

THE SHAREHOLDERS' CORNER

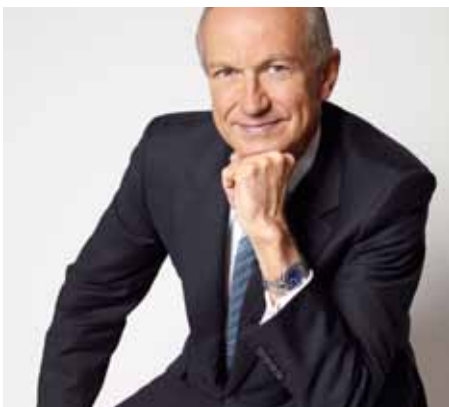


L'ORÉAL

the letter

N° 51 MARCH 2011

DEAR SHAREHOLDERS,



■ In a cosmetics market which regained its dynamism, L'Oréal has returned to growth. The crisis is clearly behind us, and we bounced back well in 2010. The strong growth of our sales reflects a performance that was both solid and global, as the group advanced across all divisions, all business segments and all the major regions of the world. L'Oréal has reinforced its position as the world number one in beauty. But 2010 was also a good year in terms of results. The

“We are entering a new phase in our history.”

thorough transformation of the group which began two years ago paid off, and enabled us to post increased profitability everywhere we operate. We have returned to our “virtuous circle” growth model.

We are making the most of the new strategic thrusts we decided on at the end of 2008. The first was to focus on major worldwide high value-added innovations at accessible prices, enabling us to reach more consumers. The second decision was the extension of our brands into new product categories, such as men's skincare and deodorants, once again to broaden our target consumer base and generate additional growth. The third strategic thrust is the accelerated global roll-out of our brands.

We had also taken the decision — a brave one in the midst of the crisis — to increase our spending on Research and Innovation, and we continued to do so in 2010. Given that the world of cosmetics is fundamentally technological, we are convinced, today more than ever, that it is through Research and Innovation that we will stand out from the competition, and continue to strengthen our worldwide leadership. (…)



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MESSAGE

Message by Jean-Paul Agon (continued)

A BILLION NEW CONSUMERS

The emerging countries have become vast reservoirs of new consumers, and this trend is set to become more pronounced. In 20 years' time, the world's population will have increased by 25%, and the number of consumers with access to cosmetics may have grown by some 50%.

This profound transformation of the beauty market offers us opportunities on a scale unknown up to now. Today, L'Oréal makes the bulk of its sales with less than 15% of the world's population. In ten years' time, we should have as many customers in the Asia, Pacific zone as in Europe and the United States combined. This is the basis for our objective of winning a billion new consumers, or in other words, doubling our total customer base.

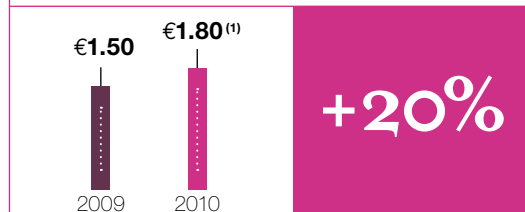
BEAUTY FOR EVERYONE

Wherever one looks, our horizon is broadening. Targeting two billion consumers is a considerable change of scale and ambition for the group, but also a realistic objective. Our company is now entering a new phase of its history, which is absolutely decisive, that of universalisation, and beauty for everyone.

We will go in search of these new consumers wherever they are: the Asian continent, driven by China and India, is set to be the largest contributor, but the major markets in the developed countries, such as the United States, the United Kingdom and Germany, will also be sources of strategic growth. I am convinced that the major strategic choices made over the last few years, and the profound transformations set in motion in 2010 have prepared the group for this new phase of expansion.

Jean-Paul Agon
Chairman and Chief Executive Officer

STRONG DIVIDEND GROWTH



“In 2010 the group produced a good performance. Thanks to their drive and imagination, Jean-Paul Agon and his teams have succeeded in opening up new areas for growth and profitability, which are also paving the way for the future. The proposal by the Board of Directors to pay a dividend of 1.80 euro per share is an expression of our confidence in the group’s solidity and dynamism.”

Sir Lindsay Owen-Jones
Honorary Chairman

2010 RESULTS

STRONG GROWTH IN SALES AND PROFITS

L'OREAL HAS RETURNED TO GROWTH

■ L'Oréal's growth in 2010 amounted to +5.6% like-for-like, as the group outperformed the worldwide market trend. Growth based on reported figures was spectacular at +11.6%, as a result of a highly positive currency effect, linked in particular to the strengthening of currencies in the New Markets, enabling a record sales level of 19.5 billion euros.

RECORD OPERATING PROFIT

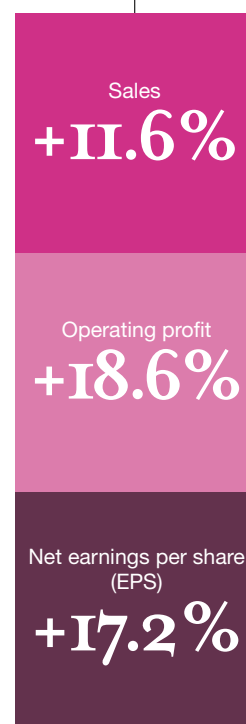
■ Operating profit increased by +18.6% to 3,057 million euros, that is 15.7% of sales. All the operational efficiency actions undertaken over the last two years

to enhance the company's performance and make it more responsive are paying off. The good balance between profitability levels across all businesses and all regions of the world is one of the group's strengths, and is a major asset for sustainable and profitable growth.

A VERY ROBUST BALANCE SHEET

■ The 2010 balance sheet structure is very robust, as shareholders' equity represents 61% of total assets. Furthermore, net financial debt is very low, partly because of a further improvement in working capital this year. The net gearing is close to zero. Cash flow reached a new record level of 2.625 billion euros.

KEY FIGURES



(1) Dividend proposed to the Annual General Meeting of April 22nd, 2011.

GOVERNANCE

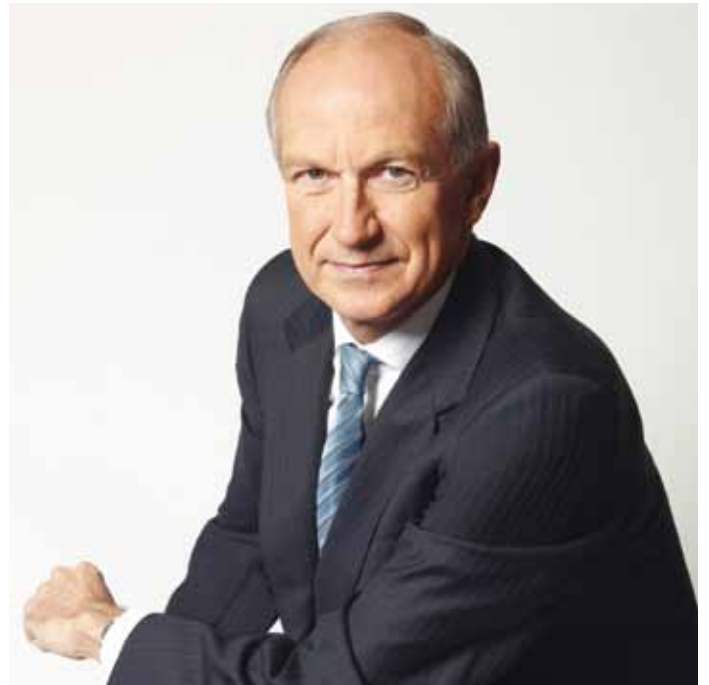
JEAN-PAUL AGON IS APPOINTED CHAIRMAN AND CHIEF EXECUTIVE OFFICER

AFTER TWENTY-FOUR YEARS AT THE HEAD OF L'ORÉAL, SIR LINDSAY OWEN-JONES PASSES ON THE CHAIRMANSHIP TO CHIEF EXECUTIVE OFFICER JEAN-PAUL AGON. THE TWO ROLES HAVE BEEN REUNIFIED: JEAN-PAUL AGON IS APPOINTED CHAIRMAN AND CEO, AND SIR LINDSAY OWEN-JONES HONORARY CHAIRMAN.

■ As planned and announced at the Annual General Meeting in 2005, Sir Lindsay Owen-Jones informed the Board of Directors, at its meeting on February 10th, 2011, that he wished to complete the transfer of responsibilities to his successor before his 65th birthday on March 17th, 2011. Accordingly, on the proposal of the Appointments and Governance Committee, the Board of Directors voted unanimously in favour of appointing Jean-Paul Agon as Chairman and CEO.

“I am extremely honoured, and fully aware of the responsibility this appointment entails. I would also like to thank and pay tribute to Sir Lindsay Owen-Jones. Over the course of what is widely acknowledged as a tremendously successful twenty-four-year tenure, he was the architect and the builder of the magnificent company that is L'Oréal today. As for my own view, I have every confidence in the success of our company. L'Oréal is particularly well adapted and prepared to take on the challenges of a world that is currently being transformed, and indeed to take advantage of them as strategic opportunities.”

Jean-Paul Agon



SIR LINDSAY OWEN-JONES IS APPOINTED HONORARY CHAIRMAN

“

It is a source of great satisfaction for me to see that the vision I had from the outset for L'Oréal has been accomplished. I would like in particular to express my thanks to the Board for the honour it has conferred on me with this distinction. I have every confidence in the future of L'Oréal and in the ability of Jean-Paul Agon and his teams to successfully continue this remarkable adventure.”

”

Sir Lindsay Owen-Jones

HIGHLIGHTS

KALUGA FIRST FACTORY IN RUSSIA

■ In September 2010, L'Oréal opened its first factory in Russia, 85 kilometres south of Moscow, in the Kaluga region. The objective is to respond to the strong growth of the local market, as products manufactured in this new 10,000 m² plant are intended for the whole of the surrounding area: Russia, Ukraine and the countries of the Community of Independent States (CIS). The construction of this plant, which complies with all L'Oréal standards in terms of equipment, information systems, quality processes, and safety and sustainable development policy, is an illustration of the industrial strategy put in place over the last few years: an organisational structure based on major geographic poles, each of which combines all types of professional expertise, production sites and dedicated logistical centres. This approach facilitates the seizing of growth opportunities all over the world.



China becomes L'Oréal's number three market

L'Oréal recorded another year of double-digit growth in China, driven by the dynamism of men's skincare, make-up, and haircare initiatives. L'Oréal is continuing to make market share gains in the country, and in 2010 broke the barrier of one billion euros of sales in China, which has now become the group's number three cosmetics subsidiary.



more than

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MILLION
GÉNIFIQUE
SERUMS
SOLD
WORLDWIDE
SINCE
ITS LAUNCH

WITH SALES DOUBLING COMPARED WITH ITS LAUNCH YEAR IN 2009, GÉNIFIQUE BY LANCOME CONTINUED ITS WORLDWIDE SUCCESS IN THE MOST EXPERT CATEGORY: SERUMS. THE RESULT OF 10 YEARS OF RESEARCH, GÉNIFIQUE SERUM HAS BECOME THE BRAND'S NUMBER ONE REFERENCE WORLDWIDE.



Research

Penetrating the secrets of lasting youth

■ After ten years of research and a collaborative project with the University of Cleveland, life science researchers have elucidated one of the keys to youthful skin: the upper dermis is crucial. Its papillary fibroblasts are highly active, and play a major role in skin regeneration. This discovery has enabled the researchers to select and patent an active ingredient for skin repair: the natural sugar rhamnose which stimulates papillary fibroblasts.



EARTH LOVERS THE BODY SHOP

Shower gels which respect the planet

■ The Body Shop is launching its first 100% biodegradable range: six shower gels as kind to the planet as they are to the skin. With this launch, The Body Shop is continuing its militant brand approach, based on respect for people and the environment. Earth Lovers shower gels are formulated with herb and fruit extracts, and Guatemalan Community Trade Aloe vera. They are also soap-free and perfume-free, and contain no sulphates, colourants or parabens, to ensure respect for sensitive skin and the aquatic ecosystem.



MAYBELLINE NEW YORK RECORD YEAR

■ The Falsies Mascara, The Eraser, Eye Studio and Color Sensational. These four Maybelline New York products today occupy the top spots in their respective categories. The Eraser is already number one in anti-ageing foundations in France⁽¹⁾ and in Germany⁽²⁾. As for Color Sensational lipstick and Eye Studio eyeshadow, they enabled the brand to take a key position in the rapidly changing colour segment. In 2010, the world number one in make-up achieved double-digit growth and posted record market share in many countries.

(1)Source: Symphony IRI France, 2010 total, market share value.

(2)Source: IRI/Nielsen Europe 14 panels, 2010 total: IRI US, aggregate June-December 2010. Market share value.

SUCCESS STORY



KIEHL'S the 2010 phenomenon

■ With growth of 43%, Kiehl's produced the best 2010 performance of any L'Oréal brand. A real success story for this company, founded in 1851 in a small apothecary shop in New York's East Village, which has doubled its sales in the space of three years. An accessible luxury brand, Kiehl's adopts highly distinctive codes: pharmacologically inspired products, the ubiquitous advice of its KCRs—the brand's emblematic salespeople—the extraordinary design of the 750 stores, identical all over the world, and an innate sense of generosity, starting with the samples offered to its customers. In 2010, the exceptional results of its facial skincare ranges were backed up by its spectacular rise in Asia, where sales are now comparable with North American levels. For the future, Kiehl's is setting itself two new challenges: to increase its market share in men's skincare, where it is already well established; and to look for new consumers by stepping up its Internet presence in each of the countries in which it operates.

KIEHL'S Midnight Recovery Concentrate



STRATEGY FOCUS



In China, the Pudong Centre doubles its workforce

L'Oréal is extending its research centre at Pudong, in the suburbs of Shanghai. Two new buildings were added in 2010. The Advanced Research building houses biology laboratories for tissue engineering, focusing particularly on models of reconstructed skin of Chinese origin, and analysis laboratories seeking applications for chemical and plant-based raw materials inspired by or used in traditional Chinese medicine. The technical evaluation building meanwhile is dedicated to the study of product performance. Pudong has received the LEED GOLD Award (Leadership in Energy and Environmental Design), primarily for its geothermal facility and its plant-based treatment of sanitary water. It is the first research centre in China to be awarded this label.

Research

INNOVATING FOR ASIAN CONSUMERS

L'ORÉAL IS CREATING A REGIONAL RESEARCH AND INNOVATION (R&I) POLE IN ASIA GROUPING TOGETHER ALL RESEARCH ACTIVITIES. AN IDEAL ORGANISATIONAL MODEL FOR ACCELERATING INNOVATION IN HIGH-GROWTH MARKETS.

A new R&I pole in Asia

■ The new Asia division of R&I, set up in 2010, groups together all the activities of the three research centres in Japan and China and the five existing evaluation centres (South Korea, China, Japan, Thailand and India), ranging from fundamental research to product development, and including consumer observation. The first objective: to optimise synergies between the vast array of high-level scientific and technological expertise available locally, in which L'Oréal has taken an interest for several years. These initial investments will continue to be enriched through an Open Research approach, thanks to the development of partnerships with universities and collaboration with local sources of expertise.

“Innovation must be designed wherever consumers are located.”

Observing local habits

■ The second objective: a better understanding of the consumer. Whatever the country, the most detailed knowledge of the consumer's needs, habits and preference criteria is the crucial ingredient for all successful innovations. Asia is a particularly complex zone in this respect: populations there are extremely varied, and beauty rituals are different in each country for historic and cultural reasons. Looking beyond the study of the physical and biological characteristics of Asian skin and hair, which remains essential, cosmetics science is trying harder than ever to anchor product development in local habits.

Offering adapted products

■ A thorough understanding of consumers' perceptions makes it possible to offer high-quality, safe and accessible products which satisfy users in performance terms. This is the case with specific innovations such as light lip balms, whose gloss recalls the moisturising power of water, blemish balm creams, halfway between skincare and make-up, and permanent waves adapted to suit different curl styles. The products will be designed and manufactured in Asia, and then adapted for the rest of the world, wherever consumer observation demonstrates that adaptation would be worthwhile.

RESPONSIBILITY

L'ORÉAL AND ITS SUPPLIERS A SUSTAINABLE RELATIONSHIP

ALL OVER THE WORLD, L'ORÉAL ESTABLISHES CLOSE RELATIONS WITH ITS SUPPLIERS, BASED ON MUTUAL RESPECT, AND SHARED VALUES AND COMMITMENTS.

Rigorousness and respect on both sides

■ L'Oréal aims to build lasting relationships with its suppliers, which have been supporting it in most cases for more than a decade, and in some cases for several decades. Relations are based on respect for their independence, and on strict and explicit criteria, evaluated in accordance with the highest standards. In return, L'Oréal supports their development, in terms of technology, growth and capacity, and sometimes in terms of geographic expansion.

In 2010, L'Oréal signed, along with 19 other major companies, the Credit Mediation Charter: "10 commitments for responsible purchasing".

Collaborative intelligence

■ L'Oréal increasingly involves suppliers in its innovation strategy. The most recent example of this was the organisation in 2010 of the "Cherry Pack" mini-Packaging Exhibition at the L'Oréal headquarters. The group invited suppliers to share their innovations face-to-face with 350 international brand and division managers. In addition to this event, L'Oréal has organised its teams on the basis of a multi-disciplinary format (Packaging, Research and Purchasing) to encourage joint development projects and the negotiation of mutual exclusivity arrangements.

Shared values

■ Suppliers form an integral part of the ecosystem of L'Oréal, and the group asks them to ensure that its values and commitments are applied throughout their own supply chain. With this aim in mind, L'Oréal organises supplier forums to share the group's vision, such as the Supplier's Day held in November 2010 in Hong Kong, which brought together more than 140 suppliers from the beauty world.



A chain of responsibilities

Through the L'Oréal Buy & Care programme, the group rigorously monitors its suppliers, and carries out evaluations, particularly based on social responsibility criteria. In 2010, 567 new social audits of working conditions were carried out on sites all over the world. In addition, over the last three years, the group has invited its closest partners to participate in the Carbon Disclosure Project by measuring and disclosing their greenhouse gas emissions and their strategy for reducing emissions. In 2010, out of the 58 suppliers contacted in all categories and geographic zones, 75% agreed to sign up.

SHAREHOLDER NEWS



THE CONSULTATION COMMITTEE ONE YEAR ON

■ Set up at the start of 2010, the Consultation Committee is a body designed to facilitate dialogue with individual shareholders. It has met four times to consider matters as varied as the preparation of the Annual General Meeting and digital communication. The debates, organised with the assistance of TNS Sofres, have been attended by members of the Executive Committee, including Jean-Paul Agon, Chairman and Chief Executive Officer of the group.

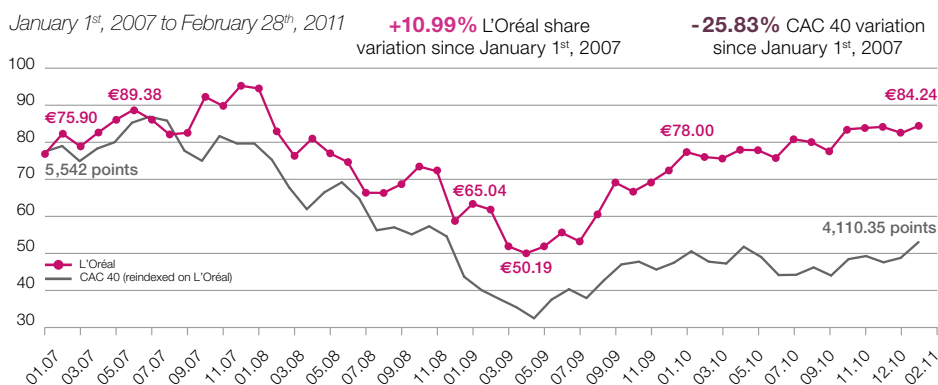
Coming soon: a multimedia magazine dedicated to L'Oréal shareholders

▶ AVAILABLE SOON ON:
www.loreal-finance.com



■ L'Oréal is enhancing its online communication for individual shareholders with a multimedia magazine available soon on www.loreal-finance.com. With a magazine format, it focuses on L'Oréal's activities around the world through pictures and films, and features reports and interviews providing an insight into beauty sector challenges. Don't miss the first issue: a review of 2010.

SHARE PRICE



French solidarity tax on wealth (ISF)

- To estimate the 2010 French ISF declaration, the following L'Oréal share value should be taken into account:
- either, the closing price on December 31st, 2010: €83.08
 - or, the average of the last 30 days' closing prices for 2010: €85.11.

PRACTICAL INFORMATION

To attend the Annual General Meeting

The Annual General Meeting will be held on April 22nd, 2011 at 10 a.m. at the Palais des Congrès in Paris. Shareholders wishing to attend or be represented at the AGM must provide proof of their status by having their shares registered in their name before Monday, April 18th, 2011 at midnight, Paris time.

2011 Shareholder Meetings



- 1 Paris April 22nd
ANNUAL GENERAL MEETING
- 2 Lyon : May 19th
- 3 Montpellier : May 24th
- 4 Lille : June 16th
- 5 Nice : September 15th
- 6 Annecy : September 19th
- 7 Bordeaux : September 26th
- 8 Rennes : October 10th
- 9 Brussels : November 28th
- 10 Strasbourg : December 14th

Directly registered shareholders: the Planetshares website

Your website GISnomi has now become Planetshares! A new, more user-friendly and practical space for you to consult your L'Oréal share account, and issue your purchase and sale orders. Find out more on www.planetshares.bnpparis.com

L'ORÉAL