

## Memorandum issued in connection with the proposal to the Annual General Meeting of Shareholders of 29th May, 2002, that authorisation should be granted for the buying back of the company's own shares

### INTRODUCTION

In accordance with the COB regulation no. 98-02 of 6th September, 1998, this memorandum is intended to describe the objectives and conditions of share buybacks which may be carried out by L'OREAL S.A., and their estimated impact on the situation of its shareholders.

### (A) OBJECTIVES OF SHARE BUYBACKS AND USE OF THE SHARES PURCHASED

Since its creation in 1907, L'OREAL has carried out activities in the field of cosmetics and dermatology. The group also carries out pharmaceutical and miscellaneous activities. In connection with these activities, the group each year devotes substantial amounts to marketing, scientific and industrial investments. On occasion, acquisitions, conducted in accordance with a selective policy essentially applied with regard to long-term opportunities, are added to these recurrent investments.

While continuing to give priority to this investment policy, the group has decided to also give itself the possibility of buying back shares, mainly in order to contribute to increasing the value of its shareholders' assets.

Such buybacks may consist of any of the following (in decreasing order of priority):

- the purchase and holding of the shares acquired in order that they may be exchanged subsequently with third parties, or with any subscribers of bonds which are redeemable in shares or exchangeable for shares (if it is decided to issue such bonds);
- purchases and sales depending on market situations;
- stabilisation of the share price by systematic intervention to correct a market trend.

The shares which may be bought back may also be cancelled in order to optimise earnings per share, in accordance with the fourteenth resolution of the AGM of 1st June, 1999 (whose validity will expire on 31st May, 2004). It is pointed out that L'Oréal has not used the possibility offered by this resolution since it was approved.

It may be noted furthermore that L'OREAL has been granted an authorisation to purchase shares for the purpose of allocating share purchase options up to an amount of 4% of its share capital, that is a maximum of 27,042,486 shares. As of 31st March 2001, 22,929,400 shares were held by the Company for this reason (3.39% of the share capital); the said shares had a book value of €1,463.3m. The Company holds none of its own shares except those held for the purpose of share purchase options, and no treasury stock is held inside the Group.

It is also pointed out that the AGM of 29th May 2001 authorised the possible buyback of 6% of the share capital: a memorandum registered with the COB under the number 01-444 dated 25th April, 2000, was issued in connection with the voting of this authorisation. No use has been made of the authorisation.

### (B) LEGAL CONTEXT

The project is subject to the stipulations of Articles 225-209 et seq. of the French Commercial Code. It will be submitted to the AGM of L'OREAL S.A. on 29th May, 2002 (fifteenth resolution) for approval with the following limits: "The AGM, acting in accordance with the quorum and majority requirements for ordinary general meetings, and having noted the report of the Board of Directors and the memorandum approved by the Commission des Opérations de Bourse, authorises the Board of Directors to trade in the company's shares on the stock exchange or otherwise, in accordance with the requirements of Articles L. 225-209 et seq. of the French Commercial Code, and subject to the following conditions:

- the purchase price per share may not be greater than € 120,
- the selling price per share may not be less than € 60,
- the number of shares to be bought by the company may not exceed 6% of the number of shares forming the capital, that is 40,563,729 shares for a maximum amount of € 4.87 billion.

In the event of any operations affecting the company's capital, and more particularly in the event of a capital increase by incorporation of reserves and allotment of bonus shares, and in the event either of a stock split or a reverse stock split, the amounts indicated above will be arithmetically adjusted in the proportion required by the variation in the total number of shares determined by the operation.

The operations carried out in application of this authorisation may in particular take the form of transactions relating to blocks of shares or to derivatives.

This authorisation is intended to enable the company to use these shares for the following purposes:

- the purchase and holding of the shares acquired in order that they may be exchanged subsequently with third parties in connection with external growth operations, or with any subscribers of bonds which are redeemable in shares or exchangeable for shares, if the issue of such bonds was decided on by an extraordinary general meeting of the company;
- purchases and sales depending on market situations;
- stabilisation of the share price by systematic intervention to correct a market trend.

Any of its own shares held by the company may be cancelled by a reduction of capital up to the limits set by law, in application of the provisions of the fourteenth resolution of the General Meeting of Shareholders held on 1st June, 1999.

This authorisation is granted for a maximum period of eighteen months, and in any case expires on the date of the Ordinary General Meeting called to review the financial statements of the year ending 31st December, 2002.

The AGM confers to the Board of Directors all powers, with the possibility of delegation, to issue all stock market orders, conclude all agreements, establish all documents, particularly for information purposes, carry out all formalities and make all declarations to all organisations, and in general to take all actions which are necessary."

### (C) CONDITIONS

As the maximum percentage of the share capital L'OREAL proposes to acquire is 6%, that is 40,563,729 shares, and the maximum purchase price is set at €120 per share, the total amount the group may devote to buying back its shares is €4.87bn.

It is pointed out that L'OREAL has an obligation not to hold at any time, directly and indirectly, a number of shares representing over 10% of its share capital, and that to the best of the company's knowledge, the free float of L'OREAL, after deducting own shares held under current stock option plans, amounts to 42.9% of the share capital. It is also stated that the company had, at 31st December, 2001, €4.76bn of free reserves, after deducting the amount corresponding to the proposed dividend for 2001: in accordance with legal requirements, the amount of buybacks carried out may not exceed this amount until the closing of the parent-company accounts of the current fiscal year 2002.

All the buybacks may, if circumstances allow, be carried out by acquisition of one or more blocks of shares. All or part of the buybacks may furthermore be carried out through options contracts to be concluded with investment service providers, subject to compliance with the conditions and limits set by the stock market authorities.

The buybacks will be financed by L'OREAL from its cash resources, through the issue of negotiable proofs of debt or through drawing on bank credit lines.

If circumstances allow, and if the financial market is favourable, refinancing through a bond issue may be considered. In the consolidated balance sheet at 31st December, 2001, the total of cash and short-term funds and short-term investments (excluding own shares held) amounted to €687m.

In accordance with the time period stipulated in the fifteenth resolution of the AGM of 29th May, 2002, any buybacks must be carried out within eighteen months, that is no later than the 28th November, 2003, the time period expiring in any case at the AGM called to review the financial statements of the year ending 31st December, 2002.

It is pointed out that, in the event of cancellation of the shares bought back, the cancelled shares may not, in accordance with the stipulations of the 14th resolution of the Annual General Meeting of 1st June, 1999, exceed 6% of the share capital per period of twenty-four consecutive months.

### (D) IMPACT OF BUYBACKS ON THE GROUP'S FINANCIAL SITUATION

The calculations below have been made for purposes of information only, and are based on the consolidated financial statements for 2001, assuming that the authorisation is used in full, that is 40,563,729 shares at an average price of €78 per share (average price of L'Oréal share in February 2002: €77.21). It is pointed out that any cancellation of all or some of the shares bought back would have no impact on the figures mentioned in the "Pro forma after share buyback" column:

	Before share buyback	Pro Forma after share buyback	Effect of buyback as %
Shareholders' equity (group share) at 31/12/2001 (M€)	7,199.1	4,035.1	-43.95%
Total consolidated shareholders' equity at 31/12/2001 (M€)	7,209.8	4,045.8	-43.88%
Net financial debt/total consolidated shareholders' equity	12.6%	100.6%	+698.41%
Net profit before capital gains and losses, after minority interests (M€)	1,229.1	1,157.6 (*)	-5.82%
Net book profit after minority interests (M€)	1,290.7	1,219.2 (*)	-5.54%
Number of shares outstanding	676,062,160	635,498,431	-6.00%
Bénéfice net opérationnel par action (**)	€1.82	€1.82	0.00%

(\*) Assuming a share buyback financing cost of 3.5% per year before tax, and a corporate tax rate of 35.43%.

(\*\*) In order to provide genuinely recurrent information, L'Oréal, like many other major European companies, calculates and publishes earnings per share on the basis of net profit on ordinary activities before capital gains and losses, after minority interests, i.e. after allowing for net capital gains and losses on disposals of fixed assets, restructuring costs and goodwill amortisation. If however the calculation had been based on net book profit after minority interests, the possible impact of buybacks and subsequent cancellations of shares on the net earnings per share thus determined would have been +0.53% based on the same hypotheses.

Depending on the financing cost and the share purchase price, the use of the authorisation in its entirety is likely to cause the following changes in net earnings per share (before capital gains and losses):

Financing cost	Purchase price per share	
	€66	€90
3%	1.65%	0.00%
3.50%	0.55%	-1.10%
4%	0.00%	-2.20%
4.50%	-0.55%	-3.30%
5%	-1.65%	-4.40%
5.50%	-2.20%	-4.95%

The same calculations, performed on the basis of net book profit per share, would produce the following figures:

Financing cost	Prix d'achat par action	
	€66	€90
3%	2.11%	0.53%
3.50%	1.58%	0.00%
4%	1.05%	-1.05%
4.50%	0.00%	-2.11%
5%	-0.53%	-3.16%
5.50%	-1.05%	-4.21%

### (E) SHARE BUYBACK TAXATION

#### • For the purchaser

The buyback by L'Oréal SA of its own shares for their cancellation has no impact on the company's taxable income.

Furthermore, any increase in value of the shares recorded between the date of their buyback and the date of their cancellation does not constitute a capital gain subject to taxation. Moreover, as the operation is not assimilated to a dividend payment, withholding tax is not payable.

The carry-forward in the financial statements of the dividends relating to the shares bought back and not yet cancelled by the company is not taxable income as stipulated by Article 38 of the French General Taxation Code, as the share in this case is stripped of its dividend rights. Unpaid dividends would therefore be allocated to the carry-forward account.

If the company buys back its own shares, this operation has an impact on its taxable income in that the shares would be transferred for a price different from the buyback price.

#### • For the vendor

Disposals for a consideration may give rise to a capital gain which is taxable under the stipulations of Articles 150-0 A et seq. of the French General Tax Code.

If the gains are realised by a natural person whose place of residence for tax purposes is in France, the capital gains on the disposal of negotiable securities and corporate rights are only taxable if the total annual amount of disposals made by the taxpayer during the year exceeds €7,650.

The current tax rate is 16%, plus an additional 7.5% as the General Social Contribution (CSG), an additional 2% as the welfare charge and an additional 0.50% as the Social Debt Reimbursement Contribution (CRDS), that is in all 26%.

### (F) INTENTION OF THE ENTITY CONTROLLING L'OREAL S.A.

To the best of L'OREAL's knowledge, no other shareholder holds more than 5% of the share capital or voting rights. Furthermore, the company has not been advised of any passing of the thresholds stipulated by the legislation and by its by-laws, which make it compulsory for all shareholders to declare any direct or indirect holding of a fraction of the capital equal to 1% or any multiple of this percentage. Finally, the company has no knowledge of any shareholder pact relating to shares forming its capital.

It is stipulated that there are no securities that give indirect access to the capital; the potential capital is therefore equal to the issued capital, and consists of 676,062,160 shares.

#### Person assuming responsibility for the memorandum

To the best of our knowledge, the contents of this memorandum truly and fairly reflect the existing situation; they include all the information necessary to enable investors to make a judgment about the buybacks by L'OREAL S.A. of its own shares; there are no omissions which could adversely affect the fairness of the presentation.

On the authority of the Chairman of the Board of Directors

**Michel SOMNOLET**

Vice-President, member of the Board of Directors,  
in charge of Administration and Finance.