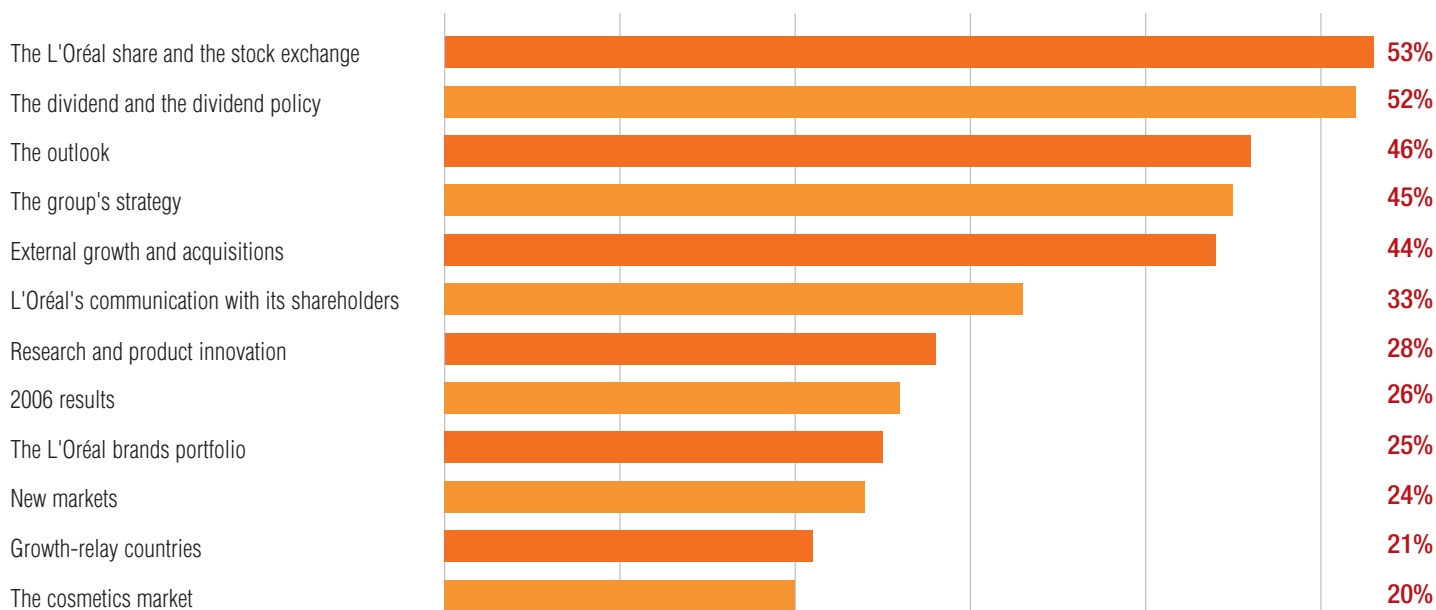
Before the Annual General Meeting, L'Oréal carried out a survey of its individual shareholders.

A questionnaire was sent to some 4,000 shareholders, and filled in and returned by more than 250 of them.

The survey results show:

- > a clear shift in the main declared centres of interest towards the issues "The L'Oréal share and the stock exchange" and "The group's strategy",
- > the overall satisfaction of shareholders with the various communications media (Annual Report, Letters to Shareholders, the Internet site www.loreal-finance.com).

> ISSUES ATTRACTING MOST INTEREST



VOTE on the resolutions

The Annual General Meeting, acting in accordance with the quorum and majority requirements for Annual General Meetings and after hearing the report of the Board of Directors, approved the 13 resolutions presented to the shareholders.

The resolutions

- > Approval of the 2006 parent company financial statements: **98.87%**
- > Approval of the 2006 consolidated financial statements: **98.87%**
- > Allocation of the company's net income for 2006 and declaration of the dividend: **98.88%**
- > Regulated agreements and regulated commitments: **96.94%**
- > Renewal of the tenure as director of Mrs Liliane Bettencourt: **96.82%**
- > Appointment as director of Mrs Annette Roux: **98.76%**
- > Authorisation for the company to buy back its own shares: **98.81%**
- > Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts: **98.71%**
- > Authorisation given to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares: **93.76%**
- > Authorisation given to the Board of Directors to make free grants of existing shares and/or shares to be issued: **92.08%**
- > Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees: **98.42%**
- > Amendment of the Articles of Association: **98.68%**
- > Powers for formalities: **98.80%**

ANSWERS to shareholders' questions (excerpts)

> Is your pricing policy the same in the Rest of the World as in Europe and North America?

> Mr Jean-Paul Agon

The value effect is identical in the Rest of the World and in the group total. Our policy is indeed to sell our products at the same price all over the world as far as possible. We do not have the slightest intention of selling quality at discounted price in countries where income levels are lower. Lipsticks by Maybelline, the world number one in make-up, are a perfect illustration of our policy. This product is sold at the same price everywhere: €4.50 in the United States, €4.48 in Russia and €4.50 in China.

> MAYBELLINE

Moisture Extreme lipstick
Identical pricing in all major countries



> What do you think about the arrival of retailer brands in mass-market outlets?

> Mr Jean-Paul Agon

Retailer brands in fact arrived in hypermarkets some time ago. But there are two pieces of good news. First, cosmetics is really one of the fields in which retailer brands have always found it most difficult to gain a foothold. This is because cosmetics are synonymous with innovation, quality, effectiveness and safety. To deliver them, consumers place more trust in major brands than in retailer brands. The second piece of good news is that sales of these low-priced brands are stagnating. There had been fears over the last few years that hard discount outlets would make progress in France and in Europe, but in fact they are levelling off.



> 1,607 shareholders attended the Annual General Meeting.

> Bearing in mind the relatively low level of debt, are you considering any external growth operations?

> Mr Jean-Paul Agon

We consider every single opportunity across the world. It is our policy to analyse systematically all opportunities that arise in Europe, North America, Asia, and South America, and what we must do is demonstrate to ourselves that the opportunity is not right for us, rather than the reverse. So our approach is very systematic. We also try however to introduce an element of creativity, and in fact the three transactions carried out last year are quite emblematic. Diesel is a new brand, very fashionable and very youth-oriented. We believe it will develop into a major perfume business. We see The Body Shop not as a chain of stores, but as a cosmetics brand with its own sales outlets. The approach in this case is completely different. This acquisition is extremely complementary, fitting in perfectly with L'Oréal. Lastly Sanoflore is a 15 million euros business. In our view the development of organic products will be very strong over the coming years. Our goal is to grow this into a very large business in a long-term perspective, and perhaps make it just as big as La Roche-Posay.

So we try to adopt a systematic approach with an element of creativity, by imagining what we could do in each case.

> What does L'Oréal intend to do with its stake in Sanofi-Aventis, with reference to the following three possibilities:

- Sell its stake and focus on external growth?
- Hold on to its stake and grow using its own resources?
- Grow its businesses organically, sell the stake and pass the proceeds from the sale on to shareholders?

> Sir Lindsay Owen-Jones

This question raises, through its three hypotheses, the question of how the financial reserve formed by our stake in Sanofi-Aventis should be used. The first two - using our own resources for development, or using the proceeds from a sale to make acquisitions - are perfectly complementary. We will quite definitely continue to expand by drawing on our own resources. But it is also comforting to know that if an acquisition opportunity does appear, we have this reserve to facilitate matters. The only hypothesis I would almost totally rule out is paying an exceptional dividend: companies using this method have seen a precisely equivalent amount wiped off their value. The share price has fallen by exactly the same amount as the dividend paid out.

ANSWERS to shareholders' questions (excerpts)

> The L'Oréal share price has not changed a great deal over the last few years. What reasons and what hopes are there that could push the share price higher?

> Sir Lindsay Owen-Jones

I think the share price has been anything but hesitant. On the day before our AGM two years ago it stood at 56.50 euros. On April 23rd 2007, it stood at 87.65 euros, which means it had risen by 55% in two years.

If we look at historical trends, they clearly show the extremely steady rise in our share price up to 2001, a period of correction from 2001 to 2004, with another uptrend developing since 2005, taking us to 87.65 euros. As for the outlook, the prospects for our results are very encouraging.

> What is the accretive effect of the share buyback programmes? The subsequent cancellation programmes seem to be mechanically reducing the size of the free float. Could this have an impact on the liquidity of the share?

> Sir Lindsay Owen-Jones

On the one hand, it is true that when you buy back shares, you spend money. This means you have less in the coffers, and this does have a cost, because of the extra interest expense. But on the other hand, no-one can dispute that buying and above all cancelling shares increases the value of each share, and particularly of net earnings per share. And it is the net balance which has an accretive effect. At current interest rates, the interest expense generated by the buying back and cancellation of a share is significantly less than the improvement in net earnings per share. The balance is thus positive.

As for the impact of these programmes on liquidity and the free float: there is no doubt that by buying back or cancelling these shares, the free float is very slightly reduced. Over two years, the free float has been reduced from 39.9% to 38%. As for the liquidity of the share, L'Oréal's free float has risen from 15 billion euros to 20 billion euros over three years. It is interesting to note that the free float alone is equivalent to the market capitalisation of some major CAC 40 groups. And yet no-one is suggesting that these CAC 40 companies have liquidity problems. What share buybacks mean

> L'ORÉAL SHARE PRICE OVER THE LAST 20 YEARS



in reality is quite different. Our large cake is quite simply gradually divided into a smaller number of slices. And that is a very positive move for shareholders.

> Does L'Oréal intend to relocate its research facilities to move them closer to markets?

> Mr Jean-Paul Agon

Our approach is to concentrate and continue to develop all our core research expertise in our French laboratories. This applies in particular to all aspects of fundamental research, and to applied research in the fields of haircare, skincare and make-up. In addition, as we are expanding internationally and in order to win over American, Asian and South American consumers, we also need to set up research centres in these countries with two objectives in mind:

- First, to understand the specifics, for example, of Asian or South American skin and hair.
- Secondly, to assist in the formulation of products

ideally suited to these consumers' needs.

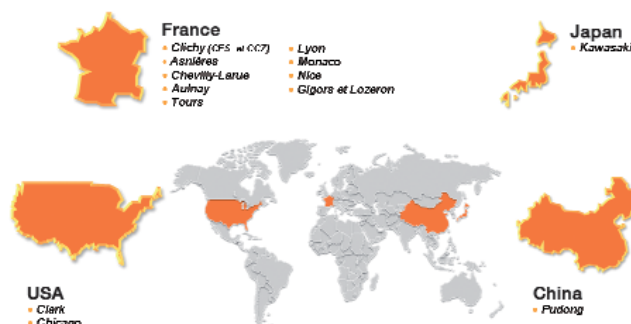
Our research is therefore continuing to be developed both in France and internationally, inside the new markets. The two sides are being developed in parallel.

> Can you give us any forecasts for the current year?

> Mr Jean-Paul Agon

We are quite happy about the start made this year. We are confident about 2007. The six-cylinder engine of our business model is clearly running faster and faster. There is just one small head wind to allow for, and that is currencies: the euro has strengthened considerably against the dollar, and also against many other currencies across the world. The result is that the euro is at a very high level today. And despite our hedges, we consolidate our results in euros. In other words, it doesn't make things easy for us.

COSMETICS RESEARCH CENTRES



EXCERPTS from the addresses

SIR LINDSAY OWEN-JONES, Chairman of L'Oréal

One year ago, I announced that an event we had been preparing for over many years was imminent: the separation of the functions of Chairman and Chief Executive Officer, and the appointment of Jean-Paul Agon as CEO. Today I am delighted to be able to confirm that the transition has been very smooth and very rapid, and free of any tension or ambiguity. Employees, investors and shareholders have understood the clarity and firmness of my own decision, and accepted the complete legitimacy of Jean-Paul Agon in his new role. The transition has also been hitch-free because the new responsibilities of each of the two positions have been very clearly defined, and because we have always been in full agreement on this matter:

- > the Chairman keeps a watchful eye on the development strategy, respect for L'Oréal values, the acquisitions policy and corporate governance;
- > the Chief Executive Officer, without the least ambiguity, has total responsibility for all aspects of the company's operations.

With no discontinuity, loss of momentum or wavering, a younger team is

now at work. The results are there for all to see. In 2006, we saw the pace of growth accelerate, with a strengthening of our worldwide position, and increased investments in productive resources and research, but also a significant improvement in profitability, and a substantial increase in net earnings per share. At the end of this first year with the new team at the helm, the situation reminds me of my early years at the head of L'Oréal. Enthusiasm, a breath of fresh air, ambition, and, I would suggest, some very good years ahead, culminating in success. This is what I would now like to wish for them, and for all of us, while offering my warmest encouragements.



> Sir Lindsay OWEN-JONES, Chairman

JEAN-PAUL AGON, Chief Executive Officer of L'Oréal

In my first address to you as Chief Executive Officer, I am pleased to tell you that 2006 was another year of strong value creation for your group.

The return to a dynamic growth rate, the quality of the operating performance, and the strong increase in profitability and cash flow have again demonstrated the force and relevance of the L'Oréal business model devised and built by Sir Lindsay Owen-Jones.

It is a powerful and effective model, ideally adapted to both today's and

tomorrow's world, based on three simple but forceful ideas:

- > First, the sustained long-term growth of the cosmetics market.
- > Secondly, L'Oréal's ability to keep on growing faster than the market in a long-term perspective.
- > And thirdly, L'Oréal's ability to consistently improve its margins and ensure that its growth is increasingly profitable.

With like-for-like growth of +7.9%, sales for the first quarter of 2007 are very encouraging. Although it is not possible to extrapolate a full-year trend from a single quarter, the good start in 2007 reinforces our confidence that we can push our growth back up to levels of 6% to 8% a year.



> Jean-Paul AGON, Chief Executive Officer

BÉATRICE DAUTRESME, Executive Vice-President, Corporate Communications, External Affairs and Prospective

The seniors market

This year we wanted to introduce you to a group of consumers in which we are taking a very close interest: the new seniors, a category which in fact begins at the relatively early age of 50. This is a rapidly changing universe, which is expanding rapidly and will constitute a very important market in the near future, because what we are now seeing is nothing less than a demographic revolution. In our societies in particular, the new seniors will be large-scale consumers. They are the children of the consumer society, and they have a hedonistic life style. They have no intention of giving up their habits because of their age, indeed the reverse is true. All of which makes this an extremely promising market, and L'Oréal has been able to anticipate the trend by responding with specific innovations and product launches in haircare, skin-care and make-up. The efficacy of our products, and the benefits they bring, are turning out to be crucial in these years of maturity, as well-being is a victory against the passing of time. Today, the medical professions confirm that continuing to take care of oneself and one's appearance, even late in life, helps maintain vitality and a positive outlook. This is perfectly exemplified by Jane Fonda, the ambassador of L'Oréal Paris.



> Béatrice DAUTRESME,
Executive Vice-President,
Corporate Communications,
External Affairs and Prospective

DYNAMIC GROWTH from all divisions CONTINUED SOLID GROWTH in Western Europe SIGNIFICANT ACCELERATION in new markets

The sales of the L'Oréal group, at March 31st, 2007, amounted to 4.268 billion euros, an increase of +8.4% (based on reported figures). Growth in the cosmetics branch amounted to +4.1%.

Like-for-like (i.e. based on a comparable structure and identical exchange rates) the increase in the group's sales was +7.9% (+8% excluding The Body Shop). The net impact of changes in consolidation, mainly as a result of the acquisitions of The Body Shop and Sanoflore – which were consolidated in July and October 2006 respectively – amounted to +4.6%. Currency fluctuations had a negative impact of -4.1% (at the exchange rate of March 31st, 2007 the impact would be -2.6% for the whole of 2007). Growth excluding the exchange rate impact was +12.5%.

Commenting on the figures, Mr Jean-Paul Agon, Chief Executive Officer of L'Oréal, said: *"The first quarter sales figures are encouraging, even if they cannot be considered to be an indication of overall annual performance. The group's growth is progressing as we had announced: Western Europe remains solid, North America is progressively returning to growth and the new markets have made a good start to the year. All the divi-*

SALES GROWTH BY OPERATIONAL DIVISION AND GEOGRAPHIC ZONE

€ million	Quarterly sales		Growth	
	1 st quarter 2006	1 st quarter 2007	Like-for-like	Reported
> By operational division				
Professional products	523	542	+7.5%	+3.6%
Consumer products	2,061	2,147	+8.2%	+4.2%
Luxury products	903	928	+7.5%	+2.7%
Active cosmetics	359	393	+10.2%	+9.3%
Cosmetics total	3,872	4,030	+8.0%	+4.1%
> By geographic zone				
Western Europe	1,849	1,920	+4.0%	+3.8%
North America	1,014	963	+3.7%	-5.0%
Rest of the world, of which:	1,009	1,147	+19.9%	+13.7%
Asia	388	408	+12.5%	+5.2%
Latin America	225	244	+19.0%	+8.7%
Eastern Europe	214	289	+30.6%	+34.8%
Other countries	182	206	+22.8%	+13.0%
Cosmetics total	3,872	4,030	+8.0%	+4.1%
The Body Shop		169	+6.4%	
Dermatology ⁽¹⁾	66	69	+10.3%	+4.3%
Group total	3,938	4,268	+7.9%	+8.4%

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

sions contributed equally to this dynamic performance. Currency fluctuations had a strongly negative impact on the first quarter and their effect will be felt, if less severely, throughout the

year. This good start to the year confirms that we can be confident in meeting the target we have set ourselves: to return to a growth rate bracket of +6% to +8% like-for-like for 2007."

NEW FEATURES on the internet site www.loreal-finance.com



The Internet site www.loreal-finance.com has been completely revamped to offer a wider range of content, and make for easier browsing.

The new features include:

- > the Shareholders' Corner, containing a host of practical information, including conditions of access to shareholder meetings, and the latest publications,
- > a calculator to work out the performance of your L'Oréal shares,
- > a mobile version enabling access to the main site information through a mobile phone connected to the Internet: www.mobile.loreal-finance.com.

L'ORÉAL

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