



LETTER TO SHAREHOLDERS

Growth moves up a gear. We are preparing for the future.



Christine Lagarde, French Minister of the Economy, Finance and Employment, presents the Grand Prize for Performance to Sir Lindsay Owen-Jones and Jean-Paul Agon. This award honours the company with the most outstanding economic performance over the last 40 years.

Dear Shareholders,

The growth of your group is clearly accelerating.

With a figure of +7.7% like-for-like at the end of September, it is at the upper end of the +6% to +8% long-term target range we set ourselves last year. In August, this led us to revise

our sales target upwards for the full year 2007.

This is a strong indication of our ability to grow faster than the cosmetics market - which itself is very buoyant - and therefore to continue to win market share all over the world.

Although the negative impact of the exchange rate has increased throughout the year, we are also well on the way to achieving a 23rd consecutive year of double-digit results growth.

This is a further confirmation that the "L'Oréal business model", designed and built by Sir Lindsay Owen-Jones, is flourishing, highly efficient and ideally suited to today's world. We are all working hard to keep it running in full gear and firing on all cylinders.

This business model has indeed brought L'Oréal the prize for the best economic performance over the last 40 years, awarded by the magazine L'Expansion.

Your group has recently been honoured with several other prizes and distinctions which are extremely encouraging for the future.

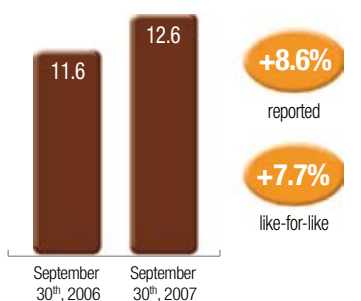
We therefore have every reason to be optimistic: the quality of our teams, our ability to innovate, the power of our brands and the dynamism of our globalisation are offering us great opportunities. We are determined to grasp them.

Jean-Paul Agon
Chief Executive Officer of L'Oréal

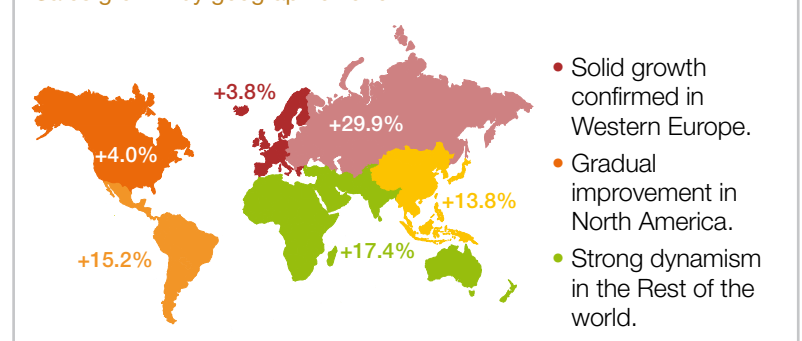
Nine-month sales: high growth rate continues

Sales growth

(in billions of euros)



Sales growth by geographic zone



L'ORÉAL
PROFESSIONNEL
PARIS

KÉRASTASE
PARIS

REDKEN
5TH AVENUE NYC

MATRIX

L'ORÉAL
PARIS

GARNIER

MAYBELLINE

SOFTSHEEN·CARSON

LANCÔME
PARIS

BIOThERM

HR HELENA
RUBINSTEIN

GIORGIO ARMANI
PARFUMS

RALPH LAUREN

cacharel

Kiehl's
SINCE 1851

shu uemura

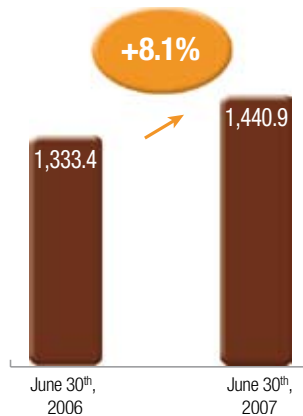
VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

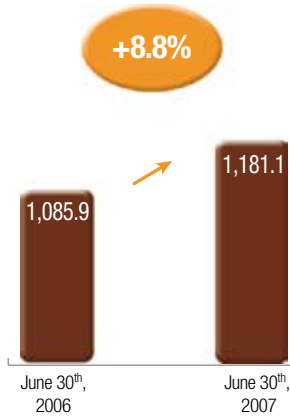
THE
BODY
SHOP

2007 First-half results

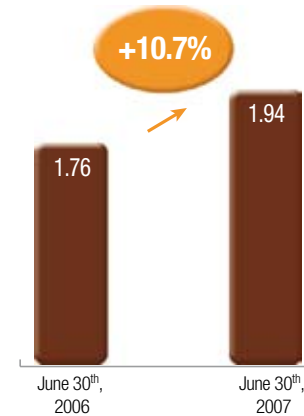
Operating profit (€ millions)



Net profit excluding non-recurrent items after minority interests (€ millions)



Net earnings per share (in euros)



- Operating profit, without The Body Shop, represents 17.6% of sales, a great improvement compared to the first half of 2006, when it accounted for 17.1% of sales. This improvement can be attributed to the product value enhancement policy and continuing cost cutting efforts.

- Despite a very high comparison base in the first half of 2006 and the negative impact of exchange rates, the group achieved double-digit growth in six-month net earnings per share.

Get live updates

To be kept immediately informed about important group events, you can register on the Internet site www.loreal-finance.com to receive our e-mail alerts. You can also register by sending us an e-mail at info@loreal-finance.com or by calling us on +33 1 47 56 82 65.

Tribute to Dame Anita Roddick, an exceptional woman and founder of The Body Shop

"A woman who was quite simply extraordinary: inspired, visionary, very brave and extremely generous."

These were the words of Jean-Paul Agon, paying tribute to Dame Anita Roddick, who died on September 11th, 2007. Anita Roddick, who became an inspiration for women all over the world, founded The Body Shop in 1976. Driven by her passion for ecology and by her true pioneering spirit, she actively advocated throughout her life for the causes she believed in. Her ideals inspired the five key priorities of The Body Shop: Protect our planet, Support community trade, Fight against animal testing, Defend human rights, Activate self-esteem.



Professional Products in the United States:

L'Oréal acquires its two main distributors...

With the acquisition of its two top distributors in the United States, Beauty Alliance and Maly's West, the Professional Products Division has taken a strategic turning point. With these two distribution networks, the Division is moving closer to American hairdressers by offering them the best in education, service and training, as in other countries where the brands have a direct relationship with hairdressers. In all, these two distributors, perfectly complementary in geographical terms, supply more than 150,000 hair salons out of the nationwide total of 220,000. The acquisitions are intended to boost the growth of the Professional Products Division in the United States.

... and PureOlogy, a premium brand with a global potential



PUREOLOGY
serious colour care



In 1997 the well-known American hairdresser Jim Markham developed a sulphate-free shampoo based on natural ingredients. In 2001, he decided to create a luxury haircare brand offering products which delay the fading of colourant effects. And so PureOlogy was born: an original technology, incorporating the techniques of aromatherapy. It immediately proved successful. Only five years after its creation, the brand is generating more than 50 million dollars of sales. Acquired in May 2007, PureOlogy has been added to the brand portfolio of the Professional Products Division and offers very promising international development possibilities.

Seniors: a winning duo for L'Oréal Professionnel

In 2006, L'Oréal Professionnel launched Color Suprême, the permanent anti-ageing hair colourant. This year, the brand is enjoying another success with the seniors thanks to the Age Densiforce range, launched in May 2007. Because hair becomes finer, and loses density and sheen with age, L'Oréal Professionnel has designed a specific haircare product available in salons. Thanks to this first-ever hair rejuvenation product, hair is given new volume, suppleness, lightness and sheen.



New Sanoflore range is 100% organic, 100% new



It was in the heart of the lavender fields and mountains of the Vercors Regional Natural Park (France), an ideal location for the organic cultivation of aromatic and medicinal plants that Sanoflore started up its business in 1972. Acquired by L'Oréal in October 2006, Sanoflore is launching internationally a new range of skin care. These products with 100% natural perfumes are free of paraben, colourants and silicone. They are certified by the organic label Ecocert, and dermatologically tested.

Skin Genesis by L'Oréal Paris: the "pro-age" revolution

A double first for L'Oréal Paris, Skin Genesis combines, without added preservatives, two major active ingredients: Pro-Xylane®, a "green chemistry" molecule, and hyaluronic acid, capable of retaining up to one thousand times its weight in water – a duo smoothing out lines, tightening and brightening the skin.

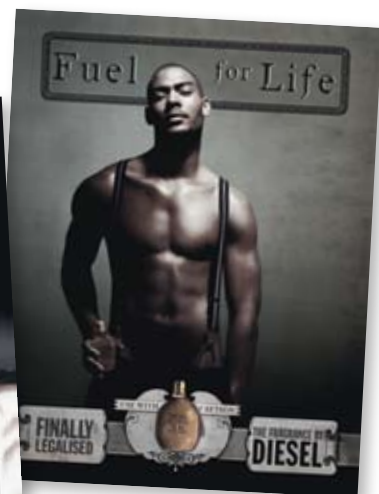
In another first, the brand is launching from the outset a full range of four items: a serum, a day care lotion, an eye contour lotion and an intensive night care lotion. The immediate success of Skin Genesis, whose ambassador is Penélope Cruz, is strengthening the global leadership of L'Oréal Paris in the anti-ageing segment.



Fuel for Life: the elixir of life by Diesel

Less than two years after signing the partnership with Diesel, the cult Italian jeans and fashion brand, L'Oréal is launching Diesel Fuel for Life, a line of fragrances dedicated to a new generation of young hedonists. Dressed and undressed at will, the two Fuel for Life bottles make a witty reference to the roots and expertise of Diesel.

This global launch is being supported by a communication campaign that breaks with the usual codes, particularly on the Internet where more than 8,000 bottles were customised by individuals who purchased them on-line. Initial results are in line with the objective.





Currently, 130 million Chinese have sufficient means to consume L'Oréal cosmetics products. The number of households with a monthly income greater than 600 euros should nearly double over the next three years. By 2009, 12% of Chinese households should fall in this category.

© Bob Krist/Corbis

Conquering the Chinese market

Ten years ago, L'Oréal opened the headquarters of its subsidiary in Shanghai. L'Oréal China has gradually introduced all the group's major brands. Present in all distribution channels, each one has a specific price positioning, enabling the group to meet the various consumer needs. Its efforts have been rewarded: it is now number 2 in this strategic market, with leadership positions in make-up with Maybelline, in selective channels with Lancôme, in pharmacies, where Vichy created the dermocosmetics market and in salons. In less than ten years, L'Oréal China has become profitable, and one of L'Oréal's top ten subsidiaries worldwide.

"To move into China, we did not hesitate to start from scratch, launching operations on our own, without a joint venture. This has enabled us to choose our major strategic battles ourselves, and the speed at which we introduce our brands, and thus be the master of our destiny in China."

Sir Lindsay Owen-Jones



L'Oréal Paris, number 1 beauty brand in its field

In Mandarin Chinese, L'Oréal is known as "Oulayia", which means "elegance from Europe". In China, the brand represents the quintessence of quality and refinement, and symbolises French chic and affordable luxury. Driven by the success of its ranges in skincare, the largest market in China, the brand has achieved spectacular growth (+50% in the first half of 2007), making it the number one beauty brand in its distribution field today. One of the major successes is Men Expert, launched one year ago, which is proving a winner with Chinese men.



Introduced on the Chinese market in 1999, **Lancôme** quickly became the luxury market leader, thanks largely to its skin-lightening products.

Matrix is the affordable quality brand sold in 6,500 salons nationwide. The brand offers a high level training to its hairdresser customers.





A truly phenomenal brand, **Vichy** has opened up the market for dermocosmetics products sold in pharmacies. It won over consumers from the outset with an original concept: Doctor Vichy, the name given to the advisory dermatologists, who represent the brand in pharmacies. Vichy is today sold in some 2,000 pharmacies in China.



Yue-Sai, the only Chinese luxury brand

Acquired by L'Oréal in 2004, Yue-Sai is the emblematic beauty brand for the modern Chinese woman, and the only Chinese brand in the luxury segment. It has just been revamped and relaunched with a new image, and distribution has been refocused on high-end counters.



A better understanding of Chinese skin and hair

The mission of the L'Oréal research centre opened in 2005 at Pudong, near Shanghai, is to study the structure and behaviour of Chinese skin and hair. The knowledge gathered through its work will enable the development of innovative products to meet the specific needs of the Asian market as a whole. L'Oréal's researchers have had the opportunity of studying hair more than 2.50 metres long, belonging to a woman from Shanghai who has not cut her hair for more than 28 years.



NEWS Innéov, number one in nutricosmetics in Europe

In 2003, L'Oréal and Nestlé created Innéov, a brand of oral cosmetics sold through pharmacies. Four years later, Innéov is in the top position in the European market. New consumption habits have been created: today, one-third of European women already use "beauty pills". Five products have been launched since 2003. The brand's latest major success, Innéov Cellulite, has quickly become number one in its market segment.



New breakthrough for Garnier in the United States



After rising to the second position in three years in the United States haircare market with Fructis, Garnier is making a new breakthrough with the Nutritioniste skincare range.

Its message is strong and focused on efficacy: for the first time, a beauty product combines nutrition and dermatology. The packaging is in the same green as the Garnier brand, a colour which is already associated with Fructis. The positioning is fully aligned with the brand's values: "Take care" by enhancing both beauty and well-being. Lastly, Sarah Jessica Parker, the famous actress from the "Sex in the City" series was selected to promote the range. After just nine months on the shelves, more than eight million units of Nutritioniste products have already been sold.

Creation of a subsidiary in Vietnam

A young country, with a population of 85 million, where under-thirties account for 58% of the population. A dynamic economy: Vietnam is second in Asia only to China in terms of GDP growth. The middle class is developing rapidly. All these factors are favourable for the creation of a subsidiary, and the grouping of brands already present on the market. Today all the Divisions are represented. Amongst the greatest successes, the Vichy brand is now number one in the dermocosmetics market. First introduced in 1999, it is now sold through 220 pharmacies. As modern distribution structures are still very limited, L'Oréal Paris has decided, initially, to create its own boutiques and to support the arrival of new players in modern distribution. Lancôme was launched with a highly selective approach in two department stores in August 2006.



Kiehl's: The saga continues

The success story of Kiehl's, the cult New York brand, is continuing across the world. Operating exclusively in the United States when it was acquired by L'Oréal in 2000, today Kiehl's is present in 28 countries with 68 of its own boutiques and 335 sales outlets in department stores. In three years, the brand has tripled the size of its global network. And the adventure is continuing with an ambitious target: to double sales within five years.



A new expression of luxury

In 1851, John Kiehl created a drugstore bearing his name in New York, modelling it on the apothecaries' shops of Europe. The quality of the products and advice, passed on by customers' word of mouth, built the reputation of the brand to a highly selective public which has become the "Kiehl's community". Over the years, Kiehl's has become a cult brand with a fashionable image, while remaining close to consumers.

The brand has built its success on a complete absence of advertising, and prefers generous sampling campaigns with personalised advice. Listening to the customer is a fundamental value at Kiehl's and the forms filled in by consumers are carefully processed, contributing to the development of new products.

Simple packaging, and high quality products such as Lip Balm, *Crème de Corps* and more recently Abyssine and Dermatologist Solutions facial skincare are "must-have" products, sought after by actresses and top models all over the world...



Toulouse, Berlin, Vienna, Lisbon, Manila, Kuala Lumpur, Taipei... more than twenty points of sale were opened in 2007. The Kiehl's adventure is continuing around the world.



In each of its boutiques, the key features of the original drugstore's decor are duplicated: brick walls, old-fashioned parquet flooring and crystal chandeliers... plus a Harley Davidson from the brand's private collection, and the Baby Wall, a panel for displaying photographs of customers' babies, and Mr. Bones, the mascot of Kiehl's customers all over the world.

Rewards for achievements... and inspiration for the future

*Economic performance, development of leaders, innovation and ethics.
In all these fields L'Oréal has received various awards over recent months for its performance.
They are all inspiration for the future.*



40 years of **economic performance** rewarded

L'Oréal was awarded the Grand Prize for economic performance, organised by the magazine L'Expansion. This award, created to celebrate the magazine's 40th anniversary, is granted to the company with the most outstanding economic performance over the last 40 years. The jury has chosen L'Oréal to "honour the company's exceptional track record" in terms of growth, profitability and value creation over a long period.

Since 1967, the sales of L'Oréal have been multiplied by 200. The group is present in more than 130 countries, compared with only around ten 40 years ago. Over this period, market capitalisation has been multiplied by around 700.

Sir Lindsay Owen-Jones warmly thanked shareholders for their trust and loyalty, stressing that "it is the stability of our shareholder base which enables us to ensure the long-term success of L'Oréal."

Double reward for **innovation**, the heart of the L'Oréal strategy

The first award was the "Decision makers' Prize" at the first-ever Innovation Management Trophies ceremony. The prize, jointly awarded by L'Expansion, BearingPoint and l'École des Ponts, was initiated by the *Observatoire du Management de l'Innovation*, whose aim is to encourage exchanges on issues linked to innovation for large companies operating in France.

Les Echos
LE QUOTIDIEN DE L'ÉCONOMIE



L'Oréal also received the "Best Innovator" prize for Innovation and Consumer Intelligence. Created in 2004 by A.T. Kearney, the strategic consulting firm, and "Les Echos", this European prize is awarded for best practices in innovation management. Chosen from 700 companies, L'Oréal was the only consumer goods group to receive an award.

One of the "most **ethical** companies in the world"

L'Oréal has been designated as one of the "most ethical companies in the world" by Ethisphere Magazine, an Ethisphere Council publication which focuses on the strong links between profit and ethics. Of more than 5,000 organisations monitored over a period of six months, fewer than a hundred were designated.

The companies have been selected through a strict eight-step process, and then given marks on the basis of nine ethical criteria, particularly exemplary behaviour in ethics and compliance with regulations, ethical and social commitment, and involvement with neighbouring communities.



Developing leaders: L'Oréal, one of the top five companies

L'Oréal is recognised as one of the top five companies in spotting and developing leaders by the "Top Companies for Leaders" leadership barometer by Hewitt, a human resources consulting firm.

The group is the only French company to appear among the top five companies recognised by this ranking and the only one to have appeared in three consecutive surveys since the initiative was launched by Hewitt in 2001.

Quality of leadership is at the heart of L'Oréal's innovation and growth strategy.

Actionaria Show: Find out more about your company and its businesses



For the fourth consecutive year, L'Oréal is looking forward to welcoming you at its stand at the Actionaria Show for Shareholders to be held on November 16th and 17th, 2007 at the *Palais des Congrès* in Paris. Invitations are available on request at +33 1 47 56 82 65.

In 2006, some 2,000 of you visited our stand, and met with L'Oréal representatives. This year, come and find out about our businesses, with special events focusing on Lancôme make-up and Vichy skincare.

Meeting our shareholders

After Ancey on May 15th, 2007 and Nice on June 14th, 2007, many of you took part in the latest shareholders meetings held on October 15th in Marseille and October 18th in Lyon. They provided shareholders with an opportunity to meet L'Oréal representatives, exchange views and keep up to date with the latest developments and the growth in the group's activities.

The next shareholders' meeting will take place on Thursday, November 29th in Lille.



26 members of the investment clubs of northern France took part in a tour of the group's largest prestige fragrance factory on September 28th.

L'Oréal consults its shareholders

Several times a year the L'Oréal Shareholder Relations department holds meetings with a rolling panel of shareholders. On June 22nd 2007, fourteen shareholders from various regions shared their views with us about the 2006 Annual Report. The panel's many suggestions, thorough preparatory work and useful ideas are helping us to improve our communication.

Would you like to register to participate in the panel?
Please contact us on +33 1 47 56 82 65.

NEW! Interactive call centre

The freephone number for our shareholders in France, **0 800 66 66 66**, now incorporates an interactive call centre which provides access at all times to the following services:

- Live share price quotation.
- Calendar of upcoming shareholder events.
- Summary of the most recent news release.
- Access to the "L'Oréal shareholders" telephone service managed by BNP Paribas, available on working days from 8.45 a.m. to 6 p.m.

L'Oréal share price



Financial information calendar

Friday, November 16th and Saturday, November 17th, 2007
Actionaria Show at the Palais des Congrès, Paris

Thursday, November 29th, 2007
Shareholders' meeting in Lille

Thursday, February 14th, 2008
News release - 2007 annual results

Tuesday, April 22nd, 2008
AGM at the Carrousel du Louvre, Paris

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L'ORÉAL

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