

THE
SHAREHOLDERS'
CORNER



L'ORÉAL

the letter

N° 53 OCTOBER 2011



DEAR SHAREHOLDERS,



■ Organic growth in the first half of 2011 has confirmed the good dynamics of the group. L'Oréal is further strengthening its worldwide positions, particularly in North America, Latin America and Asia-Pacific. The results are up: they are solid and of good quality. Moreover, we have continued our policy of sustained investments in Research and Advertising & Promotion expenses.

Looking beyond the first half, we are continuing to pave the way for the future of L'Oréal.

The company is being thoroughly transformed. Its strategy has been reframed, its organisation reshaped, its industrial facilities reorganised, its research approach revised and its marketing model modernised. Everything is now in place to conquer new sources of growth and continue to strengthen our worldwide leadership.

“WE HAVE EVERY
CONFIDENCE IN THE
QUALITY AND SOLIDITY
OF THE L'ORÉAL
BUSINESS MODEL.”

Overall, in an uncertain economic environment, we have every confidence in the L'Oréal business model, which is based on powerful innovation, the vitality of our brand portfolio and a vast potential for internationalisation. We are well prepared to win over a billion new consumers and to promote a new vision of our business, that of universalisation and beauty for everyone.

Jean-Paul Agon
Chairman and CEO of L'Oréal



▶ READ

YOUR MULTIMEDIA MAGAZINE AT:
magazine.loreal-finance.com

VIDEO OF THE HALF-YEAR FINANCIAL
INFORMATION MEETING:
www.loreal-finance.com

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FIRST-HALF RESULTS 2011

A HISTORICALLY HIGH NET PROFIT⁽¹⁾: 1,506 MILLION EUROS

SOLID AND GOOD QUALITY RESULTS

■ With like-for-like sales growth of +5.2%, and +5.0% based on reported figures, the group has outperformed the worldwide cosmetics market in the first half, and is again strengthening its positions.

Growth is sustained in the New Markets and in North America. The Luxury Products Division is proving highly dynamic, driven by Lancôme, Giorgio Armani and Kiehl's. Consumer Products performed very well, thanks especially to Maybelline and L'Oréal Paris.

Net profit⁽¹⁾, at 1,506 million euros, is historically high and has increased by +6.7%. Gross profit improved despite the higher cost of raw materials, which was offset in particular by the improved efficiency and productivity of the factories, and good stock management.

The introduction of "wall-to-wall", for example, has enabled suppliers to manufacture more than a billion bottles directly in our factories, and thus generate large gains on our packaging items.

A VERY LOW GEARING RATIO

■ The balance sheet structure, which was already robust, has been further strengthened in the first half, with shareholders' equity representing some 64% of total assets. The gearing ratio amounts to 3.3% of shareholders' equity, a very low figure which bears witness to the group's very solid financial situation.

KEY FIGURES



(1) Net profit excluding non-recurring items after non-controlling interests.
 (2) Diluted net earnings per share, based on net profit excluding non-recurring items after non-controlling interests.



HALF-YEAR FINANCIAL INFORMATION MEETING (August 31st, 2011 - Excerpts)

Jean-Paul Agon, Chairman and CEO

“WE ARE WELL PREPARED TO WIN OVER A BILLION NEW CONSUMERS.”

■ Because the growth of the worldwide cosmetics market will continue to be mechanically driven by the New Markets, where hundreds of millions of middle-class consumers are now aspiring to consume high quality cosmetic products.

■ Because we are banking more than ever before on Research and Innovation, which is the most crucially important factor in this industry, and which will enable us to be increasingly effective in winning over consumers and satisfying their needs, to develop markets and strengthen our leadership.

■ Because our portfolio of powerful and international brands, which encompasses all channels and all segments, enables us to meet all types of aspirations from consumers all over the world.

■ Because our strategy of universalisation enables us to develop and adjust our products in each region of the world, and thus to better meet the needs of local consumers. We are organised to take full advantage of the emergence of these New Markets and to conquer a billion new consumers.

“The group’s good financial health means that we can face the future with assurance. The L’Oréal balance sheet is solid. Financial debt is at a very low level, as it comes out at 3.3% of shareholders’ equity, that is 526 million euros.”

Christian Mulliez
 Executive Vice-President,
 Administration and Finance

ANALYSIS



Interview

WORLDWIDE COSMETICS MARKET TRENDS IN THE FIRST HALF OF 2011



Thierry Prévot

Group General Manager, Financial Communications and Strategic Prospective Analysis

Halfway through the year, is it possible to estimate the dynamism of the worldwide cosmetics market in 2011?

■ The worldwide cosmetics market is a market worth around 150 billion euros⁽¹⁾, and on our estimates its first half growth was approximately +4%, the same as in 2010⁽¹⁾. It is a particularly solid market, which is regularly expanding, and is very resilient when the economic context is more difficult. Luxury cosmetics account for 20% of the world market⁽¹⁾ and are this year, as in 2010, acting as a growth accelerator, driven by the United States, airport sales, and of course Asia. The mass-market accounts for half⁽¹⁾ of the cosmetics market, and its growth is very regular, while its trend is relatively unaffected by economic cycles. The cosmetics market trend in 2011 is favourable.

Which geographic zones and product categories are driving market growth?

■ The number one market player, Asia, is also the most dynamic zone. It represents about one-third of the worldwide market⁽¹⁾. Excluding Japan, which was severely affected from March onwards, the Asian market has grown by +10.5%, and above all has contributed 45% of market growth, thanks to highly dynamic countries such as China, South Korea, and India, along with the countries of South-East Asia⁽¹⁾. Latin America is still extremely buoyant: with 12% of the worldwide market, it represents 30% of the market's growth⁽¹⁾. Overall, the well-known BRIMC countries (Brazil, Russia, India, Mexico

and China), although representing only 22% of the world market up to now⁽¹⁾, account for half its growth! In addition, the American market trend was very positive in the first half, particularly in luxury products.

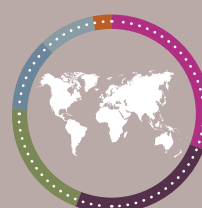
All product categories have achieved growth. In Asia, the skincare category is particularly dynamic, constituting an essential driver for worldwide market growth.

How do you explain the spectacular expansion of cosmetics consumption in the New Markets?

■ Today, a consumer in France or America spends about 80 to 100 euros on cosmetic products a year, compared with 7 euros on average for a consumer in the New Markets.

With substantial differences between Brazil, for example, where beauty aspirations are very strong (40 euros per capita), and countries such as China, where the average per capita spend of 4 euros hides a huge difference between the major urban areas of Shanghai and Beijing, and rural areas. These New Markets have a common feature: the rapid emergence of an urban middle class, whose beauty needs and desires are growing rapidly, thanks to the combined effects of increasing income, growing urbanisation and advances in infrastructures, particularly in sanitation. Furthermore, these are countries where people are strongly attached to traditional beauty rituals, as in Brazil and India. In these countries there is a powerful aspiration for quality. It is this powerful dynamism which underpins our goal of conquering a billion new consumers.

Breakdown of the cosmetics market by geographic zone in 2011⁽¹⁾



- Asia-Pacific – 31%
- Western Europe – 25%
- North America – 20%
- Latin America – 12%
- Eastern Europe – 9%
- Africa-Middle East – 3%

(1) L'Oréal estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soap, toothpaste, razors and blades. Excluding currency effects.

RESEARCH

VISIONNAIRE BY LANCÔME

*The first advanced
skin corrector*

TWO YEARS AFTER THE LAUNCH OF GÉNIFIQUE, LANCÔME IS HITTING THE HEADLINES WITH VISIONNAIRE, A MAJOR NEW SCIENTIFIC INNOVATION. CLOSE-UP OF AN EXTRAORDINARY MOLECULE: LR 2412.

With Visionnaire, Lancôme marks the start of a new generation in facial skincare. The first global skin corrector, Visionnaire is the result of a technological innovation: the molecule LR 2412. This highly active molecule is capable of targeting each layer of the skin to correct 12 biological markers of skin ageing. Visionnaire's texture merges with the skin, impregnating it instantly: after just 4 weeks of use, wrinkles are visibly reduced, and pores are tightened, while the skin regains its even tone. The efficacy of the formula has been tested *in vivo* and proven on all skin types, including sensitive skin.

J. Leclaire, L'Oréal's International Scientific Director

“Up to now skincare only targeted a single sign of ageing: wrinkles, sagging, blemishes or pores. The originality here is the development of a single active ingredient, whose global effect corrects skin imperfections. It is the innovative power of L'Oréal's group research which has found the solution for such a great challenge.”

LR 2412

THE MOLECULE, DEVELOPED BY OUR LABORATORIES AFTER 12 YEARS OF RESEARCH AND PROTECTED BY 17 PATENTS, IS INSPIRED BY NATURE, AND PARTICULARLY BY THE REPAIRING POWER OF JASMONATES ON PLANTS.



V. Delvigne, Lancôme's Scientific Director

“Combating wrinkles is no longer the first and only concern. For all women, whatever their age, other criteria are emerging. In pole position: the quest for perfect skin, without visible pores, scars or acne marks, free of blemishes and redness, with sublime brightness. In other words, beautiful skin quality, with a very fine texture to the touch.”

▶ VISIT THE RESEARCH SECTION AT:
magazine.loreal-finance.com



LAUNCHES

THREE MAJOR FRAGRANCES FOR WOMEN AND MEN



L'HOMME LIBRE YVES SAINT LAURENT Subtle and dynamic

■ The Yves Saint Laurent "Homme" collection has unveiled a new fragrance: L'Homme Libre. Celebrated French dancer and choreographer Benjamin Millepied is the ambassador of the new masculine fragrance, the third in the brand's trilogy for men, alongside Olivier Martinez for L'Homme and Vincent Cassel for La Nuit de L'Homme. Woody yet light, a subtle blend of violet, basil, star aniseed and pink pepper, L'Homme Libre is a bold expression of modernity.

LOVERDOSE DIESEL The new love elixir

■ A woody and sumptuous Oriental fragrance with a liquorice heart note. For its new women's perfume, Diesel has designed a diamond heart bottle, shot through with a black dagger: what more evocative way could there be of encasing this modern love potion? The face of Ashley Smith is the perfect incarnation of Diesel glam rock femininity. Totally unexpected.

CODE SPORT ARMANI Sport as a rite of seduction

■ With this fragrance, Giorgio Armani is opening a new chapter in the Code saga. In the starring roles: the Code Sport man and actress Megan Fox portrayed in a glamorous and sensual universe. An aromatic woody fragrance, with a top note trio of mints, Code Sport is a fresh and astonishing creation. Its technological advantage: an innovative extraction process which means active fragrances can be combined without mixing them together. Sensationally male.

▶ VISIT THE BEAUTY ROOM SECTION AT: magazine.loreal-finance.com

GARNIER BB CREAM⁽¹⁾ A beauty secret from Asia

BB... for Blemish Balm. Directly inspired by South Korean BB Creams, this facial skincare is already a big hit in Asia, and has now arrived in Europe to win over new consumers. At the crossover between skincare and make-up, Garnier BB Cream is a new generation skincare line which offers 5 benefits in a single application. Its innovative formula combines mineral pigments with Vitamin C for 24-hour hydration: it ensures an even skin tone, corrects small wrinkles and blemishes, regenerates skin brightness and provides SPF 15 UV protection. BB Cream from Garnier does it all, quickly and well!



VICHY LIFTACTIV Serum 10 The pinnacle of scientific innovation

Liftactiv Serum 10 is one of the year's major launches for Vichy, number one in pharmacy anti-ageing skincare⁽²⁾. Complementing the cream, the serum has a high concentration of rhamnose (10%), a natural plant-based sugar which stimulates the activity of the derm source, the driving force of youthful skin. The result: extra efficacy not only on major facial wrinkles, but also on the skin's texture.

(1) Instant Fairness BB moisturiser.
(2) Source : IMS pharmacy Panel. 2010 value.

STRATEGY FOCUS



Like-for-like sales growth in India in 2010
+32%

N°3
in the Indian cosmetics market



Some 60% of products sold in India are specially formulated for the Indian market

Markets

THE INDIAN ADVENTURE

PRESENT IN INDIA FOR THE LAST 15 YEARS, L'ORÉAL IS EXPANDING THERE VERY RAPIDLY, WITH AN AVERAGE ANNUAL GROWTH RATE OF 30%. THE GROUP IS NUMBER 3 IN THE BEAUTY SEGMENT⁽¹⁾ IN INDIA, WITH 10% MARKET SHARE IN URBAN REGIONS.

A market the size of a continent

■ "In India, you have to question everything you have learned", is the striking statement made by Jacques Challes, General Manager of L'Oréal India. The characteristics of the Indian beauty market mean that it is one of a kind. In terms of size, first of all: with 1.2 billion consumers, the scale of the market is that of a continent. Regional differences, both physical and cultural, are extremely pronounced, making specific approaches essential. Another special feature is the nature of retailing. 85% of L'Oréal sales are made in 500,000 corner shops, in some cases no larger than 2 or 3 m²!

Consumers with insight

■ For an Indian woman, the skin should be smooth and soft, blemish-free and with a uniform

complexion. This is a beauty ideal which is hard to achieve in a country where the climate is hot and humid, often combined with pollution in the cities. Traditional beauty routines, based on natural ingredients such as talc, palm oil and henna, are still very widely used. But today, young women are taking modern cosmetics on board, because they find them both practical and effective.

Major product successes

■ Amongst the group's major successes in India, Garnier has proven to be very popular nationwide. Hailed as one of Indian women's favourite brands⁽²⁾, it has won over consumers thanks to products such as Garnier Color Naturals, a permanent hair colourant with natural olive oil, and Garnier Fructis Shampoo + Oil 2 in 1, which enables women

to apply oil to their hair with each shampoo, a traditional Indian beauty ritual.

Another major success: Professional Products sold in hair salons, where L'Oréal is ranked number one⁽³⁾. This is particularly true for Matrix, an accessible brand which is strongly involved in hairdresser training. Hair beauty is such an important concern that some Indian women visit hair salons every day. The group is tapping into this buoyant demand as it plays its role as a market developer.

▶ **READ THE ARTICLE ON INDIA AT:**

magazine.loreal-finance.com

Jacques Challes, General Manager of L'Oréal India

“ We have bold dreams for India over the next 20 years. I think we are going to become one of the top five L'Oréal subsidiaries, and I also want us to be one of the most respected companies in the country. ”

(1) L'Oréal estimates for 2010. Net manufacturer price. Excluding currency effects. Excluding oils.

(2) TNS Brand image & awareness – 2008. Urban women between 18 and 45 years old.

(3) Kline, Hair salons panel, India, 2009.

RESPONSIBILITY

SUSTAINABLE DEVELOPMENT AT THE HEART OF THE BRAND STRATEGY

AS L'ORÉAL ASSERTS ITS GOAL OF WINNING THE CONFIDENCE OF A BILLION NEW CONSUMERS WORLDWIDE, ITS SUSTAINABLE GROWTH APPROACH AND ITS COMMITMENT TO SOCIETY ARE STRONGER THAN EVER. CLOSE-UP OF SOME TYPICAL INITIATIVES.



GARNIER FRUCTIS STYLE PURE CLEAN

A new generation of gels with acacia gum

Taking care to reduce its environmental impact, the Garnier brand is launching its first-ever styling line with acacia gum, a natural raw material whose hold properties are widely acknowledged.

SUPERBLY RESTORATIVE

Kiehl's plays the responsible sourcing card

Well-known for its ethical commitment, Kiehl's is making further advances in sustainable innovation. Its new offering: Superbly Restorative, a comprehensive hair, face and body line, formulated to capitalise on the virtues of Moroccan fair trade argan oil.



L'ORÉAL PARIS PRESENTATION CASES

Towards eco-designed merchandising

After an in-depth study of its point-of-sale (POS) advertising footprint, L'Oréal Paris has developed new eco-designed make-up presentation cases: the back of the case is now wooden instead of metal, the plastic drawers are more lightweight, and low-consumption bulbs are used for lighting. Without affecting the quality of the POS, the changes have cut the total carbon footprint by 46%, unit cost by 20%, and in-store electricity consumption by 50%.



RECYCLED PET⁽¹⁾ PACKAGING

Ongoing efforts by all the brands

The group has made substantial progress in reducing the environmental footprint of its packaging over recent years, particularly thanks to recycled materials. Kiehl's, The Body Shop, Sanoflore and L'Oréal Professionnel for instance use up to 100% of recycled PET, and Lancôme, Matrix, Sanoflore and Redken include recycled PE⁽¹⁾ in their tubes and bottles.

(1) Recycled plastic materials.

▶ READ THE ARTICLE ON SUSTAINABLE DEVELOPMENT AT : magazine.loreal-finance.com

Widespread recognition for initiatives in 2010

▶ TO FIND OUT ALL ABOUT SUSTAINABLE DEVELOPMENT AT L'ORÉAL, VISIT:

www.sustainabledevelopment.loreal.com

- For the fourth year running, L'Oréal has been ranked one of the world's 100 most sustainable companies by Corporate Knights magazine
- L'Oréal has been designated as one of the "most ethical companies in the world" by the Ethisphere Institute
- The WWF ranks L'Oréal the number one CAC 40 company for its sustainable sourcing of wood fibres, paper and cardboard
- L'Oréal is also listed in all the major sustainable development indexes: Dow Jones Sustainability Index, FTSE4Good, ASPI Eurozone and Ethibel

LISTENING TO YOUR VIEWS



Come and meet us at the 2011 Actionaria Shareholder Fair

■ The financial communications team will be delighted to welcome you at the Actionaria Shareholder Fair, to be held on November 18th and 19th, 2011, at the Palais des Congrès in Paris. You can attend the shareholder meeting with Mr Christian Mulliez, Executive Vice-President Administration and Finance, on Friday, November 18th at 4 p.m.⁽¹⁾, and meet the team at the L'Oréal stand. We will listen to your views and provide you with personalised information, while helping you to get to know L'Oréal, its brands, and its strategy even better.

REGISTERED SHARES: WHY NOT YOU?

■ Don't forget to sign up as a registered shareholder before December 31st, 2011, to take advantage of the 10% loyalty bonus as of 2014. Contact us at: +33 1 40 14 80 50 or visit:

▶ www.loreal-finance.com/eng/advantages-of-registered-shares

NEW MOBILE EDITION OF THE LOREAL-FINANCE.COM WEBSITE

KEY DATA WITH JUST A CLICK!

■ To improve the accessibility and availability of financial information, the mobile edition of the loreal-finance.com website is being upgraded: its new version is more practical, and is designed for the screens of all smartphones. To access the site, just open the web browser of your mobile phone⁽²⁾ and enter the following address:

▶ <http://loreal-finance.mobi/us/>

Join the Individual Shareholder Consultation Committee

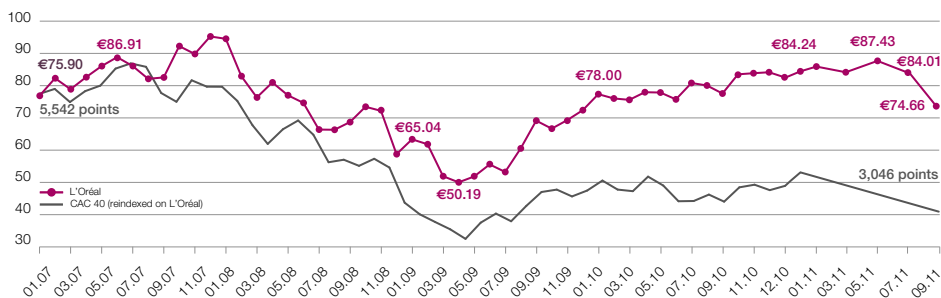
■ As a L'Oréal shareholder, perhaps you feel you would like to assist our financial communications team and help us to improve shareholder relations. Apply to become a member of the L'Oréal Individual Shareholder Consultation Committee by filling in the questionnaire at: <http://ccai.relations-actionnaires.com/> and reading the Committee's Internal Rules at www.loreal-finance.com (in French only).



(1) Subject to seating capacity limits.
(2) Required configuration: an Internet browsing package.

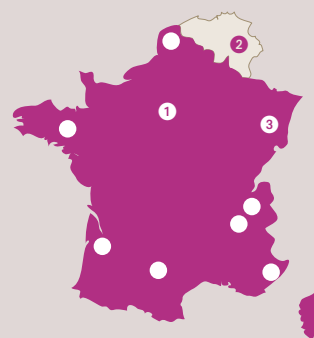
SHARE PRICE

January 1st, 2007 to September 15th, 2011 **-1.63%** L'Oréal share variation since January 1st, 2007 **-45.04%** CAC 40 variation since January 1st, 2007



PRACTICAL INFORMATION

2011 Shareholders meetings



- ① Paris: Actionaria Shareholder Fair on November 18th and 19th
- ② Brussels: November 28th
- ③ Strasbourg: December 14th

L'ORÉAL

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