



L'ORÉAL  
PROFESSIONNEL  
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MATRIX

REDKEN  
NEW YORK

L'ORÉAL  
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GARNIER

MAYBELLINE

SOFTSHEEN-CARSON

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BIOThERM

HR  
HELENA RUBINSTEIN

GIORGIO ARMANI  
PARFUMS

DIESEL

RALPH LAUREN

cacharel

Kiehl's  
SINCE 1851

shu uemura

YVES SAINT LAURENT

VIKTOR & ROLF

VICHY  
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LABORATOIRE PHARMACEUTIQUE

innéov

SANOFLORE

THE BODY SHOP

## LETTER TO SHAREHOLDERS

November 2008 \_ Number 44



### Despite the headwinds, the L'Oréal ship is maintaining its course

Dear Shareholders,

Many of you may have been surprised by the extent of the turmoil in the financial markets. But over the last few months, large numbers of you have told us of your attachment and loyalty to L'Oréal, because you are convinced that your group is equipped to weather heavy storms.

#### Market share gains

In this extremely difficult environment, L'Oréal is continuing to win market share. Our sales growth was +7.4% at constant exchange rates in the first 9 months of the year, and +4.4% like-for-like.

To support our brands and our products, we have made the decision to maintain strong advertising and promotional support for our brands in the 4<sup>th</sup> quarter. This decision reflects our strategic determination to make support for growth our absolute priority, and will enable us to prepare for 2009 in the best possible conditions.

As a result, we have revised our earnings target slightly downwards and now aim to achieve net earnings per share growth of approximately

+7% to +8% at constant exchange rates. This represents a further significant improvement compared with 2007, particularly allowing for the dilutive impact of the consolidation of Yves Saint Laurent Beauté.

We are looking ahead to 2009 with realism, because the economic environment is expected to remain difficult. The possibility of benefiting from favourable factors cannot however be ruled out, if the downward trend in raw materials - primarily oil - continues, and the dollar remains at its current level.

#### Confidence in our development strategy

We are determined to strengthen our worldwide positions further. We are confident in our development strategy.

Firstly because the cosmetics market has always demonstrated great resilience in times of crises, which explains our strategic determination over almost a century to concentrate on only one business.

And also because our laboratories are focused more than ever before on developing genuine technolo-

gical innovations. As for our brand portfolio, which offers products at all price levels, it enables us to reach all customer segments and ensures our presence in the different distribution channels, so that we can meet all consumer expectations.

#### Robust balance sheet

Our brands have immense potential at international level. Firstly in the developed countries, where we are continuing to strengthen our positions, but also in the fast-growing emerging countries, where our market shares are still relatively limited.

Lastly, the financial structure of your group is healthy and robust, and its debt level is very reasonable.

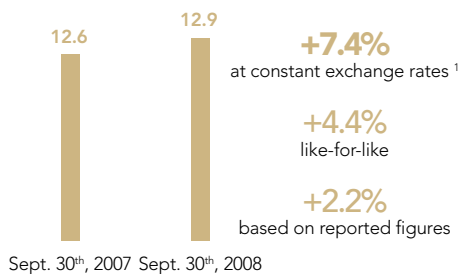
You can rest assured that all the men and women in the group are sparing no effort to weather this troubled period in the best possible conditions, and indeed emerge from it stronger than before.

Jean-Paul Agon  
Chief Executive Officer

# Nine-month sales

L'Oréal continues to strengthen its worldwide position and grow very rapidly in the new markets

## Sales growth in billions of euros



Sept. 30<sup>th</sup>, 2007 Sept. 30<sup>th</sup>, 2008

## 2008 targets

- Like-for-like sales growth of approximately +4%.
- Net Earnings per share <sup>3</sup> growth of approximately +7% to +8% at constant exchange rates <sup>1</sup>.

## Reminder of main results at June 30<sup>th</sup>, 2008

		Growth	
		At constant exchange rates <sup>1</sup>	Reported
Operating profit	€1,497.7 M	+8.5%	+3.9%
Net profit after minority interests <sup>2</sup>	€1,256.2 M	+10.1%	+6.4%
Net Earnings per share <sup>3</sup>	€ 2.11	+12.3%	+8.5%

<sup>1</sup> Based on constant translation rates: 2008 data at 2008 rates / 2007 data at 2008 rates.

<sup>2</sup> Excluding non-recurrent items.

<sup>3</sup> Based on net profit excluding non-recurrent items, after minority interests. Average diluted number of shares.

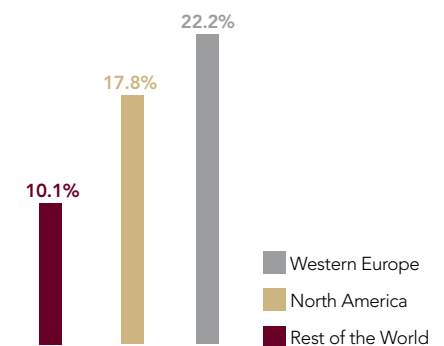
In the first nine months of the year, the group achieved sales growth of +0.3% like-for-like in Western Europe, in a market whose growth has slowed. The launches in the four divisions, such as *Série Nature* by L'Oréal Professionnel, *Excell 10'* and *Volume Collagene Mascara* from L'Oréal Paris, *Magnifique* by Lancôme, *Armani Diamonds for Men* by Armani and *Liftactiv* by Vichy, are proving very successful with European consumers.

North America had a difficult 3<sup>rd</sup> quarter, with -2.3% like-for-like at end-September, in the context of a negative 3<sup>rd</sup> quarter market trend, and stock reductions by distributors.

## Strong growth in emerging countries

Dynamic growth is continuing in the Rest of the World zone at +15.5%, where the group continues to strengthen its positions significantly, with very strong growth once again in Asia and Eastern Europe, a re-acceleration in Latin America, and good growth in Japan.

With a 10.1% market share in the emerging countries, the group has a very large growth potential in this zone.



Market share by geographic zone in 1<sup>st</sup> half 2008.

# Honours for L'Oréal

L'Oréal is awarded 1<sup>st</sup> prize for best Annual Report CAC 40 category, by two French financial newspapers

LEFINANCIERE LesEchos

The jury particularly commended the presentation of the accounting and financial aspects, the attractiveness of the Strategy and Outlook sections, the thoroughness of the information on the cosmetics sector, and the general presentation of the document. The different media put into place for communicating with shareholders were praised, and special mention was made of the quality and diversity of the tools used for this purpose.



1<sup>st</sup> prize for quality and transparency of information and communication

awarded by the French financial newspaper *L'Agefi*.



3<sup>rd</sup> prize for the 2008 Annual General Meeting

awarded by Capitalcom and Deloitte.



## Excell 10' by L'Oréal Paris: the "revolutionary" colourant



L'Oréal Paris is innovating with a new permanent colourant technology: Excell 10'. In just ten minutes, its patented formula reveals colour more quickly, covers 100% of grey hair and makes hair stronger. With launches gradually rolled out across Europe since May, Excell 10' is already proving a real success. With Casting Crème Gloss, Recital Préférence, Excellence Crème and new Excell 10', L'Oréal Paris offers the right colourant for all age groups.



"You are unique,  
you are Magnifique" ...



The Lancôme luxury brand has just launched Magnifique perfume in every country in the world. With American actress Anne Hathaway as its ambassador, this fragrance is a perfect illustration of ultra-femininity: the note of rose is set off by saffron and woody nagarmotha. The fragrance's excellent reception in Europe augurs very well for its development prospects.

## Kéraskin Esthetics a new business for the Professional Products Division



The Professional Products Division is moving into a new business: professional skincare. It has created Kéraskin Esthetics, the first skincare brand for luxury hair salons equipped with cabins. In this highly dynamic market, Kéraskin Esthetics is supporting high-end salons in developing professional skincare, combining the performance of L'Oréal's Advanced Research with the expertise of the top professional beauticians. Initially launched in Europe, Kéraskin Esthetics is gradually moving into the most prestigious salons all over the world.

## Vichy reinvets the Liftactiv anti-wrinkle range



The battle against wrinkles and loss of firmness continues! Vichy launches the firming skincare product Liftactiv CxP, in the Liftactiv range which is already the number one anti-ageing product sold in pharmacies\*. It offers a "biological lifting" made possible by a remarkable technological achievement: a synergy of proven active ingredients -Peptide2 + Vitamin C-, in continuous release to multiply the cells responsible for creating new fibres.

\*Europe 7 Pharmacies – France, Germany, Italy, Spain, Belgium, Austria, Portugal. IMS, March 2008.



With 14 euros of average per capita spending on cosmetics, Thai women spend four times more than Chinese women, but still eight times less than Japanese women.

## L'Oréal adopted by Thai consumers

"The potential of the new markets not only lies in the major countries known as BRIMC -Brazil, Russia, India, Mexico and China", pointed out Jean-Paul Agon at the Annual General Meeting on April 22<sup>nd</sup> 2008, "but also in a large number of smaller countries which are similarly experiencing a phase of rapid economic development."

Thailand is one of the "Next 12" (twelve countries which have a large market potential and high growth rates but where market shares are still limited), on which L'Oréal has decided to focus its efforts, so that they in turn become growth relays.

Created in 1994, L'Oréal's subsidiary in Thailand has been gradually rolling out the group's major international brands. The group designs products specifically adapted to the expectations of Thai and Asian consumers, drawing on several years of work at its Bangkok-based evaluation centre, which studies the beauty habits and routines of Thai women.

### Garnier, a pioneering brand

For a clear, bright skin, and for protection from sunlight, Garnier has created - specially for Thai women - the "Light" range for whitening and UV protection. Launched in 2002, the facial skincare range was extended at the end of 2007 by the addition of a bodycare range.

Building on its success, "Garnier Light" has crossed borders, and has now been launched in China, the Philippines, Indonesia, Malaysia, Vietnam and Singapore.



### L'Oréal Thailand

Subsidiary created in **1994**

**15** brands present

**No. 3** in the cosmetics market

**89 million**  
euros of sales in 2007

**+60%**  
growth in 4 years

### Available for a wide range of people



The first lightening product to be sold in modern retailing outlets, Garnier has adapted its packaging to suit traditional shops: it now offers its "Light" skincare range in ten-gram sachets, making it affordable for the largest possible number of consumers in all regions.

## The cult of bright, clear and shining skin



In Thailand, skin quality is considered to be a measure of well-being and personal self-fulfilment.

The skin must be clear, uniform, bright and shining. Thai women are constantly cleaning their skin because of the hot and humid climate, and their skin-type which tends to be oily. They want their skin to be free of blemishes, looked on as a sign of ageing. As a result, they steer clear of sunlight, and 70% of them\* use a moisturising cream which also offers UV protection.

Furthermore, 84% of them\* say it is important that a moisturising cream should also prevent darkening. Indeed skin lightening products are the most popular items.

## First Kiehl's boutique

In October 2007, the cult New York brand opened its first boutique in Bangkok's most prestigious and luxurious shopping centre, Siam Paragon. Thai women are already being won over by the quality of the products and advice which have established the brand's reputation throughout the world. Two new boutiques are to open in the capital before the end of this year.

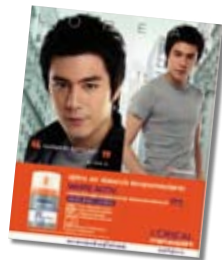


\*Study Ipsos - Thailand 2007.

## L'Oréal Paris: For men too!

Launched in 2005, the Men Expert range by L'Oréal Paris has seen its sales advance very strongly with the launch of a skin lightening range for men.

In two years, it has risen to second place in the burgeoning men's market, which is growing four to five times faster than the women's market.



## Vichy: Normaderm is a major success

One Thai woman out of two says that her skin is either oily or shiny\*. This explains the strong success of Normaderm, a Vichy skincare product for problem skin, sold in drugstores.



## Professional Products Division trains hairdressers

Number one in the market, the Professional Products Division is present with three brands: L'Oréal Professionnel, Kérastase and Matrix, which has just been launched. The Division has built up a very close relationship with hairdressers, and develops and promotes L'Oréal's expertise through an intensive training policy. The Division has thus recently set up a partnership with the Sasin management institute, which forms part of one of the best-known and most prestigious universities in Thailand, to offer hairdressers a range of training courses in salon management.



# United States: Distinction for SkinCeuticals



The new SkinCeuticals anti-oxidant, Phloretin CF™, has just been voted the best technological breakthrough and the best skin serum by Allure magazine. It achieved the joint top ranking with CE Ferulic, the brand's flagship product. The American magazine Elle has moreover just ranked CE Ferulic one of the world's top five anti-ageing skincare products.



A major player in the American professional skincare product market, SkinCeuticals was acquired in 2005 and integrated into the Active Cosmetics division. The brand markets its products to dermatologists, aesthetic doctors, and medispas. It was created by a researcher specialising in photo-ageing, whose work has enabled the development of an original topical vitamin C formula which protects the skin against premature ageing.

Initially sold exclusively in the United States, SkinCeuticals began its globalisation in 2007 with a successful launch in five European countries.

# YSL Beauté joined the Luxury Products Division on July 1<sup>st</sup>, 2008

The acquisition of YSL Beauté is strengthening the positions of the Luxury Products Division. Primarily in perfumes, where it has now taken the number one spot in women's fragrances, but also in make-up. The integration offers YSL Beauté major growth opportunities: in skincare and make-up thanks to the support of L'Oréal research, and in international markets. L'Oréal's worldwide presence will enable it to build up its positions in North America, and in the new markets, in Eastern Europe, the Middle East and Asia.



## Two questions to Marc Menesguen

President, Luxury Products.

### What does YSL Beauté bring to L'Oréal?

"The six brands of YSL Beauté are perfectly complementary in the portfolio of our division. Yves Saint Laurent, the mythical French brand, is lining up alongside Giorgio Armani, the cult Italian fashion brand, and Ralph Lauren, the number one American designer to form an exceptional trio of designer beauty brands. Furthermore, this acquisition considerably strengthens the positions of the Luxury Products Division, firstly in

perfumes, where it is already the market leader and has taken the number one spot in women's fragrances, but also in make-up. Finally, this acquisition is strengthening our ambition to become the world's leader in luxury cosmetics."

### How will YSL Beauté benefit from its integration into L'Oréal?

"We are convinced that the support of our research offers these brands great growth opportunities in skincare, where the compa-

ny's presence has been limited up to now, and in make-up. Furthermore, our strong international presence will help increase its global reach by developing its positions in North America and in new markets such as Eastern Europe, the Middle East and Asia, where its potential remains immense."

## The 6 brands of YSL Beauté



**Yves Saint Laurent**  
The mythical designer brand



**Boucheron**  
The extreme luxury of a perfume brand from the world of exclusive jewellery



**Ermenegildo Zegna**  
Contemporary man seen by an Italian brand with incomparable family know-how



**Oscar de la Renta**  
Irresistible designer charm with the Latin touch



**Stella Mc Cartney**  
The young, fashionable British designer brand, committed to sustainable development



**Roger & Gallet**  
The delicate art of perfume since 1862



## Yves Saint Laurent, the visionary

An extraordinarily visionary figure, Yves Saint Laurent embodied the mythical image of French elegance and luxury. A designer who was emblematic for his contemporaries, his genius revolutionised women's beauty. This enlightened artist devoted his life to women, offering them fashion with a sensual, bold and elegant hallmark. His name will always be a ultimate symbol of boldness, creativity and timelessness.

# L'Oréal research: an eco-responsible approach

L'Oréal's 3,000 scientists are inventing the cosmetics of tomorrow by adopting an eco-responsible approach. Several Green Chemistry principles have been introduced into the working methods of the group's laboratories. The Sustainable Development Report, published in June 2008, sets out in detail the actions taken in this field. The report is available on the website [www.loreal.com](http://www.loreal.com) (Sustainable Development).

Green Chemistry principles change the initial approach of chemists, encouraging methods which lead for example to reduce waste, lower solvent quantities, and the optimisation of synthesis yield. Considerable efforts have also been

focused on the recycling of plant biomass, and the identification, in close collaboration with raw material suppliers, of materials obtained using processes which respect the environment.

## Natural and Organic products



In 2007, L'Oréal created a new Natural and Organic Department, one of whose fundamental missions is to integrate more and more natural raw materials. Products developed in this way complement the "traditional" products from L'Oréal and are enshrined, via organic agriculture in particular, in a global plan for protection of the planet.

The greatest vigilance will be used to ensure that "green" procurement chains are adopted, to preserve biodiversity and to ensure that trade is equitable, by guaranteeing a fair return for local populations. L'Oréal has already begun to apply this approach with its suppliers of argan oil and shea butter.



Two of the group's brands, Sanoflore and The Body Shop, have paved the way for products which are more natural, environmentally-friendly and fairly-traded.

## What is Green Chemistry?

Green Chemistry enables the preparation, from renewable raw materials, of molecules with little environmental impact, intended for the manufacture of new products, using less polluting methods, consuming less energy and producing less waste.

## Pro-Xylane™, the first green molecule

After seven years of research, the group's laboratories have developed Pro-Xylane™. The result of several patents, this active ingredient complies with the principles of green chemistry: use of a renewable raw material - a wood sugar -, synthesis in a limited number of stages (two) to reduce waste, and the use of water as solvent. The result is a product which is effective in combating the signs of ageing, as well as being biodegradable, non persistent and non-ecotoxic.

Pro-Xylane™, a molecule developed using Green Chemistry, has been gradually introduced, on its own or with other active ingredients, into the group's skincare products.





## Actionaria Stock Market Fair: Hope to see you there!

For the fifth consecutive year, the whole Financial Communications team is looking forward to meeting you at Actionaria, the Stock Market Fair, on November 21<sup>st</sup> and 22<sup>nd</sup> 2008, at the *Palais des Congrès* in Paris (Porte Maillot - 75017) from 9.30 a.m. to 7 p.m. Invitations are available on request from +33 1 47 56 82 65, or can be downloaded from the website at the following address: <http://www.loreal-finance.com/eng/actionaria-fair>

## Switch to directly registered shares free of charge

To make the switch, download the form from the website [www.loreal-finance.com/eng/become-shareholder](http://www.loreal-finance.com/eng/become-shareholder), fill it in, and send it to your custodian. We will meet any transfer fee costs.



### Christian Mulliez answers your questions

A conference-debate will be held on Friday, November 21<sup>st</sup>, from 3 p.m. to 4 p.m. in *Salle Maillot* (level 2). Christian Mulliez, Executive Vice-President, Administration and Finance, will give a presentation about the group and its financial performance, and will then answer your questions.

NEW IN 2008

## New-look Shareholders' Corner



In this new section of the [www.loreal-finance.com](http://www.loreal-finance.com) site you will find all the practical information you need, such as: advantages and drawbacks of each mode of holding shares, a calculator to measure the performance of your share portfolio, interactive charts, and all your publications. There are also photographs and videos of recent shareholder meetings.

## Your diary dates

- Shareholder meetings  
2<sup>nd</sup> half 2008

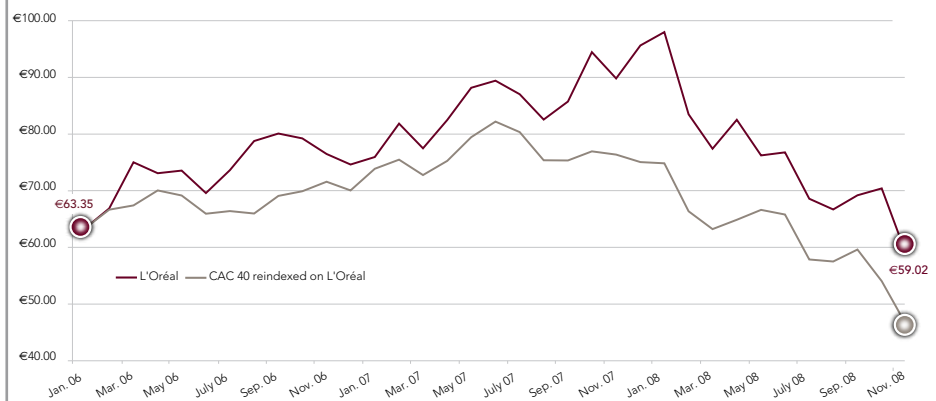


- News release  
February 17<sup>th</sup>, 2009  
2008 annual results
- Annual General Meeting  
April 16<sup>th</sup>, 2009

*This is a free translation into English of the L'Oréal November 2008 Letter to Shareholders issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.*

Photographs: Emanuele Scorcelletti/Gamma, Ben Baker, Frédéric Réglain, Peter Lindbergh and Laziz Hamani, Cédric Arnold/Gamma, Carole Bellaïche, Isabelle Walter

## Share price



## L'ORÉAL

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 its Shareholders' Corner or the mobile website [mobile.loreal-finance.com](http://mobile.loreal-finance.com) from your mobile phone.