



ANNUAL REPORT 2003

L'ORÉAL

Founded nearly a century ago by the chemist Eugène Schueller, L'Oréal has consistently applied its policy of investing in research, ensuring that its products meet the highest possible standards of quality, safety and innovation. Today, the group contributes to the beauty of women and men all over the world, providing everyday solutions that enhance their sense of well-being.

L'ORÉAL
PROFESSIONNEL
PARIS

REDKEN
5TH AVENUE NYC

MATRIX

L'ORÉAL
PARIS

GARNIER

MAYBELLINE
NEW YORK
MAYBE SHE'S BORN WITH IT. MAYBE IT'S MAYBELLINE.

SOFTSHEEN-CARSON™

LANCÔME
PARIS

BIOThERM

HELENA RUBINSTEIN
HR

GIORGIO ARMANI
PARFUMS

RALPH LAUREN

cacharel

Kiehl's
SINCE 1851

shu uemura

VICHY
LABORATOIRES

LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

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The L'Oréal Annual Report comprises three separate documents:

- a general brochure;
- the consolidated financial statements;
- the Management Report of the Board of Directors, the L'Oréal parent company financial statements plus additional information for the Reference Document as required by law, available prior to the Annual General Meeting convened for Thursday, April 29th 2004.

Board of Directors

Lindsay Owen-Jones CBE
Chairman and Chief Executive Officer

Jean-Pierre Meyers
Vice-Chairman

Liliane Bettencourt

Françoise Bettencourt Meyers

Peter Brabeck-Letmathe

Francisco Castañer Basco

François Dalle

Jean-Louis Dumas

Xavier Fontanet

Rainer E. Gut

Marc Ladreit de Lacharrière

Olivier Lecerf

Franck Riboud

Edouard de Royère
Director up to May 22nd 2003

Auditors

Pierre Coll
Etienne Jacquemin

Substitutes

Etienne Boris
Jean-Paul Picard

The presentation
of the directors
is on page 56.

A year of promise and ambition



2003, ANOTHER YEAR OF RAPID GROWTH DESPITE AN UNFAVOURABLE ENVIRONMENT

The year was influenced by very sharp currency fluctuations which had an impact on the consolidation of our sales and profit.

At the same time the SARS epidemic, war in Iraq, the decline in air travel and the economic crisis affecting several countries made our operating environment less favourable.

Rapid sales growth

The good news is that, despite all these difficulties, our turnover increased by 7.1% on a like-for-like basis.

Our sales grew twice as fast as the cosmetics market in general, thanks in particular to the success of new high value added products which enabled the group's brands to continue to increase their market share.

There were excellent breakthroughs in our traditional markets. In North America, where 6% growth was achieved despite the extremely competitive environment and the sluggishness of the market; but also in Western Europe, where growth reached 4.9%.

But it is above all in our new markets that we recorded our most spectacular achievements. In China (+69%), where the group's main brands are now firmly established; in the Russian Federation, where sales grew by 39% following three years of extremely rapid growth; and in India (+33%), where we have recently opened a new factory in response to that market's huge potential.

All our businesses have contributed to these successes. The Professional Products Division continued to win market share, as did Consumer Products. Over the year as a whole, Luxury Products achieved 4.2% growth thanks to the general improvement in the economic climate towards the end of the year and to the success of its product launches. The strongest growth came from the Active Cosmetics Department, which also successfully entered the new business of nutricosmetics, with INNÉOV, a joint venture with Nestlé.

Vigorous improvement in profit margins

As for our results, they illustrate the special efforts made to deal with the monetary situation.

But above all they reflect the considerable improvement in our operating margins in all geographic zones, particularly in the Rest of the World, where we broke the 10% barrier.

This major improvement in operating margins growth was also the result of effective control over central expenses. In addition, our financial charges and our tax rate are down. Finally, we should note the excellent contribution made by Sanofi-Synthélabo.

Overall, the group's earnings have grown strongly despite an extremely unfavourable climate.

PROMISING PROSPECTS

Our great asset is that we operate in an expanding market, and our ambition is to outstrip the growth in that market. To succeed in that aim, our priority must be internal growth. That is our conviction and a key factor in our strategy.

At the heart of that strategy are innovation and anticipation. L'Oréal has always maintained its investment in research, and our target is to devote 4% of our turnover to research within the next 5 years. Our strategy is also based on the richness of our brand portfolio, which covers the whole spectrum of cosmetics market segments.

The new markets to which the group is increasingly exposed offer outstanding development potential. We are already firmly established in those markets, and so will derive maximum benefit from their expansion.

Finally, our aim is to generate gradual but significant increases in profitability in the coming years.

Clarifying our mission

These positive prospects have encouraged us to move towards a dilution of our stake in Sanofi-Synthélabo, in view of the projected link-up between that company and Aventis.

We have approved this project because it makes industrial sense and promises added economic value. Once the operation has been completed, we intend no longer to consolidate our full stake but instead to include only the dividends paid by Sanofi-Synthélabo in our profit and loss accounts.

This reflects our determination to clarify the group's mission.

Simplifying our shareholding structure

The new agreement between the majority shareholders of L'Oréal gave them the opportunity to express their confidence in the group's prospects.

The agreement provides for the merger of Gesparal and L'Oréal, the abolition of double voting rights, the maintaining of the positions of Nestlé and the Bettencourt family in the group's share capital, and improvements in the way the Board of Directors operates.

By clarifying the shareholding structure and improving corporate governance the company has moved in the direction of transparency, simplicity and modernity.

This agreement is extremely favourable to all interested parties: the company's employees, its customers, and all its shareholders.

Our ambitions

Now that our mission and shareholding structure have been clarified, I take great pleasure in confirming our ambition and our passionate enthusiasm for our business.

We create products that contribute to the expression of beauty in all its forms. The opening in Chicago of the world's first centre dedicated to the study of skin and hair of African origin bears witness to this ambition.

Respect for the diversity of the world's cultures goes hand in hand with strong ethical principles, embodied in the values and rules of conduct presented in our first-ever sustainable development report. These values and rules are an expression of our belief in a concept of sustainable development that links our economic performance to a true awareness of our responsibilities.

Passion for our business is what motivates the 50,000 employees of L'Oréal every day. Together, they are enthusiastically committed to this great adventure, and I take this opportunity to thank them. Their determination is the foundation upon which our confidence is based.

Lindsay Owen-Jones

Chairman and Chief Executive Officer of L'Oréal

Management Committee



Lindsay Owen-Jones CBE
Chairman
and Chief Executive Officer

Giorgio Galli
Executive Vice-President
Corporate Communications
and External Affairs

Béatrice Dautresme
Executive
Vice-President
Strategic
Business
Development



Jean-François Grollier
Executive
Vice-President
Research
and Development



Marcel Lafforgue
Executive
Vice-President
Production
and Technology



Jean-Jacques Lebel
President
Professional
Products



Christian Mulliez
Executive
Vice-President
Administration
and Finance



Patrick Rabain
President
Consumer
Products



François Vachey
Executive
Vice-President
Human Resources



Gilles Weil
President
Luxury
Products

A unique portfolio of global brands

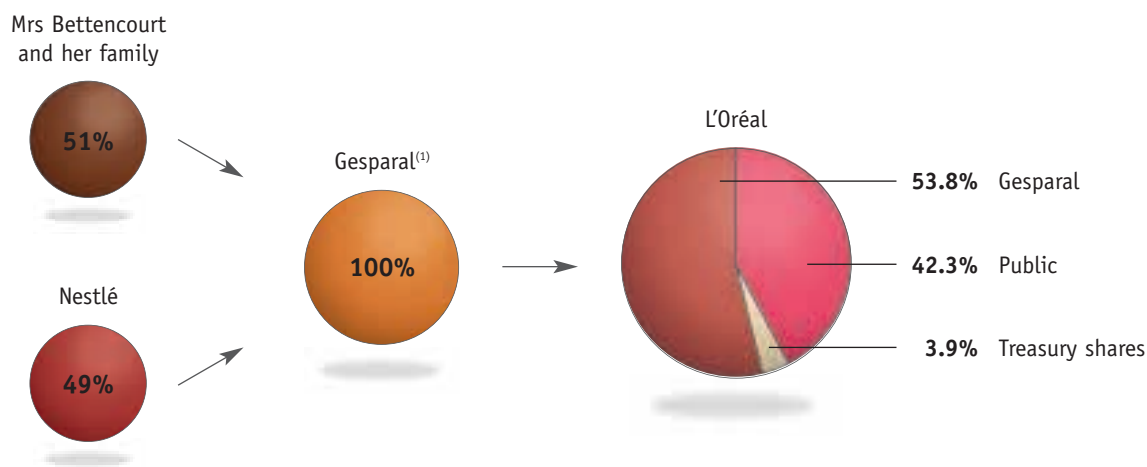


L'Oréal's 17 global brands, marketed in more than 130 countries, reflect the many facets of beauty. They also bear witness to the group's vocation: to provide consumers with products that satisfy their needs and their desires.

L'Oréal financial highlights

KEY GROUP FIGURES

Breakdown of share ownership as at December 31st 2003



(1) See in the volume 3 of this Reference Document the information published in the news releases of February 3rd 2004 on the merger and absorption of Gesparal by L'Oréal.

L'Oréal in 2003 (€ millions)

	2002	2003	Growth
Consolidated sales	14,288	14,029	-1.8%
Pre-tax profit of consolidated companies	1,698	1,870	+10.1%
Net operational profit after minority interests	1,456	1,653	+13.5%
Net operational profit after minority interests per share ⁽²⁾ (€)	2.15	2.45	+13.5%

(2) Net operational profit consists of the profit after tax of the consolidated companies and includes the group share of the net profit of equity affiliates. It does not include charges to/reversals of provisions for treasury shares, gains and losses on disposals of fixed assets, restructuring costs and amortisation of goodwill. This is the most significant measure of the group's recurrent performance, and has, without any change, for many years, been adopted by L'Oréal as the basis for calculating net earnings per share.

Net income after minority interests at December 31st 2003 amounted to € 1,492 million.

Dividend (€)

	2001	2002	2003
Final adjusted closing price	80.90	72.55	65.00
Dividend per share for the year	Net dividend	0.54	0.64
	Tax credit	0.27	0.32
		0.81	0.96
			1.1

(3) Dividend proposed to the Annual General Meeting of April 29th 2004.

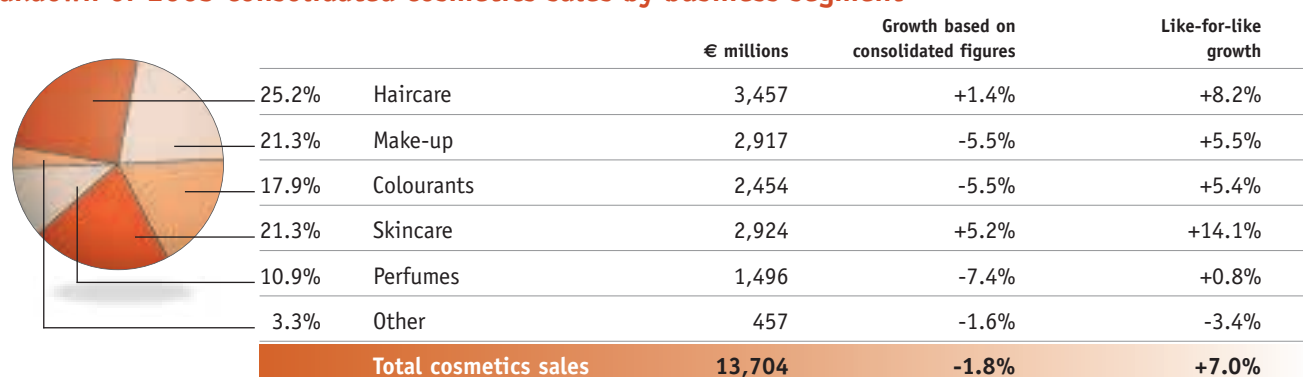
L'ORÉAL COSMETICS BRANCH

Breakdown of 2003 consolidated cosmetics sales by division



(1) The difference between the total cosmetics sales and the combined total of the 4 divisions and department (€108 million) consists mainly of mail order sales.

Breakdown of 2003 consolidated cosmetics sales by business segment



Breakdown of 2003 consolidated cosmetics sales by geographic zone



Adjusted operating profit⁽²⁾ of the cosmetics branch by geographic zone⁽³⁾

	2002		2003	
	€ millions	% of sales	€ millions	% of sales
Western Europe	986	14.2%	1,066	14.8%
North America	535	12.7%	490	12.9%
Rest of the World	262	9.5%	275	10.2%
Total for zones	1,783	12.8%	1,831	13.4%
Non allocated	-15	-0.1%	69	+0.5%
	1,768	12.7%	1,900	13.9%

(2) Adjusted operating profit, i.e. including exchange gains and losses.

(3) Change in the presentation. See volume 2 note 3b2 of the Annual Report.

COSMETICS AND DERMATOLOGICAL BRANCHES

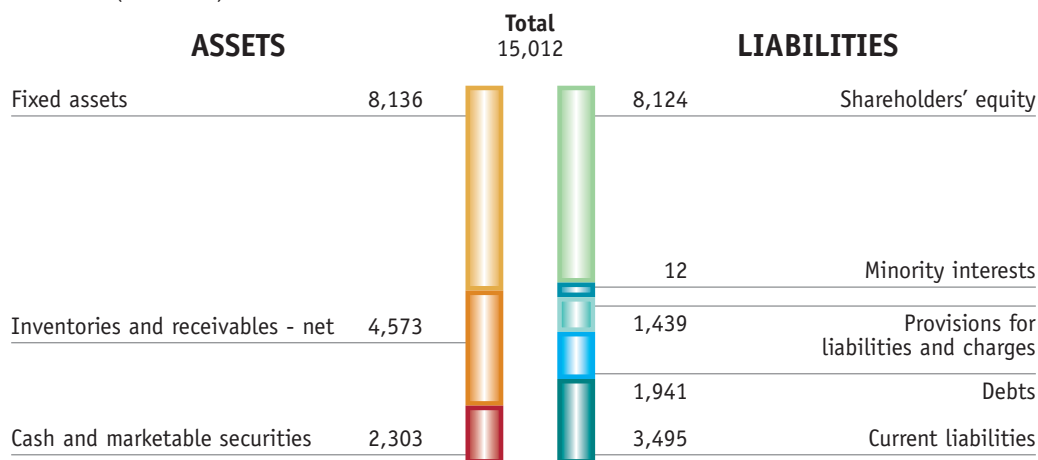
Pre-tax profit of consolidated companies by branch

2003	€ millions	Weight	Growth	% of sales
Cosmetics	1,809	96.7%	+10.9%	13.2%
Dermatology	47	2.5%	-15.1%	15.3%

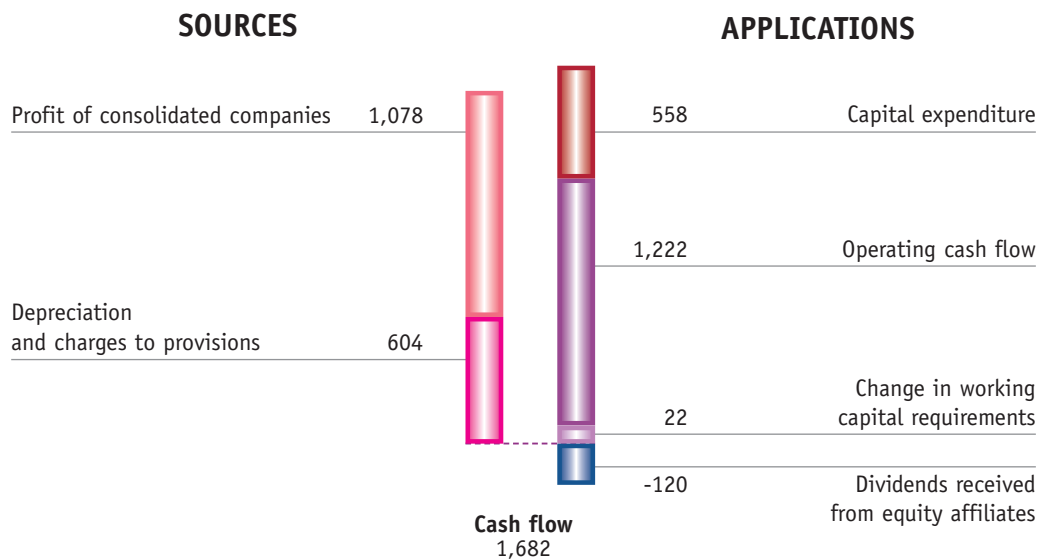
A sound financial structure

BALANCE SHEET, CASH FLOWS AND FINANCIAL RATIOS⁽¹⁾

Balance sheet 2003 (€ millions)



Sources and applications of funds 2003 (€ millions)



Financial ratios

	2002	
Pre-tax profit of consolidated companies	=11.9%	13.3%
Sales		
Net operational profit of consolidated companies	=10.2%	11.8%
Sales		
Net operational profit after minority interests	=20.2%	22.3%
Opening shareholders' equity		
Gearing ⁽²⁾	=4.8%	-5.4%

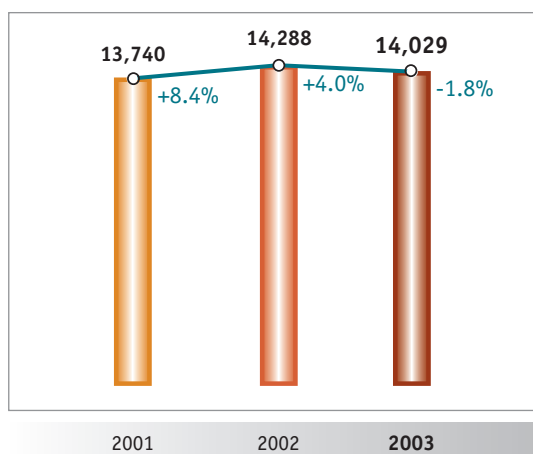
(1) See accounting principles (Volume 2 of the Annual Report).

(2) Gearing = $\frac{\text{Debts} - \text{long term loans and other debtors} - \text{marketable securities} - \text{cash and cash equivalents}}{\text{Shareholders' equity} + \text{minority interests}}$

RISING LEVELS OF PERFORMANCE

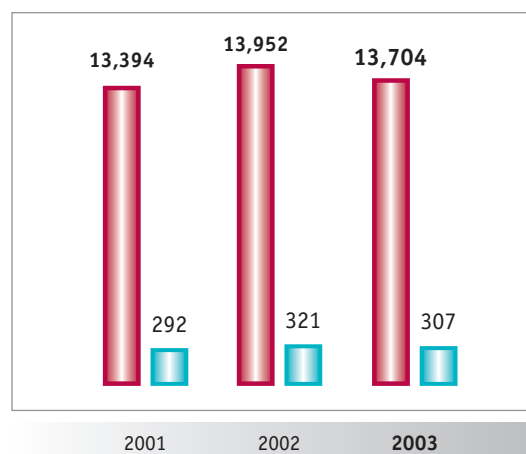
Consolidated sales

(€ millions)



Consolidated sales by branch⁽¹⁾

(€ millions)

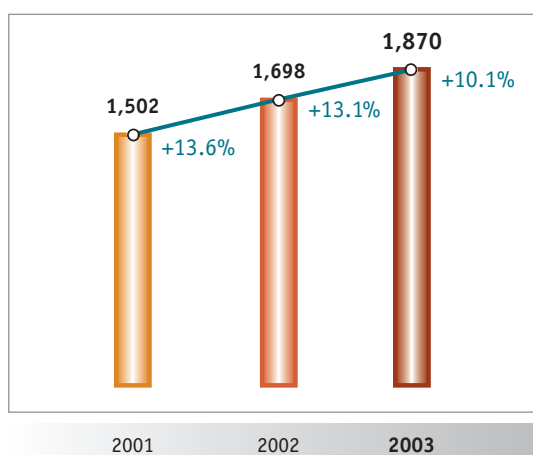


■ Cosmetics ■ Dermatology

(1) The group's business is organised into two branches: cosmetics and dermatology. The other divisions do not constitute a branch.

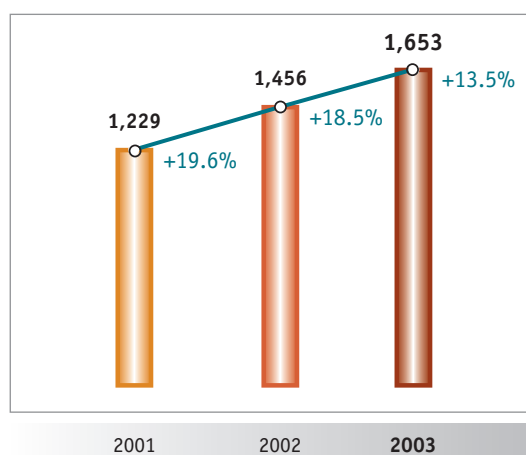
Pre-tax profit of consolidated companies

(€ millions)



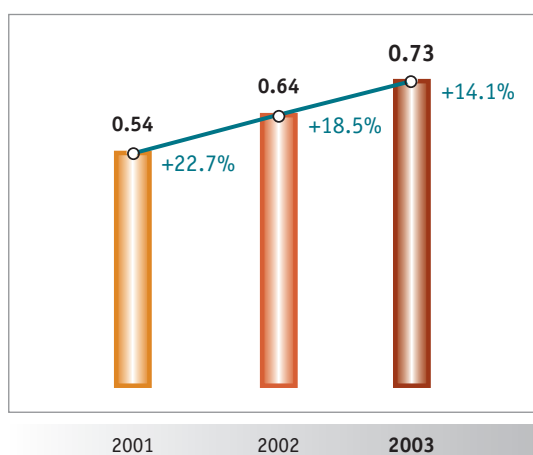
Net operational profit after minority interests

(€ millions)



Net dividend per share (excluding tax credit)

(€)



10-year investment in L'Oréal shares⁽²⁾

(€)

Purchase of 75 shares at €198.95 ⁽³⁾ on December 31 st 1993	14,921.25
Reinvestment of dividends	
Valuation at December 31 st 2003 ⁽³⁾ (923 shares at €65)	59,995.00

Capital invested multiplied by 4
Total Shareholder Return: 14.3% per year

(2) See volume 3 of this Reference Document (shareholder value creation).

(3) There was a ten-for-one share split on July 3rd 2000.

1993-2003: ten years of

(€ millions)	2003	2002	2001	2000 ⁽²⁾
RESULTS OF OPERATIONS				
Consolidated sales	14,029	14,288	13,740	12,671
Pre-tax profit of consolidated companies	1,870	1,698	1,502	1,322
<i>As a percentage of consolidated sales</i>	13.3	11.9	10.9	10.4
Income tax	629	580	536	488
Net operational profit	1,661	1,464	1,236	1,033
<i>As a percentage of consolidated sales</i>	11.8	10.2	9.0	8.2
Net operational profit after minority interests	1,653	1,456	1,229	1,028
Total dividend	494	433	365	297
BALANCE SHEET				
Fixed assets	8,136	8,130	8,140	7,605
Current assets	6,876	6,843	6,724	6,256
<i>Of which cash and marketable securities</i>	2,303	2,216	1,954	1,588
Shareholders' equity ⁽³⁾	8,136	7,434	7,210	6,179
Borrowings and debts	1,941	2,646	2,939	3,424
PER SHARE DATA (notes 4 to 7)				
Net operational profit after minority interests per share ^{(8) (9) (10)}	2.45	2.15	1.82	1.52
Net dividend per share ^{(11) (12)}	0.73	0.64	0.54	0.44
Tax credit	0.37	0.32	0.27	0.22
Share price as of December 31 st (11)	65.00	72.55	80.90	91.30
Weighted average number of shares outstanding	676,021,722	675,990,516	676,062,160	676,062,160

(1) For purposes of comparability, the figures include:

- in 1998, the pro forma impact of the change in the consolidation method for Synthelabo, following its merger with Sanofi in May 1999,
- the impact in 1998 and 1999 of the application of CRC Regulation no.99-02 from January 1st 2000 onwards. This involves the inclusion of all deferred tax liabilities, evaluated using the balance sheet approach and the extended concept, the activation of financial leasing contracts considered to be material, and the reclassification of profit sharing under "Personal costs".

(2) The figures for 1999 and 2000 also include the impact on the balance sheet of adopting the preferential method for the recording of employee retirement obligation and related benefits from January 1st 2001 onwards. However, the new method had no material impact on the profit and loss account of the years concerned.

(3) Plus minority interests.

(4) Including investment certificates issued in 1986 and bonus share issues. Public Exchange Offers were made for investment certificates and voting right certificates on the date of the Annual General Meeting on May 25th 1993 (see Commission des Opérations de Bourse information note of June 3rd 1993). The certificates were reconstituted as shares following the Special General Meeting on March 29th 1999 and the Extraordinary General Meeting on June 1st 1999.

consolidated financial data

1999 ⁽¹⁾⁽²⁾	1998 ⁽¹⁾	1998	1997	1996	1995	1994	1993
10,751	9,588	11,498	10,537	9,200	8,136	7,260	6,123
1,125	979	1,339	1,183	1,011	897	816	685
10.5	10.2	11.6	11.2	11.0	11.0	11.2	11.2
429	375	488	422	328	285	256	211
833	722	807	722	644	579	529	448
7.7	7.5	7.0	6.9	7.0	7.1	7.3	7.3
827	719	719	641	568	515	476	394
230	191	191	165	144	125	114	96
5,918	5,299	5,590	5,346	4,687	3,550	3,366	2,029
5,139	4,229	4,937	4,512	4,048	3,617	3,182	3,182
1,080	762	903	825	810	685	844	960
5,470	5,123	5,428	5,015	4,429	3,938	3,642	2,728
1,914	1,718	1,748	1,767	1,598	848	979	619
1.22	1.06	1.06	0.95	0.84	0.76	0.70	0.62
0.34	0.28	0.28	0.24	0.21	0.18	0.17	0.15
0.17	0.14	0.14	0.12	0.11	0.09	0.09	0.07
79.65	61.59	61.59	35.90	29.79	18.17	15.09	18.09
676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	614,601,970	614,601,970	581,891,760

(5) Restated to reflect the ten-for-one share split decided at the Extraordinary General Meeting of June 14th 1990.

(6) Figures restated to reflect the one-for-ten bonus share allocation decided by the Board of Directors as of May 23rd 1996.

(7) Ten-for-one share split (Annual General Meeting of May 30th 2000).

(8) Net earnings per share are based on the weighted average number of shares outstanding in accordance with the accounting standards in force.

(9) In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net operational profit after minority interests, before allowing for the provision for depreciation of treasury shares, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill.

(10) No financial instruments have been issued which could result in the creation of new L'Oréal shares.

(11) The L'Oréal share has been listed in euros on the Paris Bourse since January 4th 1999, where it was listed in 1963.

The share capital was fixed at € 135,212,432 at the Annual General Meeting of June 1st 1999; the par value of one share is now € 0.2.

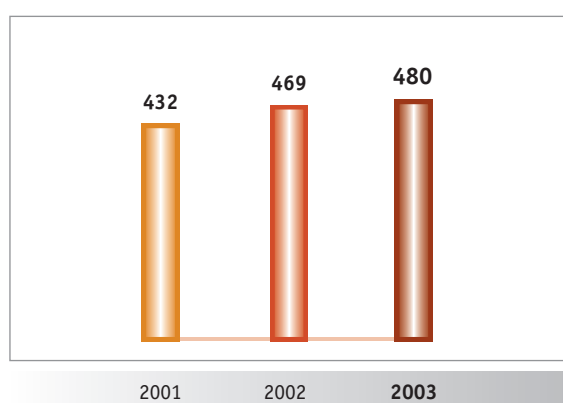
(12) The dividend is fixed in euros since the Annual General Meeting of May 30th 2000.

RESEARCH AND DEVELOPMENT

Imagining the future of beauty

Some 3,000 people work in L'Oréal's twelve research centres in the four corners of the world. Their mission: to understand the skin and hair of men and women worldwide, to imagine and create new colours, and to anticipate what forms beauty will take in the future. In short, a behind-the-scenes look at tomorrow's products.

Research & Development budget
(approximately 3% of consolidated sales)
(€ millions)



Cosmetic and dermatological research

	2001	2002	2003
Patents	493	501	515

International extensions of patents in 2003: 20,164.

Employees of cosmetic and dermatological research at the end of 2003: 2,860.

Anticipating and understanding

The L'Oréal group must constantly innovate to market 3,000 new formulas a year, and to lead to the creation of new generations of products of which customers have not yet dreamt: "second skin" make-up, for example, or a lotion to overcome the problems of hair loss and greying.

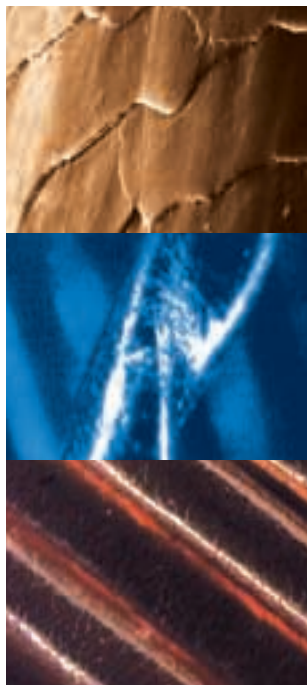
The research teams must also develop non-invasive techniques to measure product efficacy and broaden the range of in vitro methods for assessing tolerance of each formulation.

The more active the cosmetics product, the more demanding regulatory authorities the world over become in requiring proof of safety and efficacy. The group's researchers must also ensure that the different product ranges can be harmoniously extended.

In 2003, two major events illustrated the foresight of L'Oréal Research: the opening of the L'Oréal Institute for Ethnic Hair and Skin Research and the completion of the SU.VI.MAX survey.

All are equal, all are different

The opening of the L'Oréal Institute for Ethnic Hair and Skin Research in June 2003 confirms the group's commitment to



Chemical analysis laboratory at the L'Oréal Institute for Ethnic Hair and Skin Research in Chicago.



Microscope views: scales of the capillary fibre, curl of African hair, transparency of the hair shaft.

exploring and understanding the skin and hair of people in all parts of the world. Our vision of “geocosmetics” involves leaving nothing to chance. Although all people are equal, everyone is nonetheless different. The cells are the same, but the hair and the skin are different. Understanding this diversity, from the cell to the beauty care routine, is one of the centre’s key aims.

The institute is located in Chicago, a city renowned for its ethnic diversity. It is the only one of its kind in the world, both because of its focus on research, and also because of the concept on which it is based: under a single roof, it combines laboratories for fundamental research and for product development and evaluation, together with an application room that is open to the public.

Over ten years ago, even before the institute came into existence, L'Oréal had begun working on the ethnic particularities of skin and hair. Significant results have already been obtained.

Research on skin and the ability to reproduce skin of different ethnic types in vitro, leads to an understanding of the mechanisms of biological colouration and cell repair, and the

profiling of the first active ingredients to correct pigmented disorders. Field studies into skin types, using reliable instruments, are being carried out on thousands of women all over the world. The incidence of various disorders – dry skin, oily skin, sensitive skin, blemishes, wrinkles – is carefully recorded. A skin colour evaluation chart is currently undergoing validation.

In the case of hair, the characteristics of brittleness, shine and frizziness are being measured in some ten countries. The advanced research laboratories (biology, physics, chemical analysis) seek to interpret the characteristics of hair according to their ethnic origin. L'Oréal teams have thus discovered the biological mechanisms that result in frizziness, and the causes of the brittleness of hair of African origin (a different number of scales, cohesion of the hair shaft, intercellular lipids).

Two innovations have already been brought to market: one to strengthen hair of African origin and the other to reduce frizziness while ensuring greater respect for hair integrity. The challenge is stimulating, ambitious and essential. The results will help us meet customers’ aspirations through the creation of new products.



Photomicrographs of clinical signs of the scalp.



Clean room at L'Oréal's skin engineering centre.

Opening up new avenues for cosmetics

There are other examples of the group's concern to anticipate future developments: eight years ago, the group agreed to take part in the major epidemiological study SU.VI.MAX aimed at revealing the impact of nutrition on health (see box). Thirteen thousand men and women took part in this voluntary study.

One group of volunteers regularly took the SU.VI.MAX capsule, while the other was given a placebo (the groups were not told which was which). L'Oréal Research was one of the study partners for monitoring hair and nail health.

Our teams are familiar with the benefits of topical vitamins and applications of anti-oxidants. But what of treatment by mouth? The identity of the "active" and "placebo" groups was not revealed until June 21st 2003.

It is therefore too early to come to conclusions, but the analysis of results will help to consolidate and enrich our range of nutritional cosmetic supplements, marketed by INNÉOV.

This is the first time that a large survey of healthy volunteers has been carried out over such a long period in the field of cosmetics. L'Oréal believes in this approach, because a protocol of this type leads to "robust" results in terms of both statistics and efficacy.

A future haircare capsule will thus draw on knowledge gathered over the best part of a century in the field of haircare and the action of locally applied products, and on the results of the SU.VI.MAX study.

Unique technological approaches

In 2003, L'Oréal Research continued the successful development of its reconstructed skin platform. L'Oréal is the only cosmetics group that was prepared to back skin engineering techniques twenty years ago. Today, the availability of in vitro models that reproduce the major functions of the epidermis and the dermis is an undeniable advantage for understanding the inner mechanisms of the skin and applying this knowledge to the design or evaluation of products.

The understanding of colour, ageing, the damage caused by sunlight, scarring, and the repair of conditions caused by pollution, age, etc., is a springboard for developing the cosmetics of the future. Reconstructed skin samples are now available for the various ethnic types, and include unique cell types such as Langerhans cells, which play a key role in the skin's immune response system.

In the near future, the samples will incorporate nerve cells and endothelial (blood vessel) cells, opening up fabulous fields for exploration and the prospect of devising new methods as an

Measuring lip colour in the chromosphere.



alternative to animal testing. Of the three possible methods in the world, one was developed by L'Oréal. Two other methods are currently undergoing validation by the European Centre for the Validation of Alternative Methods (ECVAM).

L'Oréal teams are also closely monitoring advances in new technologies that could give rise to non-invasive analysis or measurement methods. 2003 saw the birth of the "haptic finger", which measures the softness of the skin, and of nanosensors which provide images of product interactions at the hair or the skin surface.

Cosmetics and well-being

Generating a sense of well-being is the ultimate aim of the cosmetics product. One of the challenges facing L'Oréal is to obtain an objective measurement of subjective phenomena such as well-being and quality of life.

In conjunction with teams of psychologists, metrologists and gerontologists, L'Oréal is conducting numerous projects seeking to demonstrate the psychosocial impact of cosmetics. One particularly promising area is the impact of make-up on the quality of life of senior citizens. As life expectancy increases, we can contribute to helping older people enjoy a better life. There is a link, for example, between make-up and physical activity: the use of the first brings significant improvement to the second.

SU.VI.MAX

The vast epidemiological study SU.VI.MAX (*Supplémentation en Vitamines et Minéraux Anti-oxydants*) was launched in France in 1994. Its aim: to establish the causal nature of the link between anti-oxidant supplements and the risk of cancer or cardiovascular disease. L'Oréal Research joined the project to monitor the health of the volunteers' hair and nails. Even before June 2003, when it was revealed which volunteer group had taken the SU.VI.MAX capsule and which the placebo, L'Oréal had already established:

- clinical signs at the hair root that are the precursors of hair loss, particularly in men. This should lead logically to the possibility of a preventive approach,
- a correlation between hair loss and iron status in women,
- a link between alopecia and scalp ageing.

An invaluable data base has been built up during the study. Exploiting the potential of this data for topical and oral cosmetics products will take years.

Advances in colour

Make-up and colour in general form a vast field of research for the group. Mastery of optical phenomena, the discovery of new pigments and polymers, and the remarkable progress in the science of materials and their rheological behaviour have brought dramatic advances in lipsticks and mascaras. Solutions can be found that enable lasting colour, gloss and ease of application. Surprises are in store in the field of make-up, as it becomes increasingly scientific and sophisticated.

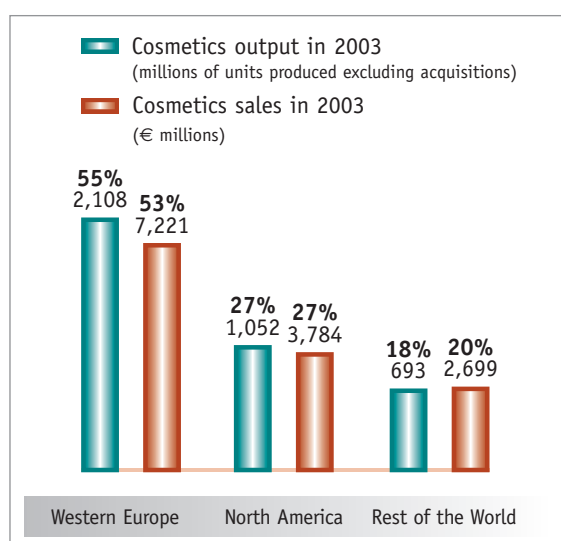
All these advances are seeing the light of day thanks to the creativity of the men and women of L'Oréal Research, whose enthusiasm leads day by day to the continuing introduction of more science into cosmetics products.

PRODUCTION AND TECHNOLOGY

Contributing to the group's economic performance

Growing production accompanied the expansion of the group's divisions across all geographic zones. With 42 factories producing 3.9 billion units, L'Oréal's industrial capacity continued to make a major contribution to the group's economic performance through improved production costs.

Localised production



€ millions	2001	2002	2003
Cosmetics investments			
Production & physical distribution commitments	317.4	318.3	332
Index (base: 100 in 2001)			
Comparable product purchasing price index trend	100	97.8	96.1
Units			
Packaging patents	71	78	81

PACKAGING DEVELOPMENT

In 2003, 81 packaging patents were registered. The most significant innovations were in colourants, in particular with Couleur Experte by L'ORÉAL PARIS and in make-up with LANCÔME's Magicils mascara.

QUALITY, SAFETY AND THE ENVIRONMENT

In 2003, the ISO 9002 certified factories were upgraded as scheduled to meet the requirements of ISO 9001, version 2000. Certified factories now account for 89% of production.

Main safety levels in our manufacturing sites were improved by a further 28%, making the group one of the world leaders in this field.

In the United States, L'Oréal - in conjunction with the OSHA⁽¹⁾ - made a formal commitment to achieve VPP⁽²⁾ certification for its nine sites over the next five years; four of the nine are already VPP certified. L'Oréal is the only non-U.S. company to have made such a commitment.

Our factories managed to reuse, recycle or incinerate 92% of their waste, and water consumption per finished product was cut by 2%.

MANUFACTURING ORGANISATION

Europe - Consumer Products Division

The restructuring by brand and technology has been completed, enabling substantial benefits in terms of productivity, flexibility and service.

The Chimex chemicals factory near Paris is closing as part of the process of concentrating production on the main site at Mournex.

(1) OSHA: Occupational Safety and Health Administration.

(2) VPP: Voluntary Protection Program.

Industrial factories in the world



Manufacture, L'Oréal Vichy factory, France.

North America

The successful launch of Fructis shampoo has speeded up the specialisation of the North American factories in line with those in Europe. Florence (United States) is now concentrating on shampoos and conditioners, transferring its REDKEN lines to Professional Products Division factories.

Other zones

Very strong production growth was recorded in Latin America, Africa and Asia-Pacific.

Latin America: the factory in Sao Paulo (Brazil), which makes Colorama shampoos and nail varnishes, exports its varnishes to Europe and the United States. Its very low production costs mean that new markets are opening up in the countries that it supplies.

Africa: in South Africa, the CARSON factory is being extended to enable a rapid increase in output; this factory is now the CARSON product manufacturing centre for Africa and the whole of Europe.

Asia-Pacific: in India, the group is expanding its operation, and has started up a modern and highly efficient factory in Puna to handle the strong level of growth expected. In China, the Suzhou factory will soon reach full capacity, and plans to develop it are currently being drawn up.

COST REDUCTION

Industrial costs have continued to fall, as the group has taken full advantage of growing output and improved productivity following the industrial reorganisation in Europe and the United States. Industrial costs should continue to decrease over the coming years.

As for purchases, a major component of production costs, trends in the prices of basic raw materials (such as petroleum and plastic resins) have been highly unfavourable, with particularly strong price increases in North America. Nevertheless, total purchasing costs were again lower than in the previous year. Once more, this largely reflects the elimination of superfluous packaging, the reduction of costs by agreement with suppliers, and the analysis of product value.

The group has also greatly increased its packaging purchases in Asia for certain targeted products, and will continue to follow this policy in future years, provided there is no change in current economic trends.

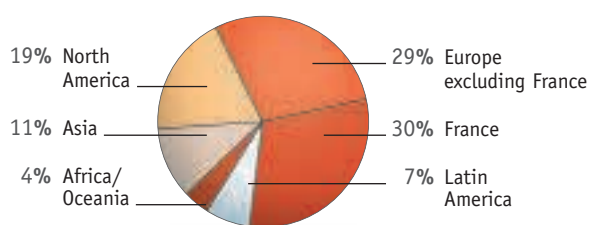
HUMAN RESOURCES

Recognising and developing talent

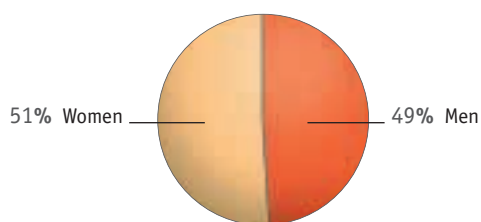
In 2003, L'Oréal confirmed its fundamental strategic priorities in the field of human resources: to attract the best talent, to promote diversity, to develop professional and interpersonal skills, and to foster careers that are international, rewarding and diversified.

	2001	2002	2003
Global workforce	49,150	50,491	50,500
Global number of managers	11,695	12,612	12,973

Managers by geographic zone



Percentages of female and male managers



A conference on diversity: a major challenge for L'Oréal's development.

Attracting talent

To build for the future, L'Oréal has made high quality recruitment an absolute priority:

- in 2003, 412,000 applications were received for managerial positions,
- 28,500 applicants were interviewed: 1,418 applicants of 70 nationalities were chosen to join the group,
- 56% applied via Internet,
- 1,916 students carried out training periods at L'Oréal: 10% of them were recruited into the group,
- L'Oréal is number two in the rankings of preferred companies to work for according to European business school students (Universum 2003 survey of 6,775 students from 18 European countries),

- to identify talent and to raise awareness of its activities, L'Oréal has created two business games: the "L'Oréal Marketing Award" and the "L'Oréal e-Strat Challenge". In 2003, over 30,000 students from 113 countries registered for the fourth "L'Oréal e-Strat Challenge", an online corporate strategy game that calls for highly developed entrepreneurial abilities.

Developing professional and interpersonal skills

Passing on professional expertise, sharing experience with the next generation and other countries, all make an important contribution to L'Oréal's development. That is the inspiration for our training programmes approach:

- 84% of training is carried out internally,
- 60% of managers attended at least one training course in 2003 (for an average of 6 days),
- from 2003, product managers have been able to take part in a new distance training programme ("L'Oréal Marketing Basics"), which combines management mentoring techniques with



e-learning, business simulations and virtual seminars.

The task for Continuing Education is to:

- facilitate changes in professional activities and organisational structures,
- encourage the development of individual talents,
- improve understanding of the corporate culture.

This major responsibility is carried out on a decentralised basis by the

operational and functional Divisions in the countries in which

the group operates, and in the Management Development Centers located in New York, Paris, Rio de Janeiro and Singapore.

"TOP COMPANIES FOR LEADERS IN EUROPE"

(2003 Hewitt & Associates report)

L'Oréal is ranked number one out of 110 major European companies. In particular, L'Oréal was singled out for the quality of the group's policy for identifying and developing individuals with talent and outstanding potential.

Fostering careers that are international, rewarding and diversified

L'Oréal offers its employees opportunities to realise their full potential through challenging fast-track international careers:

- on average, managers are promoted to senior management positions after 8 years with the company,
- young managers occupy positions for an average of 2 years,
- 35% of the members of L'Oréal's management committees are women,
- in 2003, 100% of the group's managers took part in the "Talent Development" programme, which includes a formal annual assessment of performance and individual skills. The individual development interview system is to be extended to include all other employees worldwide.

L'Oréal is convinced that the diversity of profiles and experience is a valuable resource, and so favours international mobility and the cross-fertilisation of different nationalities:

- there are currently 493 expatriate managers of 47 different nationalities,
- expatriate managers are in charge of 66% of L'Oréal subsidiaries.



"L'ORÉAL MARKETING AWARD"

In this business game, marketing students from our target universities put themselves in the position of a product manager, and design a product line by working closely with the marketing teams of a L'Oréal brand and one of its major international advertising agencies. 11,000 students have taken part in the competition since 1993. The tenth competition brought together 2,500 students from 73 prestigious universities in 18 countries. The "L'Oréal Marketing Award" game enables L'Oréal to identify and recruit a large number of talented people who are eager to learn, and who are creative and passionate about what they do.

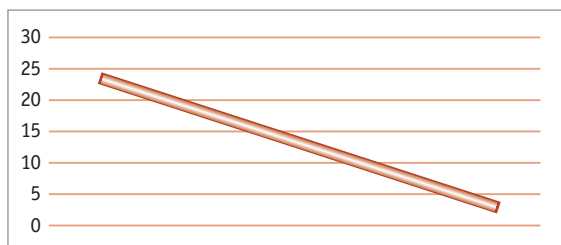
The members of the Singapore team, graduates of Nanyang Technological University, which won the L'Oréal Marketing Award 2003.

SUSTAINABLE DEVELOPMENT

Commitment and responsibility

For almost a century, L'Oréal has demonstrated its active commitment to sustainable and responsible development. Its convictions are based on strong ethical principles and values that are shared by all its employees. In 2003, L'Oréal further strengthened its commitment by appointing a Sustainable Development Director and by making its first Report on Sustainable Development available online.

Work accidents per hour worked⁽¹⁾



1993 2003

(1) Work injury frequency rate = number of accidents resulting in sick leave/1 million hours worked.

Since 1993, the work injury frequency rate of our industrial sites and distribution centres has fallen by 82.3%.

Progress of environmental indicators

(group factories and distribution centres)

	1993	2003	Change
Water consumption (litres/finished product)	1.16	0.84	-28%
Energy consumption (kWh/1,000 finished products)	219	204	-7%
Waste reuse and recycling index (%)	72.4%	89%	+23%

Heightened awareness of challenges

L'Oréal analyses practices used throughout the world and studies the recommendations of international institutions; it also engages in debate, in particular by taking part in the discussions of the World Business Council for Sustainable Development, of which it has been a member since 2001.

L'Oréal's decision, in 2003, to sign up to Global Compact, a U.N. initiative, marks a further step in this direction: this demonstrates its commitment to respect human and workers' rights, to protect the environment, and to express its determination to defend these principles.



A structured policy, strong commitments...

Although the group's policies have always taken sustainable development into account, there was clearly a need for a solid and cross-functional structure to enable the principle to be applied worldwide. This led to the creation of the Sustainable Development Committee, bringing together managers from the functional and operational units, who have been assigned to seven thematic working groups coordinated by the Sustainable Development Director.



Main chimney of the Saipo plant, Settimo, Italy.

AN INTELLIGENT SOLUTION

The plant at Settimo in Italy has set up an ingenious system for energy recovery: heat from the plant's main flue is recovered and reused for the heating of a manufacturing unit. This solution is in line with the group's policy of protecting the environment while reducing energy consumption; it also produces savings in heating costs.

The group's prime responsibility is to ensure continuity in its financial performance for the benefit of shareholders, employees and all the group's partners. In 2003, L'Oréal achieved double-digit earnings growth for the nineteenth consecutive year. But the group is convinced that, if growth is to be really sustainable, the model for growth should not be purely financial, but should also reflect a genuine awareness of the group's responsibilities to society and the environment.

... and action

The group's pro-active environmental policy has made significant advances in many areas possible: control of water and energy consumption, effluent treatment, and the reuse and recycling of waste. The aim of the safety, health and environment policy, which is strictly applied throughout the group, is not only to protect the environment, but also to improve industrial safety and occupational health conditions.

It has always been L'Oréal's ambition to develop corporate pride and motivation amongst its personnel, since these are essential prerequisites for the company's sustainable development. L'Oréal has thus continued to extend the application of

Worldwide Profit Sharing, a global system set up in 2001, which enables employees to share in the financial benefits of growth and in the profits earned.

Over the past ten years, L'Oréal has been actively involved in apprenticeship systems both in France and internationally. Almost 1,600 young people have thus been able to obtain their first experience of working life while studying for a qualification. In addition, L'Oréal has engaged in many projects aimed at integrating disadvantaged people into the workplace – youngsters and adults who are unqualified and unemployed, as well as disabled people. A wide range of carefully targeted projects have been set up: workshops to help people find a job, the sponsoring of young people, hairdressing training for young women facing social problems, beauty care services for people in difficult situations.

L'Oréal carries out these tasks in conjunction with high-level, committed partners and through the involvement of its employees.

For more details of our achievements, read the Sustainable Development Report on our Web site: www.loreal.com

At the service of the consumer

PROFESSIONAL PRODUCTS DIVISION

The Professional Products Division is at the service of hairdressers worldwide. Its complementary brands meet the requirements of salon professionals in colourants, haircare, texture and styling, providing salon customers with a wide range of innovative, high performance haircare products.



L'Oréal Professionnel
Kérastase
Redken
Matrix

CONSUMER PRODUCTS DIVISION

The Consumer Products Division markets its products through mass-market retailing channels, enabling all consumers to take advantage of its high technology products at competitive prices. The Division's brands develop haircare, skincare, make-up and perfume products that meet the aspirations of all of its customers.



L'Oréal Paris
Garnier
Maybelline New York
SoftSheen•Carson
Club des Créateurs de Beauté

in every distribution channel

LUXURY PRODUCTS DIVISION

The prestigious brands of the Luxury Products Division offer consumers top of the range products. Clients of selective retail outlets (department stores, perfumeries, travel retail outlets, and the group's own boutiques) receive personalised advice at the point of sale, enabling them to choose the products best suited to their needs.



Lancôme
Biotherm
Helena Rubinstein
Giorgio Armani
Ralph Lauren

Cacharel
Guy Laroche
Paloma Picasso
Kiehl's
Shu Uemura

ACTIVE COSMETICS DEPARTMENT

The Active Cosmetics Department designs and markets dermo-cosmetic skincare products sold in pharmacies and specialist sections of drugstores. Its products offer consumers proven safety and efficacy, backed up by pharmaceutical advice and dermatological prescription.



Vichy
La Roche-Posay
Innéov





Professional Products

L'Oréal Professionnel

Kérastase

Redken

Matrix



The new KÉRASTASE Institute in France, symbolising the brand's professional luxury positioning.

Consolidated sales by geographic zone

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Western Europe	933.9	969.5	51.0%	5.3%
North America	625.1	601.9	31.7%	10.7%
Rest of the World	339.3	328.6	17.3%	15.3%
Total	1,898.3	1,899.9	100%	8.6%

Consolidated sales by business segment

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Colourants	791.8	773.3	40.7%	7.9%
Styling and waves	370.7	356.7	18.8%	2.8%
Shampoos and haircare	735.8	770.0	40.5%	12.3%
Total	1,898.3	1,899.9	100%	8.6%



"After several years of rapid growth, the Professional Products Division has continued to win market share in all parts of the world. In 2003 it maintained a high growth rate: its sales progressed by 8.6% on a like-for-like basis.

In North America, the Division achieved growth of 10.7%, thanks largely to the substantial market share gains in this zone. In Western Europe, the growth rate was 5.3%. In the rest of the world, growth reached 15.3%. The Division performed particularly well in Eastern Europe."

Jean-Jacques Lebel,
President Professional Products

Partnership with hairdressers the world over

The Professional Products Division boasts a portfolio of unique and complementary brands. Whatever the degree of maturity of the local professional products market, the Division can meet the needs of every type of hair salon the world over.

Its hair colourants and its styling, texture and haircare products are specially designed to meet all hairdressers' expectations.

CHALLENGES AND GROWTH STRATEGY

The growth strategy of the Professional Products Division is to speed up the globalisation of its brands by focussing on high growth areas, in particular Asia and Eastern Europe. The launch of MATRIX in Eastern Europe in 2003 reflected this strategy. It was a decisive step in the roll-out of this brand, which originated in the United States, offering hairdressers a range of affordable professional products with a very broad distribution among salons.

The Division will also grow through the creation of new services, not only in colourants and texture, but also in haircare and styling. The growth potential in salon sales of products for home use is considerable.

The Division is particularly sensitive to the need to create different kinds of partnerships, and so to contribute to the development of all categories of hair salon.

2003 highlights

- **The launch of Luo Color colourant by L'ORÉAL PROFESSIONNEL, with fresh, light colours to appeal to a new category of consumers.**
- **Consolidation of L'ORÉAL PROFESSIONNEL in the United States following the successful integration of the Artec lines.**
- **The Division's expansion in Eastern Europe moved up a gear, particularly with the launch of MATRIX aimed at boosting sales in low-cost salons.**

ACTIVITY AND DEVELOPMENTS IN 2003

L'Oréal Professionnel

The partner brand of the world's leading hairdressers continued to expand at twice the rate of the professional products market. The brand's innovations made a direct contribution to increasing the number of regular hair salon customers:

- the original and fresh colours of Luo Color colourants immediately proved highly successful on their launch in Europe. The launch broadened the brand's distribution in prestige salons,
- Equa colourants, specially formulated for Japanese hair, won over the country's top salon colourant specialists,
- the Série Expert haircare range continued its international expansion with spectacular success, particularly in Japan and the United States,
- the successful integration of Artec products into the L'Oréal Professionnel USA range made of the brand one of the major players on the American market,
- the "Dream, Excel, Succeed" programme is now recognised by professionals all over the world as the benchmark for hairdresser training.

Kérastase

KÉRASTASE confirmed its leading position in 2003. It strengthened its image as the "institute haircare" brand for salon use and for sale, and consolidated its professional luxury positioning.



Its 11% sales growth reflected three major successes:

- an increasing rate of globalisation with strong performances in the United States (up 70%), in Eastern Europe (up 41%), in Asia and Japan (up 25%),
- the success of innovative products with the launch of:
 - Age-Recharge, a deep treatment mask that improves hair body, and which demonstrates the brand's expertise in a new sector,
 - the Nutri-Sculpt range, used for styling effects and shine, unlocking new potential for the brand's customer base,
- the creation of "institute counters" for hairdressers who have remained faithful to the brand is a tangible result of the changing image of KÉRASTASE.

Redken

This brand, which draws its creative inspiration from New York, achieved growth of 9.1% in 2003. REDKEN very substantially increased its market share in the United States, consolidating its number two position.

Growth was confirmed by the launch of a haircare range featuring Deep Fuel, which embodies a new concept of single-dose restructuring haircare.

"Chemistry System", a special salon-only personalised haircare programme, with concentrated active ingredients exclusive to the REDKEN brand, proved highly successful.

Color Fusion colourants continued to achieve double-digit growth worldwide, with the launch of new red shades and the brand's growing success in appealing to new categories of customer.

In the United States, the REDKEN Symposium was attended by over 11,000 hairdressers from many countries, who received training in new REDKEN techniques.



Matrix

MATRIX turned in an excellent performance in the United States, with its affordable product lines and services aimed at low-cost salons.

The pace of the brand's globalisation increased with the launch of a comprehensive range of products in several East European countries.

Colourant sales increased strongly, thanks in particular to:

- Color Sync, a new dual-tone hair colour product featuring a ceramide conditioning and restructuring complex,
- Socolor Beauty, a new colourant giving the hair added shine and producing lasting results.

The Trix range gave the brand a strong position in the creative styling sector, an area that is extremely popular with young people.



2004

outlook

In 2004, the Division's brand portfolio and product innovations will add further breadth to the international extension of its partnership with hairdressers and its presence in all types of salons.

The growing popularity of the MATRIX brand in new geographic areas will have a positive impact on the Division's growth.

Increased investment in professional training will contribute to the sustainable development of the distribution channel with which our brands are closely associated.





Consumer Products

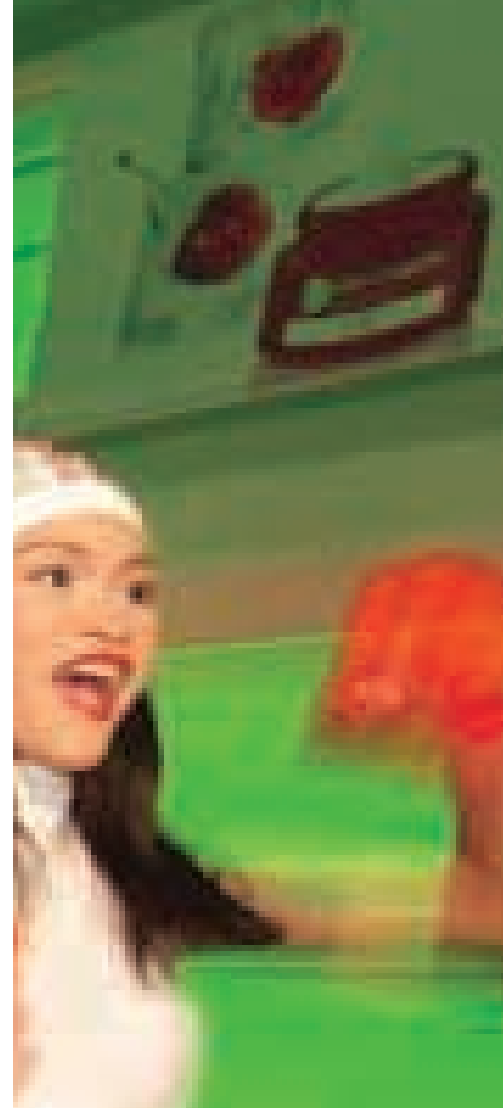
L'Oréal Paris

Garnier

Maybelline New York

SoftSheen•Carson

Club des Créateurs de Beauté



Garnier Skin Naturals launch in Thailand, the spearhead of the Asian skincare offensive.

Consolidated sales by geographic zone

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Western Europe	3,836.9	3,991.3	53.2%	5.3%
North America	2,319.4	2,080.3	27.7%	6.7%
Rest of the World	1,444.7	1,434.8	19.1%	16.4%
Total	7,600.9	7,506.4	100%	7.7%

Consolidated sales by business segment

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Haircare	4,048.4	3,957.3	52.7%	6.2%
Make-up	2,100.0	1,982.8	26.4%	5.9%
Skincare	1,019.8	1,178.9	15.7%	23.7%
Perfumes	150.6	128.4	1.7%	-11.9%
Other	282.2	259.0	3.5%	-6.4%
Total	7,600.9	7,506.4	100%	7.7%



"2003 was a year of major conquests, as the Division's teams were mobilised to score outstanding product successes and genuine geographic breakthroughs. Our teams demonstrated their creativity by matching up new technologies with new consumer aspirations to create groundbreaking products, in particular with Couleur Experte colourants and Double Extension mascara from L'ORÉAL PARIS. Their worldwide success added new and increased dynamism to the Division's markets. Operational teams in each country adapted marketing mixes to bring them even closer to the specific requirements of each market, to take advantage of every opportunity to improve existing positions or to enter new product categories. GARNIER's success with shampoos in the United States and with skincare and colourants in Asia is a good example."

Patrick Rabain,
President of Consumer Products

Dynamic impetus from new products as promising markets open up

With new products providing dynamic impetus, the Consumer Products Division achieved substantial growth (+7.7% like-for-like). Its increased share of the European and North American markets in the high value-added segments of skincare, make-up and colourants enabled the Division to markedly improve its profitability while making the investments required for penetration of new markets.

CHALLENGES AND GROWTH STRATEGY

To continue to grow much more rapidly than the global market in a changing, competitive and extremely challenging environment, the Division has implemented six coordinated strategies:

- focussing on three major flagship brands: L'ORÉAL PARIS, MAYBELLINE NEW YORK and GARNIER. To ensure maximum impact for all the brands, each one is clearly positioned and targets different consumer groups,
- launching a cascade of innovations to stimulate markets and, by fully exploiting the group's new patents, to increase the Division's lead over competitors in each of the major strategic segments (haircare, colourants, skincare, make-up),
- capturing markets and winning market share in new areas, particularly in growth driver countries with dynamic consumer spending trends. Examples are China, the Russian Federation and India, where we have set up strong local teams,
- responding speedily to a wide range of local situations, by adapting our products and marketing mix to ensure that we are always closely attuned to the market,
- maintaining partnerships and sharing know-how and results with distributors, and in particular with our long-standing partners. The quality of point of sale presentation is a key aspect of our strategy of using innovation to create value,
- increasing productivity to generate more resources to back up our existing star products and our strategic innovations.

2003 highlights

- The Division achieved very strong growth (+24%) in skincare (facial skincare, bodycare and sun protection), outperforming our major global competitors, with substantial market share gains for L'ORÉAL PARIS and GARNIER in Europe, America and Asia.
- GARNIER had an exceptional year (+18.4% growth), led by the success of Garnier Fructis shampoos and haircare products in North and South America, and the highly dynamic performance of Garnier Skin Naturals, for the care of both the face and the body, in Asia, Oceania and the Russian Federation.
- Spectacular advances in growth driver countries: with MAYBELLINE make-up in China, GARNIER skincare products in the Russian Federation and GARNIER colourants in India.

ACTIVITY AND DEVELOPMENTS IN 2003

L'Oréal Paris

In 2003, the brand showed strong growth (+7.3% like-for-like), confirming its position as the number one global brand in its sector in terms of sales.

The brand achieved remarkable growth in Spain (+20%), Great Britain (+18%), and Italy (+14%). Excellent results were also obtained in countries such as Turkey (+45%), Romania (+30%), the Russian Federation (+32%), Taiwan (+26%) and China (+65%).

For several years now, L'ORÉAL PARIS has been pursuing a twin strategy intended to enhance its image and to increase quality. In Europe, America and Asia, it is now recognised by consumers and clients as a genuine "affordable luxury brand", earning it a premium position in its distribution channel.

In Asia, the brand is often sold by demonstrators at the brand's own counters. This approach had already been adopted in China, and is now being successfully applied in Japan and South Korea.

In 2003, building on consumer confidence, L'ORÉAL PARIS drew extensively on the high technology results emerging from the group's laboratories to launch spectacular innovations at above-average prices for this market:

- in skincare, the new anti-wrinkle treatment Decontract'Rides with Boswelox is a great success. It acts upon the expression lines that form early in life, and targets consumers who are younger than the users of traditional anti-wrinkle firmness





products. It complements L'Oréal Revitalift, the anti-wrinkle product aimed at older women, and the mature skin line Age Perfect, which has shown very strong growth. In its second year on the market, the Pure Zone line for young skin has more than doubled its sales. This strategy of innovation and highly-focussed consumer-group targeting means that L'Oréal Dermo-Expertise can propose skincare products to customers in every age-group.

The sun protection line Solar Expertise, combined with the self-tanning product Sublime Bronze and the bodycare line Body Expertise, gives L'ORÉAL PARIS a comprehensive range, equivalent to that of a major skincare institute. It is thus well placed to take full advantage of the dynamism of this market,

- in make-up, Double Extension mascara, which uses a new technology formula to give lashes extra body and length, is proving very popular with consumers. Glam Shine lipstick has a liquid formula that produces a glamorous volume effect. The foundation Cashmere Perfect lasts for twelve hours and completely covers the skin with its liquid powder texture. These three product initiatives have enabled the brand to make significant gains in market share,
- in the colourants segment, Couleur Experte is a simple-to-use two-stage product, first for colouring the hair and then for varying its colour intensity, one strand at a time. This technique makes use of ten L'Oréal patents and produces results that no other manufacturer can rival in a product for home use. This product is extremely popular with our exacting customers, and within its first few months has captured 5%-6% of the market, in terms of value, in all the major countries in which it has been launched.

Garnier

The brand had another exceptional year (+18.4% like-for-like). Since 2000, it has increased its sales by 54% and its unit volumes by 51%.

Faced with the challenge of globalisation, this long-established brand, one of the European leaders in colourants and haircare, has successfully reinvented itself from A to Z.

With its colourful and cheerful packaging and its nature-based technology, GARNIER is redefining the market's communication codes. Clearly targeted at young people, and at affordable prices, the brand has strong appeal for young consumers of both sexes worldwide.

In 2003, GARNIER made spectacular breakthroughs in the major growth driver countries (not only Mexico, Brazil and the Russian Federation, but also Australia, India, Thailand and Taiwan), and it made its first appearance in China. In each case, the product range has been adapted to match the market opportunities available. In all these countries, the population is very young and eager for new, original and international products, although the disposable income of the middle classes is still limited.

The successful launch of Garnier Fructis shampoos and haircare products on the American market was the major event in 2003, enabling GARNIER to become a global brand in its own right.





Advertising Age magazine ranked the Garnier Fructis launch as one of the top ten in the United States in 2003. The brand has already won a noteworthy share of the market, and is now present in millions of American households. These products along with the Garnier Nutrisse colourants, which were already well situated in the market, have established GARNIER's credentials as a player on the American market.

Growth across all the regions was driven by strong innovative products:

- in haircare, Garnier Fructis Sleek & Shine shampoos and hair-care products, with fruit micro-oils to tame dry, unmanageable hair, and Garnier Fructis Style Hard, a range of new gels and sprays for the latest styling trends, have both proved successful,
- in colourants, Garnier 100% Color, a more intense and longer-lasting multi-ethnic colourant line for young people, has made a promising start in Asia and in France. Garnier Color Naturals, a new cream colourant of international-level



quality at a very affordable price, and produced locally to optimise production costs, has been a great success in India, and will be extended in 2004 to other emerging countries,

- in skincare, the brand has also scored major successes with Garnier Lift, an anti-wrinkle product with cherry and ginger essences that enhances skin firmness for older women, Garnier Light, a lightening cream with lemon essences, the spearhead of success in Thailand and Taiwan, and Garnier Pure Stylo SOS anti-spot products for the very young.

The summer of 2003 also proved favourable for Garnier Ambre Solaire with the launch of the innovative Kids 30 Color Control Trigger Spray, which was extremely popular with mothers.

Maybelline New York

The brand confirmed its world number one position in make-up, and leads the market in almost all the major countries: Europe, the United States, China, the Russian Federation and Brazil.

Overall growth (+4% like-for-like) reflected contrasting trends, with consolidation in the European and U.S. markets.

MAYBELLINE NEW YORK made spectacular progress, however, in Asia, particularly in Taiwan and China, thanks to determined efforts to adapt our marketing mix to Chinese market conditions: by doubling the number of units of lipstick sold in 2003, we are moving a little closer to our target of one day putting a lipstick "into the hands of every Chinese woman".

The output of the MAYBELLINE factory at Suzhou has been stepped up, and economies of scale have made our prices more



affordable, bringing them within the reach of a larger number of Chinese women.

The year saw a number of important innovative developments:

- Forever Metallics, a long-lasting lipstick with satin-smooth colours, and Liquid Shine in the Water Shine range,
- Wonder Finish, a foundation that combines a natural look with a powder finish,
- Sky High Curves, a new mascara that lengthens and curves the lashes, producing a more visible effect.

SoftSheen.Carson

This was a year of consolidation on the American market, as the brand successfully continued the streamlining of its structures in the United States. 2003 saw the opening of the Chicago-based L'Oréal Institute for Ethnic Hair and Skin Research, which will facilitate the development of new technologies with improved performance for consumers of African origin.

There were two launches in the fourth quarter: High Rez, a single-application lightening product, using L'Oréal technology, which is powerfully effective without damaging the hair, and Mega Hertz, an original styling line used to change the hair's appearance in a flash.

In Africa, the brand recorded double-digit growth. SOFTSHEEN.CARSON has begun to establish itself with consumers of African origin living in Europe. The new straightener with ceramides, Optimum Care, the range's flagship product, has been given a very warm reception.

CCB - Club des Créateurs de Beauté

The cosmetics mail order and Internet sales company CCB, a 50/50 joint venture of L'Oréal and 3 Suisses, consolidated its position in Europe, and achieved double-digit growth in Asia, Japan and Taiwan.

CCB Internet sales grew overall by 50%, and now represent between 8% and 35% of the total, varying from country to country.

During the year, the catalogue added a new designer label, Professeur Christine Poelman, to a portfolio that already includes Agnès b., Jean-Marc Maniatis and Michel Klein.

2004

outlook

The L'ORÉAL PARIS brand will continue to grow in Europe and on the other continents in the high value-added segments of skin-care, make-up and colourants.

The GARNIER brand will accelerate its roll-out in North America, building on the successful launch of Garnier Fructis in 2003.

The contribution of the emerging countries to the Division's progress will continue to increase, particularly in China, following the acquisition of the mass-market brand Mininurse – number two in China for skin-care – and, thanks to new product launches, in the Russian Federation and in India.



Luxury Products

Lancôme

Biotherm

Helena Rubinstein

Giorgio Armani

Ralph Lauren

Cacharel

Guy Laroche

Paloma Picasso

Kiehl's

Shu Uemura



RALPH LAUREN's new fragrance Polo Blue confirms its popularity in the United States.

Consolidated sales by geographic zone

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Western Europe	1,582.2	1,616.7	47.0%	3.4%
North America	1,231.0	1,055.8	30.7%	2.3%
Rest of the World	828.5	768.1	22.3%	8.8%
Total	3,641.7	3,440.6	100%	4.2%

Consolidated sales by business segment

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Skincare	1,288.0	1,233.3	35.8%	6.0%
Perfumes	1,458.6	1,358.2	39.5%	2.2%
Make-up	895.1	849.1	24.7%	4.9%
Total	3,641.7	3,440.6	100%	4.2%



"After a troubled start to the year, successful launches and the improvement in the general climate towards the end of 2003 have enabled the Division to increase its rate of development. Market share gains continued, both in perfumes, where the Division has maintained its world number one ranking, and in cosmetics, where its positions were strengthened. Good advances were recorded in Eastern Europe (up 13.4%), in Asia (up 13.0%) – with outstanding performances in China, Thailand, Hong Kong and Malaysia – and in Western Europe, particularly Great Britain and Spain. Finally, as rapid expansion continued in Latin America (up 15.9%), growth was maintained on the American market and in travel retail, despite the unfavourable context."

Gilles Weil,
President Luxury Products

Successful new innovations from flagship brands

The Luxury Products Division develops global prestige brands sold in exclusive and selective outlets: department stores, perfumeries, travel retail outlets and the group's own boutiques. Its mission is to offer customers personalised advice and service. The Division markets effective products that incorporate the latest innovations, and whose high added value reflects the quality of L'Oréal's Research.

2003 highlights

- CACHAREL continued to rejuvenate its image with Amor Amor.
- ARMANI extended its range with Emporio Night.
- RALPH LAUREN triumphed in Europe with Polo Blue.
- BIOTHERM boosted its appeal to young consumers with Biovitamin and Acnopur, and is launching its make-up range worldwide.
- LANCÔME, the leading skincare innovator with Résolution and Lancôme Homme, launched Attraction, its new perfume.
- HELENA RUBINSTEIN launched Color Clone, its new generation foundation.
- The group acquired a majority interest in the SHU UEMURA brand.

CHALLENGES AND GROWTH STRATEGY

The second half of 2003 saw a robust return to growth, thanks to an upturn in travel retail and good performances in Spain, Great Britain and China. This favourable market trend should be confirmed in 2004 with, in particular, a far stronger American market.

Against this backdrop, the Division will focus on winning market share with a five-point strategy:

- numerous launches from flagship brands,
- innovation in the marketing of new product initiatives,
- improved emphasis on our brand profiles to enhance the complementary nature of our portfolio and to achieve greater target segmentation,
- increased efficiency of growth-driving resources through greater concentration,
- enhancement of working methods to further improve productivity.

Thanks to its strategy of innovation and internationalisation, the Division is working at the cutting edge of creation, technology and quality. This expertise enables it to optimise the lines offered, and to provide products that are constantly modified to match the needs and aspirations of each consumer. It forms the basis of the sustainable growth policy that should bring the Division new market share gains in 2004.

ACTIVITY AND DEVELOPMENTS IN 2003

Lancôme

LANCÔME, the world's number one luxury cosmetics brand, achieved like-for-like growth of 4.3%. Growth was strong in Asia, and in particular in China (up 72.5%), as well as in Eastern Europe (up 17.0%). In 2003, the brand maintained its high launch rate.

In skincare, a key event was the launch of Résolution, the first anti-wrinkle cream to reduce dermo-creases by smoothing wrinkles from within. LANCÔME also targeted the market of men's skincare, which has great growth potential. The Lancôme Homme range is an effective response, adapted to the specific characteristics of men's skin.

The Hair Sensation range is a major innovation for the brand in the haircare segment. These products combine innovative formulas with active ingredients adapted to every type of hair.



In make-up, the big success stories of the year were the lipsticks Juicy Rouge and Juicy Tubes: glossy, transparent, user-friendly, moisturising, long-lasting, gentle, seductive...

Alongside these major initiatives, LANCÔME's success on the perfumes market continued with the birth of its highly sensual fragrance, Attraction. Initial reactions to its European launch in autumn 2003 augur well for the future.



Biotherm

The BIOTHERM brand targets young consumers at the entry level to the world of luxury products. Growth was strong (7.6%), with the highest rates recorded in Eastern Europe (29.2%), Japan (26.5 %) and Asia (25.0%).

BIOTHERM has growth-driver products across the whole of its range:

- in skincare, with Age Fitness Nuit – a regenerating anti-ageing night cream – and with the Source Thérapie range which contains active thermal concentrate for perfect skin tone,
- in the treatment of problem skin, with Acnopor,
- in skincare for young consumers, with Biovitamin,
- on the men's market, with Aquapower, an ultra-moisturising thermal skincare product,
- in bodycare, with the skin smoothing gel Celluli Choc.



The new Skin Loving Colors make-up range adds new momentum to the brand's development: the quality of the textures, the dynamic packaging style and the impact of the advertising message are winning BIOTHERM new consumers and unlocking new growth opportunities.

Helena Rubinstein

The HELENA RUBINSTEIN brand made successful major launches in 2003 with particularly strong advances in its anti-ageing skin-care range:

- Collagenist Night Serum, to re-plump and firm the skin,
- Extravagant Waterproof, a mascara that adds volume and a sophisticated dimension to the lashes,
- Color Clone, a perfect complexion creator that reproduces the skin's own colour structure.

The other products in the catalogue – Stellers lipstick, Prodigy skincare cream, Spectacular mascara and Double Agent foundation – continued to make progress.

Prestige and Collections

With a growth rate of 3.2%, perfumes continued to make good progress despite the flat market trend.

Giorgio Armani

GIORGIO ARMANI again achieved strong growth (11.4%) this year, confirming its position as the number one perfumes brand in the Luxury Products Division. The launch of Sensi in Europe at the end of 2002 was followed up by its American launch in August 2003. Emporio Night is proving successful, and was the central focus of the year-end television advertising campaigns. ARMANI make-up continued to expand and the momentum of the Giorgio Armani Cosmetics make-up range remained strong in the United States and Japan.



Ralph Lauren

The men's fragrance Polo Blue confirmed its winning ways following the very favourable reactions to its launch in the United States. In Europe, it maintained its strong position, particularly in Italy and Spain. The new women's fragrance, Ralph Lauren Blue, launched in September in all American distribution channels, has been very well received.

Cacharel

The new women's fragrance Amor Amor, launched in Europe in October 2003, proved an immediate success. It was launched in the United States at the end of 2003. Core products Noa and Anaïs Anaïs complete the brand's line-up.

Guy Laroche

Promotional campaigns and outstanding brand loyalty have enabled Drakkar Noir to maintain its position in the men's perfume league tables.



Paloma Picasso

With a strong presence in Germany, Eastern Europe and Latin America, the brand is continuing to refocus on the classic fragrance Mon Parfum.

Kiehl's

KIEHL'S has been developing facial skincare, bodycare and hair-care products made and sold at KIEHL'S pharmacy in New York since 1851. Thanks to its products, using very high quality natural ingredients, and its particular marketing approach (the brand owns a large number of outlets), KIEHL'S expansion was very strong in 2003, with growth of 22.8%. There is now a KIEHL'S brand outlet in the Bon Marché department store in Paris, and a KIEHL'S boutique has been opened in London.

Shu Uemura

Three years after acquiring 35% of the Japanese company SHU UEMURA, Nihon L'Oréal K.K., the Japanese subsidiary of the L'Oréal group, increased its stake to 52.9%. This controlling interest has consolidated the Division's position in the Japanese luxury sector, and boosts the pace of the brand's development in skincare and make-up throughout the world.



2004

outlook

The Division's global presence has led to a new complexity, resulting in the adoption of a new strategic approach:

- clearly defining priorities for each brand and each business segment,
- anticipating changes in demand trends and customer expectations more effectively with innovative products,
- improving responsiveness by encouraging imagination and creativity.

The luxury products sector is emerging from a difficult economic and political climate caused by factors such as the war in Iraq, an economic crisis in Europe and the outbreak of SARS in Asia. At a time when the outlook is still uncertain, the Division will continue with the global development of its brands to win market share in each geographic zone and each business segment. By playing to its strengths – its expertise, the rich talent of its employees, its diverse product portfolio, its ability to innovate, and its commercial power – the Division will successfully meet both the qualitative and quantitative challenges. By achieving synergies and reducing manufacturing and administrative costs, the Division will generate the resources it needs for further launches, and strive for continued improvements in results.





Active Cosmetics

Vichy

La Roche-Posay

Innéov

A year of strong growth

The Active Cosmetics Department, world leader in dermo-cosmetic skincare products sold in pharmacies, achieved strong like-for-like growth of 12%, while increasing its market share and continuing its global development.



2003 highlights

- European launch of the INNÉOV brand and its first product, Innéov Firmness, in March.
- Acquisition of the La Roche-Posay thermal springs in October.
- Strong growth for the VICHY brand in facial skincare and acne treatment.
- Creation of the Advisory School (*Ecole du Conseil*) and launch of the Master Pharmacist programme in Europe.
- LA ROCHE-POSAY brand launch in Japan in February.

VICHY moves up a gear in Latin America, particularly in Brazil.

Consolidated sales by geographic zone

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Western Europe	522.4	559.4	74.7%	7.4%
North America	45.1	42.2	5.6%	6.9%
Rest of the World	127.3	147.5	19.7%	35.3%
Total	694.8	749.0	100%	11.9%

Consolidated sales by business segment

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Skincare	510.2	565.4	75.5%	15.4%
Haircare	63.3	65.9	8.8%	7.2%
Make-up	65.2	61.5	8.2%	-1.3%
Other	56.1	56.3	7.5%	-1.2%
Total	694.8	749.0	100%	11.9%

CHALLENGES AND GROWTH STRATEGY

The Active Cosmetics Department, the world leader in skincare, has maintained its growth through the global expansion of its brands in Asia, Latin America and Eastern Europe, while strengthening its market share in Western Europe. Active Cosmetics has improved its positions in facial skincare and bodycare, and in the acne, foundation and haircare markets. Its main challenge is to develop its activities in the United States and Japan. The Active Cosmetics Department's brands are supported worldwide by pharmacists' advice and dermatologists' prescriptions, which are the main driving forces for growth.



ACTIVITY AND DEVELOPMENTS IN 2003

Vichy

In 2003, VICHY's sales grew by 11%; this performance was based on three major success stories:

- the gathering pace of growth in Western Europe (up 5.5%), with strong, consistent expansion in the other geographic zones:
 - good results in Asia (up 38%), especially China (up 57%), where VICHY products are now on sale in 44 towns;
 - a powerful upward trend in Latin America (up 46%), and in particular in Brazil and Mexico;
 - strong growth in Scandinavia and in Eastern Europe (up 24%), especially in the Russian Federation.
- strong expansion in facial skincare, VICHY's core business, driven by the success of product launches in 2003:
 - Normaderm, an anti-blemish moisturising skincare product for women under 30, has put VICHY at number one in the acne sector for the first time ever;
 - Myokine, an anti-wrinkle dermo-relaxant skincare product that has ensured progress in the anti-ageing market.

In addition to the success of the latest technological innovations, VICHY's main core products, particularly Novadiol and Oligo 25, are still achieving strong growth.

- the excellent prospects for expansion in fields outside facial skincare have been confirmed, particularly in three areas:
 - bodycare, with the growing popularity of Lipidiose, a lipid replenishing product for dry skin;
 - haircare, driven by the momentum of anti-dandruff and scalp-soothing shampoos;
 - foundation, with the launch at the end of 2003 of Dermablend, a corrective make-up that fully conceals all skin blemishes for up to 16 hours; these include vitiligo, pigmentation spots, post-operative lesions, acne and rosacea.

La Roche-Posay

LA ROCHE-POSAY has developed products for daily skincare and make-up that are prescribed by dermatologists and recommended by pharmacists for all types of skin, including the most sensitive, as well as products for professional use. The products are based on an active dermatological ingredient: La Roche-Posay thermal spa water, which is naturally rich in selenium, with its soothing anti-free radical properties.

In 2003, the growth rate of 13.4% was strongly sustained by the gathering pace of the brand's globalisation and the strong expansion of its strategic business segments.

LA ROCHE-POSAY experienced double-digit growth in the main European countries (France, Italy and Spain), while 40% growth was achieved in Asia and in Latin America, with outstanding performances in Brazil.

2003 was also marked by the opening of the Japanese subsidiary with the launch of Anthelios XL, a sun protection range which was very warmly welcomed by dermatologists in Japan. The successful launch of Mela D, the first depigmentation skincare product for women over 50, which corrects blemishes and promotes even skin pigmentation, together with the continuing growth of core products such as Active C, Hydraphase, Effaclar and Lipikar, contributed to the strong overall growth achieved in skincare (up 16%).

In make-up, the success of Unifiance optical smoothing foundation and Respectissime Densifieur mascara raised the profile of LA ROCHE-POSAY as the pharmaceutical make-up line that combines a high safety level with attractive colours.

LA ROCHE-POSAY has also secured its supplies of thermal spa water by acquiring the water's springs and a licence to exploit them (not including hotel and spa resort activities). This acquisition guarantees us uninterrupted availability of La Roche-Posay thermal spa water, and gives us the opportunity to put greater emphasis on the water's unique benefits in our corporate communications.

Innéov, a new business segment: nutricosmetics

The Laboratoires Innéov is a joint venture in nutritional cosmetics between L'Oréal and Nestlé; they draw on L'Oréal's cosmetics and dermatology expertise, combined with Nestlé's know-how in the fields of nutrition and food safety.

In 2003, the Laboratoires Innéov launched Innéov Firmness, their first product, in pharmacies in nine European countries. This launch is a major innovation in nutricosmetics. Innéov Firmness is the first nutritional supplement skin redensifier with Lacto-Lycopene™, a substance which nourishes and restores body to the deep layers of the skin. The product has been specially developed for women aged over 40 who are concerned about reduced skin tone. Its effectiveness has been proven in a clinical trial versus placebo, based on results after 3 and 6 months.

Innéov Firmness has rapidly conquered this completely new market. It became the leader in the anti-ageing nutritional cosmetics sector within a month of its launch.

The success of Innéov Firmness can be put down to the exceptionally high level of coverage in the beauty sections of women's magazines, the product's high visibility in the dermo-cosmetics sections of pharmacies, and the active recommendation of pharmacists and dermatological advisors, achieved through a vast training campaign.

Innéov Firmness has won the confidence of its clientele. A very high percentage of women plans to continue purchasing it, particularly because of the product's perceived effectiveness.



A new daily routine has been added to women's beauty care rituals: the nutritional cosmetics market is additional to the topical cosmetics market. A survey of over a thousand users in Europe shows that they are also large consumers of topical beauty products: almost all of them use a facial skincare and bodycare product every day.

Innovation, proven effectiveness and product safety will be the main selling points as the Laboratoires Innéov sets about winning over new consumers.

In 2004, INNÉOV will extend its product portfolio and continue its globalisation.

2004 outlook

Expansion in growth-driver countries and the recent putting down of roots in the United States and Japan will ensure strong growth for the Active Cosmetics Department. The launch of technologically advanced products will further improve its positions in skincare, haircare and make-up. The global expansion of the INNÉOV brand will be continued. The modernisation of the pharmaceutical channel and the development of global dermatology will continue, supporting the growth of Active Cosmetics brands and strengthening their identity.

GALDERMA

A byword for dermatological excellence

Galderma, the L'Oréal/Nestlé joint venture in dermatology, makes available to dermatologists worldwide the products they require to meet their patients' needs.

Galderma, in a somewhat sluggish market, once again produced a very good result in 2003, with sales of € 613 million, reflecting like-for-like growth of 10.5% compared with 2002. Differin®, Galderma's principal product in terms of sales revenue, remained the number one treatment for mild to moderate acne, with double-digit growth, eight years after its launch. Loceryl®, used to treat fungal nail infection, also achieved another year of strong growth.

Three major launches took place in 2003. Solagé®, a topical treatment for hyperpigmentation caused by exposure to the sun, was introduced in the United States and Canada. Metvix®, a new non-surgical treatment for skin cancer exploiting the principles of photodynamic therapy, was launched in Germany and the U.K. Lastly, Clobex Lotion®, a new and original formulation of clobetasol, an extremely powerful corticosteroid used in inflammatory skin disorders such as psoriasis, was launched in the United States in September.

These good results, the roll-out of an increasingly extensive product portfolio, and the largest dermatological research and development programme in the world, confirm Galderma's determination to remain in the front line in meeting the needs of dermatologists.



Metvix®, a new non-surgical treatment for skin cancer.

Sales by geographic zone⁽¹⁾

€ millions	2002	2003	% of 2003 sales	Like-for-like growth 2003/02
Western Europe	133.7	139.6	22.8%	5.6%
North America	427.7	395.4	64.5%	10.9%
Rest of the World	80.9	78.1	12.7%	17.8%
Total	642.2	613.0	100%	10.5%

(1) 100% of Galderma's sales.

2004

outlook

In 2004, the roll-out of Metvix® will continue in Europe, Latin America and Australia. The U.S. launch is planned on completion of the registration procedure currently being carried out. Galderma is thus continuing to extend the scope of its activities to include applications and procedures in the dermatologist's surgery, a new market that is expanding vigorously as the traditional market becomes less dynamic.

Strong, sustainable and profitable growth

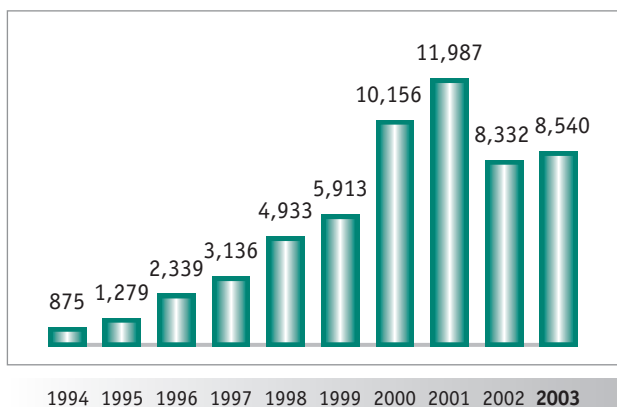


Cardiovascular/thrombosis: histological studies of angiogenesis using confocal microscope.

Sanofi-Synthélabo, the 2nd largest pharmaceutical group in France, is one of the top 20 international pharmaceutical companies. L'Oréal and Total, who control Sanofi-Synthélabo under a shareholders' agreement which is binding until December 1st 2004, have notified the *Autorité des Marchés Financiers* that they do not intend to renew the agreement beyond that date.

L'Oréal interest in Synthélabo and subsequently in Sanofi-Synthélabo

(€ millions – share price at the end of December)



ACTIVITY AND DEVELOPMENTS IN 2003

In 2003, operating in more than 100 countries, Sanofi-Synthélabo achieved consolidated sales of €8,048 million, representing growth of 15.6% like-for-like⁽¹⁾ and 8.1% based on published figures. In Europe, sales grew by 10.4% like-for-like⁽¹⁾ to €4,693 million; in the United States they grew by 32.9% like-for-like⁽¹⁾ to €1,912 million. Sales in the rest of the world reached €1,443 million, representing like-for-like growth of 13.1%⁽¹⁾.

Net income⁽²⁾ amounted to €2,069 million, representing 25.7% of consolidated sales. Net earnings per share (EPS)⁽²⁾ were €2.94, an increase of 21.5% compared with 2002.

In 2003, the dynamic growth of sales across all the geographic zones stemmed from the excellent performance of the group's core products in their markets: Plavix® (€1,325 million, up 37.4% like-for-like⁽¹⁾), Stilnox®/Ambien®/Myslee®

Central nervous system:
pharmacological test
of eating disorders.



(€ 1,345 million, up 10.4% like-for-like⁽¹⁾), Aprovel®/Avapro®/Karvea® (€ 683 million, up 24.4% like-for-like⁽¹⁾) and Eloxatin® (€ 824 million, up 125.8% like-for-like⁽¹⁾).

The group's top ten products, which account for 67.3% of sales, grew by 26.9% like-for-like⁽¹⁾ and by 18.5% based on published figures.

The combined sales of Sanofi-Synthélabo products worldwide, which include the consolidated sales of Sanofi-Synthélabo, plus those of Plavix®/Iscover® and Aprovel®/Avapro®/Karvea® under agreements with Bristol-Myers Squibb, Stilnox®/Myslee® with Japan's Fujisawa, and Arixtra® with Organon, amounted to

€ 10,560 million, a 20.4% like-for-like⁽¹⁾ increase.

At December 31st 2003, Sanofi-Synthélabo had a portfolio of 56 compounds under development, including 25 in advanced clinical trials (phases II and III) in 4 therapeutic fields: cardiovascular/thrombosis, the central nervous system, oncology and internal medicine.

In the course of 2003:

- significant results were presented to the American Society of Clinical Oncology (ASCO) concerning Eloxatin® in the adjuvant treatment of colorectal cancer, the third most frequent cancer worldwide. These results establish the position of Eloxatin® as the treatment of choice for this form of cancer at all stages of the disease,
- Uroxatral®, indicated for the relief of the discomfort and symptoms of benign prostate hypertrophy, was registered and launched in the United States,
- a new indication was obtained in Europe and the United States for Arixtra® in the prolonged prevention of deep vein

thrombosis for patients undergoing hip fracture surgery. In addition, the favourable results produced by Arixtra® were presented to the 19th conference of the International Society of Thrombosis and Haemostasis (ISTH). They show a significant reduction in the risk of deep vein thrombosis in medical patients (Artemis trial) and noteworthy effectiveness in preventing deep vein thrombosis following major abdominal surgery,

- in the United States, in a legal dispute with two generic drug companies, Sanofi-Synthélabo and its American partner Bristol-Myers Squibb continued to defend the patents protecting Plavix® with vigour and confidence. The decision of the U.S. court is expected during the second half of 2004.

(1) On a constant structure and exchange rate basis.
(2) Before exceptional items and goodwill amortisation.

2004

outlook

Dynamic sales growth will continue in 2004 thanks to the success of the core products and the availability of clinical trial results for products and innovative compounds under development.

Positive results in the Match trial should confirm the position of Plavix® as the product of choice to prevent atherothrombotic events, particularly of a neurological nature. The results showing the effectiveness of rimonabant should establish its essential role in medical strategies to combat obesity and tobacco dependence. An application for the registration of rimonabant is scheduled for early 2005.

On January 26th 2004 Sanofi-Synthélabo announced a share and cash offer on Aventis's shares. Completion of the transaction would create the no.1 pharmaceutical group in Europe, no.3 in the world and a direct presence in all major world markets.

Corporate governance in 2003

At the end of 2003, Gesparal held a controlling interest of 53.85% in L'Oréal. Naturally, eight L'Oréal Board members also held seats on the Board of this holding company. All the Board members are however conscious of their duty to represent the interest of all the shareholders. The Board of Directors of L'Oréal takes its decisions on a collective basis, in accordance with legal requirements and ethical principles, while also giving Review Committees the task of carrying out preparatory work.

In 2003, the Board of Directors met six times, with an average attendance of 85%. Board members are aware of the individual duties required by their functions and of their collective mission, and ensure that they implement efficient and transparent procedures that guarantee responsible corporate governance.

In 2003 the Board adopted Internal Rules, which are published in the Reference Document.

In accordance with the requirements of the French Financial Security Act (*Loi de Sécurité Financière*), the Chairman of the Board draws up a Report on the manner in which the Board's work is prepared and organised. The present text sets out the *modus operandi* of the Board, as observed by the Chairman.

Actively involved, experienced and complementary Board members

The Board members have a range of complementary experience and put their expertise at the service of the Board; they are required to act with due care and attention, and have complete freedom of judgement. The Board member must devote the necessary time and attention to carrying out the duties relating to his position. Each Board member undertakes to attend meetings as regularly as possible. In 2003, the method of allocating directors' fees was modified, and the fee now includes a sum related to actual attendance at meetings.

Increasingly well informed Board members

The Chairman has required that Board members have access to appropriate documents and information. The aim is to provide them in a timely manner with a coherent set of relevant information, which is necessary and sufficient to enable them

to carry out their appointed task, to facilitate their assessment of the group's operations and financial situation, and to prepare for the Board's discussions and decision-making.

Organisation of meetings

In 2003 the Board reviewed the 2002 financial statements at the end of February 2003 and closed them at the end of March 2003. Following a proposal by the Management Committee and in agreement with the Statutory Auditors, it was decided to bring forward the publication date of the certified results, with the 2003 financial statements being reviewed and closed in a single meeting at the end of February 2004.

The Board also held a strategy meeting, at which the Management Committee commented on the situation and the plans of the group, and during which the Board expressed its approval of the main strategic development priorities of the company, whose steady economic growth has again been confirmed.

The Board drew attention to the fact that the strategy is long-term, as envisaged in the Internal Rules of the Board:

"In addition to the Board's legal and regulatory powers, particularly as regards strategic orientations and control of the correct running of the company, any transactions that could have a material impact on the scope of consolidation of the company, and particularly transactions amounting to more than € 50,000,000, and all new operations outside the scope of the company's normal activities, are submitted to the Board."

The Board invited senior managers to some of its meetings for presentations on important issues such as acquisitions in Japan and China. The Board found the presentations valuable and wishes to continue them in the future.

Review of the Board's *modus operandi*

In December the Board reviewed its *modus operandi*, as it has done every year since 1996, by arranging individual interviews between the Secretary and each Board member.

The interviews were conducted with reference to the regulations and recommendations in force. The main comments and proposals made during the interviews, led to the general conclusion that the Board is well balanced, with clear complementarity between the Board members. The dialogue is open and the discussions are constructive. Each Board member has been kept fully informed, and has been able to express individual views freely and to make proposals to change important aspects both of his own work and of the work of his Review Committees.

The Board's Review Committees

The Board acknowledged the high quality of the work of its Committees, whose missions are set out in the Internal Rules. The Review Committees must report regularly on their meetings to the Board, and thus further facilitate plenary session discussions.

The Audit Committee: it held in complete independence four meetings in 2003, in the presence of its three members. In accordance with the wishes of the Board, the Audit Committee has taken on a wider brief, to enable a more thorough subsequent discussion, particularly as regards the financial statements, and thus to ensure greater security.

The Committee received the new L'Oréal Insider Trading Rules as revised by the Management Committee, and approved them prior to their publication within the company. The Committee also reviewed a draft of the Internal Rules of the Board of Directors, which, following discussion, was approved by a plenary meeting of the Board.

The specific character of the internal audit: the French Financial Security Act (*Loi de Sécurité Financière*) of August 1st 2003 requires the Chairman of the Board to draw up a Report on internal auditing procedures. This Report is attached to the Management Report of the Board of Directors.

The Audit Committee was informed of the content of the new texts, and was given the independent opportunity of hearing the Direction of Internal Audit, in the presence of the Statutory Auditors. It was thus able to acquaint itself with the current situation of the internal audit and of risk management, and the ways in which standards and procedures are applied, particularly in financial, accounting and management information.

The Committee noted the importance of information and auditing systems that are in place, and which are constantly being upgraded. The Board was then informed of the

Committee's conclusions and of the main lines of the Chairman's Report, which was submitted to the Board in its final form when the financial statements were closed.

The Management and Remuneration Committee: it held in complete independence three meetings in 2003, in the presence of its three members. The Committee may meet at any time it deems appropriate, for example to evaluate the performance of the group's senior management.

The Committee reviewed the conditions governing the fixing of the remuneration of corporate officers and reported on them to the Board. It then made proposals to the Board, which decided on levels of remuneration for 2003. The Board's decisions are presented and explained in the Reference Document.

The Committee is also responsible for proposing the attribution of stock options, in accordance with the authorisations given by the shareholders at the Annual General Meeting, and for reviewing the composition of the Board with a view to recommending possible changes.

The Chairman and Chief Executive Officer

The Board of Directors is presided over by a Chairman and Chief Executive Officer, who is appointed by the Board. In 2002, when Mr Lindsay Owen-Jones's position as a L'Oréal Board member was renewed, the Board – in view of the existence at the head of the group of a Management Committee made up of Vice-Presidents in charge of clearly defined businesses, and with well-balanced responsibilities – decided not to separate the functions of Chairman of the Board and Chief Executive Officer. The Management Committee team constituted around the Chairman and Chief Executive Officer discusses issues relating to the operational development of the group's businesses.

A new agreement between the majority shareholders

In February 2004, Gesparal and L'Oréal announced a new agreement between the majority shareholders, and a proposal for the absorption of Gesparal by L'Oréal, with Madame Bettencourt remaining the largest shareholder of L'Oréal. The agreement includes the merger and absorption of Gesparal by L'Oréal, the elimination of double voting rights, the continuation of the respective positions of the Bettencourt family and Nestlé in L'Oréal capital, and a further development of L'Oréal's corporate governance.

Thus, the Board of Directors of L'Oréal will be asked to create a "Committee for Strategy and Implementation" made up of six members: the Chairman and Chief Executive Officer of L'Oréal, who will chair the Committee, two members of the Board representing the Bettencourt family, two members of the Board representing Nestlé, and one independent Board member.

The Board of Directors

Lindsay Owen-Jones

Age: 57. British.
 Joined L'Oréal in 1969.
 During his international career with the group, he was Chief Executive of L'Oréal in Italy from 1978 to 1981, and President of L'Oréal USA from 1981 to 1984. He was appointed Deputy Chairman and Chief Executive Officer in 1984, and **Chairman and Chief Executive Officer** in 1988.
 L'Oréal Board Member since 1984 (term of office renewed in 2002).
 Director of Gesparal, the controlling holding company.
 Board Member of BNP Paribas and Sanofi-Synthélabo.
 Member of the Supervisory Board of Air Liquide.
L'Oréal senior manager, holds at least 1,000 L'Oréal shares.

Jean-Pierre Meyers⁽⁴⁾

Age: 55.
 L'Oréal Board Member since 1987 (term of office renewed in 2001).
Vice-Chairman of the Board.
 Director of Gesparal, the controlling holding company.
 Nestlé S.A. (Switzerland) Board Member.
Holds at least 1,000 L'Oréal shares.

Liliane Bettencourt⁽¹⁾

Age: over 70.
 Daughter of Eugène Schueller, who founded L'Oréal in 1907.
 L'Oréal Board Member since 1995 (term of office renewed in 2003).
 Vice-Chairman of the Board of Gesparal, in which she holds the controlling interest.
Holds at least 1,000 L'Oréal shares.

Françoise Bettencourt Meyers

Age: 50.
 Daughter of Mrs Bettencourt.
 L'Oréal Board Member since 1997 (term of office renewed in 2001).
 Director of Gesparal, the controlling holding company.
Holds at least 1,000 L'Oréal shares.

Peter Brabeck-Letmathe

Age: 59. Austrian.
 With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Officer of Nestlé S.A. (Switzerland) in 1997 and Vice-Chairman of the Board in 2001.
 L'Oréal Board Member since 1997 (term of office renewed in 2001).
 Director of Gesparal, the controlling holding company.
 Vice-Chairman of the Board of Crédit Suisse Group and Winterthur (Switzerland).
 Roche Holding Board Member.
Holds at least 1,000 L'Oréal shares.

Francisco Castañer Basco⁽⁴⁾

Age: 59. Spanish.
 With the Nestlé group since 1964, appointed General Manager in 1997.
 L'Oréal Board Member since 1998 (term of office renewed in 2002).
 Director of Gesparal, the controlling holding company.
 Board Member of Alcon (Switzerland).
Holds at least 1,000 L'Oréal shares.

François Dalle

Age: 85.
 With L'Oréal from 1942 to 1984, Group Executive Vice-President in 1948, Chairman and Chief Executive Officer from 1957 to 1984.
 Board Member of Nestlé S.A. (Switzerland) from 1974 to 1989, and Vice-Chairman from 1986 to 1989.
 L'Oréal Board Member since 1950 (term of office renewed in 2001).
 Vice-Chairman of the Board of Gesparal, the controlling holding company.
 Honorary Chairman of *l'Institut de l'Entreprise*.
 Honorary Chairman of *l'Association Entreprise et Progrès*.
 Chairman of the periodical *Humanisme et Entreprise*.
Former L'Oréal senior manager more than 5 years ago, holds at least 1,000 L'Oréal shares.

Jean-Louis Dumas⁽²⁾

Age: 65.
 Joined Hermès in 1964, Chief Executive Officer in 1971.
 Chairman of Hermès group since 1978.
 President of Holding Hermès International since 1990.
 L'Oréal Board Member since 2002.
 Board Member of PSA Peugeot Citroën.
 President of the Comité Colbert from 1988 to 1991.
Independent director,
holds at least 1,000 L'Oréal shares.

Xavier Fontanet⁽³⁾

Age: 55.
 Appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995.
 Chairman and Chief Executive Officer since 1996.
 L'Oréal Board Member since 2002.
 Board Member of Beneteau and Crédit Agricole S.A.
Independent director,
holds at least 1,000 L'Oréal shares.

Rainer E. Gut⁽²⁾

Age: 71. Swiss.
 Began his banking career in England and in the United States.
 Joined Crédit Suisse in 1971, Chairman of the Board of Crédit Suisse Group from 1983 to 2000.
 Honorary Chairman thereafter.
 Chairman of the Board of Nestlé S.A. (Switzerland).
 L'Oréal Board Member since 2000.
 Vice-Chairman of the Board of Gesparal, the controlling holding company.
Holds at least 1,000 L'Oréal shares.

Marc Ladreit de Lacharrière

Age: 63.
 With L'Oréal from 1976 to 1991, formerly Vice-President in charge of Administration and Finance, Group Executive Vice-President from 1984 to 1991.
 Chairman of Fimalac.
 Chairman of Fitch, Inc.
 L'Oréal Board Member since 1984 (term of office renewed in 2002).
 Board Member of Renault and Casino.
Former L'Oréal senior manager more than 5 years ago, holds at least 1,000 L'Oréal shares.

Olivier Lecerf

Age: 74.
 Joined Lafarge in 1956, Chairman and Chief Executive Officer from 1974 to 1989, Honorary Chairman thereafter.
 L'Oréal Board Member since 1990 (term of office renewed in 2002).
Independent director,
holds at least 1,000 L'Oréal shares.

Franck Riboud

Age: 48.
 Joined BSN in 1980. Chairman and Chief Executive Officer of Danone group since 1996.
 L'Oréal Board Member since 2002.
 Board Member of Renault.
 Member of the Supervisory Board of Accor and Eurazeo (France).
 Board Member of Quiksilver (United States) and ONA (Morocco).
Independent director,
holds at least 1,000 L'Oréal shares.

Edouard de Royère

Age: 71.
 Joined Air Liquide in 1966, Executive Vice-President in 1979, Chairman and Chief Executive Officer from 1985 to 1995, Honorary Chairman thereafter.
 L'Oréal Board Member since 1995, chose not have his term of office renewed in May 2003.
 Board Member of Danone and Sodexho.
 Member of the Supervisory Board of Air Liquide and Michelin.
 Chairman of ANSA (National Association of Joint-Stock Companies).
Independent director,
held at least 1,000 L'Oréal shares.

- The statutory length of a Board Member's term of office is currently 4 years.
 - Directorships of group subsidiaries are not included.
 - A full presentation of the directors, in accordance with legal requirements, is included in the Management Report of the Board of Directors.

(1) Chairman of the "Management and Remuneration Committee".

(2) Member of the "Management and Remuneration Committee".

(3) Chairman of the Audit Committee.

(4) Member of the Audit Committee.

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FINANCIAL INFORMATION CALENDAR FOR 2004

Key dates

Financial events

January 21 st	2003 sales release
February 20 th	Release of the 2003 results closed by the Board of Directors and audited by the Statutory Auditors and annual financial information meeting
April 8 th	First quarter 2004 sales release
April 29 th	General Meeting of shareholders at the <i>Carrousel du Louvre</i> (Paris - France)
July 8 th	First half 2004 sales release
August 31 st	First half 2004 results release
October 20 th	First nine months 2004 sales release

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Consolidated Financial Statements 2003

ANNUAL REPORT 2003

L'ORÉAL

Consolidated financial statements 2003

The consolidated financial statements as presented below were closed by the Board of Directors on February 19th 2004, and were announced in a news release on February 20th 2004.

These financial statements will be submitted to the shareholders for approval at the Annual General Meeting on April 29th 2004, in accordance with article L. 225-100 of the French Commercial Code.

The Board of Directors

The L'Oréal Annual Report comprises three separate documents:

- a general brochure;
- the consolidated financial statements;
- the Management Report of the Board of Directors, the L'Oréal parent company financial statements plus additional information for the Reference Document as required by law, available prior to the Annual General Meeting convened for Thursday, April 29th 2004.

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Compared consolidated balance sheets

€ millions

	12.31.2003	12.31.2002	12.31.2001
Assets (net values)			
Fixed assets	8,136.4	8,130.4	8,140.3
Uncalled subscribed capital			0.1
Goodwill (note 4)	844.0	778.3	686.5
Intangible assets (note 5)	3,761.7	4,011.4	4,127.3
Tangible assets (note 6)	1,843.9	1,747.1	1,761.3
Financial assets	161.1	154.9	172.2
Investments in non-consolidated companies (note 7)	3.4	4.8	12.9
Long-term loans and other debtors	77.5	69.7	78.8
Deposits and bonds	80.2	80.4	80.5
Investments in equity affiliates (note 8)	1,525.7	1,438.7	1,392.9
Current assets	6,875.7	6,842.3	6,723.5
Inventories (note 9)	1,093.3	1,146.1	1,177.4
Prepayments to suppliers	64.5	63.9	68.9
Trade accounts receivable (note 10)	2,006.8	1,991.5	2,191.8
Other receivables and prepaid expenses (note 11)	1,408.4	1,424.7	1,331.2
Marketable securities (note 12)	1,748.6	1,671.7	1,409.3
Cash and cash equivalents	554.1	544.4	544.9
Unrealised exchange losses			8.4
TOTAL ASSETS	15,012.1	14,972.7	14,872.2

€ millions

	12.31.2003	12.31.2002	12.31.2001
Liabilities			
Shareholders' equity <i>(note 13)</i>	8,124.3	7,421.8	7,199.1
Capital stock	135.2	135.2	135.2
Additional paid-in capital	953.4	953.4	953.4
Retained earnings	5,544.2	5,055.8	4,819.8
Net income	1,491.5	1,277.4	1,290.7
Minority interests <i>(note 14)</i>	11.9	11.9	10.7
Provisions for liabilities and charges <i>(note 15)</i>	1,439.3	1,512.7	1,546.5
Borrowings and debts <i>(note 16)</i>	1,941.2	2,646.1	2,938.9
Current liabilities	3,495.4	3,380.2	3,170.4
Customers' deposit and advances	0.4	0.7	2.4
Trade accounts payable	2,078.0	2,006.7	1,847.1
Other liabilities	1,417.0	1,372.8	1,320.9
Unrealised exchange gains			6.6
TOTAL LIABILITIES	15,012.1	14,972.7	14,872.2

Compared consolidated profit and loss accounts

€ millions

	12.31.2003	12.31.2002	12.31.2001
Net sales (note 19)	14,029.1	14,288.0	13,740.4
Purchases and variation in inventories	-2,519.2	-2,519.0	-2,566.4
Personnel costs (note 20)	-2,703.8	-2,757.0	-2,624.3
External charges	-6,362.0	-6,521.2	-6,279.3
Taxes and similar payments	-203.8	-211.6	-182.7
Depreciation	-450.6	-449.7	-431.8
Charges to provisions (note 22)	29.7	-51.2	-29.9
Operating profit	1,819.4	1,778.3	1,626.0
Exchange gains and losses	144.4	62.3	43.0
Adjusted operating profit	1,963.8	1,840.6	1,669.0
Financial expense – net (note 23)	-93.9	-142.2	-167.3
Pre-tax profit of consolidated companies	1,869.9	1,698.4	1,501.7
Income tax (note 24)	-628.7	-579.8	-535.9
Net operational profit of consolidated companies	1,241.2	1,118.6	965.8
Share in net operational profit of equity affiliates (note 25)	419.8	345.2	269.8
Net operational profit	1,661.0	1,463.8	1,235.6
Charges to provisions for depreciation of treasury stocks – net of tax	-88.9	-80.3	
Capital gains and losses on disposals of assets – net of tax	-8.9	-16.6	130.7
Restructuring costs – net of tax (note 27)	-14.6	-31.5	-28.3
Amortisation of goodwill (note 28)	-49.5	-50.3	-40.7
Net income before minority interests	1,499.2	1,285.1	1,297.3
Minority interests	-7.7	-7.7	-6.6
Net income after minority interests	1,491.5	1,277.4	1,290.7
Average number of shares outstanding	676,021,722	675,990,516	676,062,160
Net income after minority interests per share (in euros)	2.21	1.89	1.91
Net operational profit after minority interests	1,653.3	1,456.2	1,229.1
E.P.S.: Net operational profit after minority interests per share (in euros) (note 29)	2.45	2.15	1.82

Consolidated statement of changes in shareholders' equity

€ millions

	Common shares outstanding	Capital stock	Additional paid-in capital	Translation differences ⁽³⁾	Retained earnings	Changes in accounting methods	Treasury shares owned by consolidated companies ⁽⁴⁾	Total
At 12.31.2000	676,062,160	135.2	953.4	-250.8	5,580.7	-249.9⁽¹⁾		6,168.6
Dividends paid (not paid on treasury shares)					-317.6			-317.6
Translation differences				21.9				21.9
Other movements ⁽²⁾					35.5			35.5
2001 consolidated net income (after minority interests)					1,290.7			1,290.7
At 12.31.2001	676,062,160	135.2	953.4	-228.9	6,589.3	-249.9		7,199.1
Dividends paid (not paid on treasury shares)					-391.7			-391.7
Translation differences				-565.6				-565.6
Net changes in treasury shares owned by consolidated companies	-1,640,000						-116.1	-116.1
Other movements ⁽²⁾					18.7			18.7
2002 consolidated net income (after minority interests)					1,277.4			1,277.4
At 12.31.2002	674,422,160	135.2	953.4	-794.5	7,493.7	-249.9	-116.1	7,421.8
Dividends paid (not paid on treasury shares)					-460.0			-460.0
Translation differences				-448.8				-448.8
Net changes in treasury shares owned by consolidated companies	1,640,000				2.2		116.1	118.3
Other movements ⁽²⁾					1.5			1.5
2003 consolidated net income (after minority interests)					1,491.5			1,491.5
At 12.31.2003	676,062,160	135.2	953.4	-1,243.3	8,528.9	-249.9	-	8,124.3

(1) The figure of €-249.9 million corresponds to the following amounts:

- €171.9 million reflecting the application of regulation CRC 99-02 in 2000, and in particular the booking of deferred tax using a comprehensive method and the capitalisation of material financial lease contracts;
- €-421.8 million reflecting the adoption in 2001 of the preferential method for the booking of employee retirement obligations.

(2) The other movements figure mainly relates to adjustments generated by the Sanofi-Synthelabo merger.

(3) The figure of €-1,243.3 million at December 31st 2003 includes €-63.5 million of translation differences resulting from subsidiaries located in the euro area.

(4) This item relates to shares bought back in the context of the L'Oréal share buyback programme (see note 12).

Compared consolidated statements of cash flows

€ millions

	12.31.2003	12.31.2002	12.31.2001
Cash flow from operating activities			
Profit of consolidated companies	1,077.7	939.9	986.6
Elimination of expenses and income with no impact on cash flow:			
• depreciation and charges to provisions	615.2	721.2	556.4
• changes in deferred taxes	-16.3	-94.9	-19.5
• losses or gains on disposals of assets of consolidated companies	7.8	15.4	-104.2
• other non-cash movements	-2.9	-2.5	-1.5
Gross cash flow of consolidated companies	1,681.5	1,579.1	1,417.7
• dividends received from equity affiliates	120.1	94.4	62.9
• cash used for working capital (note 30)	-21.6	162.8	139.2
Net cash provided by operating activities (A)	1,780.0	1,836.3	1,619.9
Cash flows from investing activities			
• investments in fixed assets	-557.9	-539.1	-564.7
• changes in other financial assets (note 31)	-13.1	-476.3	-323.0
• disposals of fixed assets	19.0	26.8	-16.7
• effect of changes in the scope of consolidation (note 32)	-36.9	-202.6	151.6
Net cash used by investing activities (B)	-588.9	-1,191.2	-752.8
Cash flows from financial activities			
• dividends paid	-487.5	-427.0	-345.4
• changes in financial debt	-552.3	-242.2	-393.7
Net cash used by financing activities (C)	-1,039.8	-669.2	-739.1
Net effect of exchange rates changes (D)	-25.3	-40.7	-3.3
Change in cash and cash equivalent (A+B+C+D)	126.0	-64.8	124.7
Cash and cash equivalents at beginning of year (E)	529.3	594.1	469.4
Cash and cash equivalent at end of year (A+B+C+D+E) (note 33)	655.3	529.3	594.1

The following notes form an integral part of the consolidated financial statements.

• NOTE 1 - ACCOUNTING PRINCIPLES

The financial statements are presented in millions of euros.

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") have been prepared since January 1st 2000 in accordance with "the new accounting rules and methods for the consolidated financial statements", approved by the decree dated June 22nd 1999 homologating Regulation CRC 99-02.

a) Changes in accounting principles and comparability of financial statements

1) 2002

Since January 1st 2002, the L'Oréal group has applied Regulation CRC 00.06 on liabilities. The application of this regulation has no material effect on shareholders' equity at the beginning of the year.

Since January 1st 2002, the group has also chosen to adopt the preferential method stipulated in Regulation CRC 99-02 concerning the recording in the profit and loss account of unrealised exchange gains and losses. The adoption of the preferential method has no material impact on the results of the financial years presented, or on shareholders' equity at the beginning of the year.

2) 2001

From January 1st 2001 onwards, the group has opted for the preferential method stipulated in Regulation CRC 99-02 concerning the recording on the balance sheet of all the liabilities generated by employee retirement obligation and related benefits. Previously, the obligations net of assets were recorded as provisions for charges or debts, or were presented as off-balance sheet commitments.

This change has resulted in:

- an increase in provisions for liabilities and charges of €664.2 million for year ending December 31st 2000,
- an increase in deferred tax assets of €242.4 million for year ending December 31st 2000,
- a reduction in shareholders' equity of €421.8 million for year ending December 31st 2000.

b) Scope and method of consolidation

All companies included in the scope of consolidation have a fiscal year ending December 31st or close their accounts on that date.

All companies directly or indirectly controlled by the parent company L'Oréal have been consolidated by the full consolidation method, redeeming minority shareholders' interests via the partial revaluation method.

Group companies that are jointly controlled by the parent company and a limited number of other shareholders under a contractual agreement have been consolidated by the proportional consolidation method.

Equity affiliates over which the group has a significant influence have been accounted for by the equity method.

c) Foreign currency translation

1) Accounting for foreign currency transactions in consolidated companies

Foreign currency transactions are translated at the rate effective at the transaction date. Exchange gains or losses arising from the variance in exchange rates between the date of the transaction and the date of payment or receipt are recorded in the profit and loss account, net of related hedging instruments.

Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at closing date. Unrealised exchange gains and losses generated by this revaluation as well as the revaluation of the related financial instruments impact the profit and loss account.

The group may decide to cover certain investments in foreign companies by contracting debts in the same currency. Exchange gains or losses relating to these debts are charged to consolidated shareholders' equity.

2) Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Profit and loss accounts are translated at average exchange rates for the year.

Translation differences are recorded as follows:

- differences relating to the group's share are recorded in shareholders' equity under *Translation differences*,
- differences relating to minorities are recorded under *Minority interests*.

d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the assets and liabilities identified, net of deferred tax if needed, at the date of acquisition.

Additional acquisitions of shares do not generate any modification of the fair value of the assets and liabilities identified, as determined at the date of acquisition and for the part already consolidated.

Goodwill is amortised using the straight-line method over a maximum period of twenty years, taking into account the objectives set and the forecasts made at the time of the acquisition.

Exceptional amortisation is recorded if any unfavourable changes occur in the items used as the basis for the amortisation plan.

e) Intangible assets

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition are also included in this item. They mainly consist of trademarks, market shares and business goodwill, which are recorded on the balance sheet using the partial revaluation method.

The value of the newly-acquired brands is calculated based on various factors including their reputation and their potential contribution to profits.

When the group acquires assets or shares of consolidated companies, the portion of the purchase price paid to obtain or strengthen the group's position in certain markets is presented under the item *Market shares*. Market shares are valued on the date of acquisition by reference to economic data relating to sales and profitability indicators.

The *Business goodwill* item consists of business value acquired and allocations of some fair value adjustments made prior to January 1st 2000.

The depreciation periods of intangible assets are as follows:

Start-up costs	1 – 5 years
Trademarks, market shares and business goodwill	not depreciated
Other intangible assets	2 – 8 years

The group ensures that the intangible assets recorded in the consolidated balance sheet have a net book value below their utility or market value. Brands and market shares are valued annually by applying the same criteria used at the date of acquisition.

In the case of business value, the main criteria considered are the evolution of net sales and profitability.

If a durable reduction in these values occurs, a depreciation is recorded.

f) Tangible assets

Tangible assets are recorded on the balance sheet at purchase price. Tangible assets identified following an acquisition are recorded on the balance sheet using the partial revaluation method.

The depreciation periods of tangible assets are as follows:

Buildings	20 – 50 years
Industrial machinery and materials	5 – 10 years
Other tangible assets	3 – 10 years

Depreciation calculated and booked using straight-line and declining balance methods is considered as an economic depreciation.

Significant capital assets financed through capital leases are recorded as assets on the balance sheet under *Tangible assets* and are amortised by the straight-line method using the periods indicated above. The corresponding debt is recorded under liabilities.

g) Investments in non-consolidated companies

Investments in non-consolidated companies are stated at their acquisition cost. A provision is made for any reduction in fair value, determined on the basis of the financial criteria most appropriate to the specific situation of each company. The criteria usually adopted are: the group's net assets, profitability and share price.

h) Inventories

Inventories are valued using the average method or the "first in, first out" method.

A provision is made for obsolete and slow-moving inventories on the basis of actual and forecasted sales.

i) Trade accounts receivable

Accounts receivables from customers are recorded at their nominal value.

A provision is made for any uncertain debts based on an assessment of the risk of non-recovery.

j) Other receivables and prepaid expenses

This item consists both of charges recorded but which relate to subsequent accounting periods, and of charges recorded in this accounting period but which may be deferred to several subsequent accounting periods.

The item includes point of sales advertising material and sales counters, whose costs may be spread over a maximum period of use of 5 years.

k) Marketable securities

These investments are valued at cost. A provision is made where the year-end market value is below the acquisition cost.

l) Treasury shares - Share option schemes - Share buyback programme

Treasury shares owned by the group which are specifically allocated to employee share option schemes are presented under *Marketable securities*.

Stock options are intended to involve, motivate and strengthen the loyalty of employees who make the largest contribution to the group's performance through their skills and commitment.

In the case of share option schemes prior to 2000, a provision for depreciation has been made to cover the difference between the acquisition price of the shares and the price at which the options are exercised by the beneficiaries. Since January 1st 2000, no discount has been granted on the option allocation price. Provided that the shares are purchased at a lower price than the attribution price, no provision for depreciation is required. However, a provision is made in the event of any decline in the market price; the provision consists of the difference between the net book value of the shares and the average share price over the month preceding the closing date.

Share options do not cause any dilution of equity by the creation of shares. They have no impact either on the amount or the structure of the equity.

The acquisition cost of any other treasury shares bought back in the context of the share buyback programme is deducted from consolidated shareholders' equity.

In accordance with Article L 225-102 of the French Commercial Code, French employees of the group hold L'Oréal shares through two unit trusts.

m) Provisions for liabilities and charges

Provisions for liabilities and charges are set up to cover potential outflows for the benefit of third parties without a return for the group. They relate mainly to tax risks and litigation, industrial and commercial risks relating to operations (breach of contract, product returns) and personnel costs.

They are estimated on the basis of the most likely assumptions or by using statistical methods, depending on the type of provisions.

Provisions for employee retirement obligation and related benefits and deferred tax liabilities, are also recorded under this heading.

n) Provisions for employee retirement obligation and related benefits

The group has decided to recognise in its consolidated financial statements all the liabilities generated by employee retirement obligation and related benefits from January 1st 2001.

The group adheres to pensions, early retirement and other benefit schemes depending on local legislation and regulations.

The characteristics of the existing schemes are as follows:

- French regulations provide for specific length-of-service awards payable to employees on retirement. In addition, an early retirement plan and a defined benefit plan have been set up. In some group companies there are also measures providing for the payment of certain healthcare costs for retired employees. These obligations, except for those relating to healthcare costs for retired employees, are partially funded.
- For foreign subsidiaries with employee pension schemes or other specific obligations relating to defined benefits, the excess of obligations over the scheme's assets is recognised by setting up a provision for charges on the basis of the actuarial value of the vested rights of employees.

The charges recorded in the profit and loss account, under the heading *Personnel costs*, include:

- service cost, i.e. additional rights acquired by employees during the accounting period,

- interest cost, i.e. change in the value of the discounted rights due to the fact that one year has gone,
- expected return on assets, i.e. income from external assets calculated on the basis of a standard return on long-term investments,
- the impact of any change to existing schemes on previous years or of any new schemes,
- amortisation of unrecognised gains and losses, i.e. depreciation of any variation from the actuarial calculation.

The debt relating to the company's net obligation is recorded as a liability on the balance sheet, under the heading *Provisions for liabilities and charges*.

To determine the discounted value of the obligation for each scheme, the group applies an actuarial valuation method based on the final salary (projected credit unit method). The obligations and the fair value of assets are assessed each year, using length of service, life expectancy, staff turnover by category and economic assumptions (inflation rate and discounting rate).

The cumulative effects of unrecognised gains and losses are depreciated over the average residual period of activity of active employees, unless such gains and losses do not exceed 10% of the greater of the discounted benefit obligation or the fair value of plan asset (corridor principle). The depreciation is included in the annual actuarial charge of the following financial year. Gains and losses in relation to other benefits, such as jubilees and medals, are immediately charged to the profit and loss account without the application of the corridor principle.

o) Net sales

Consolidated sales include sales of products, goods and raw materials, as well as other revenues and service income related to the group's normal activities.

They are stated net of rebates and discounts.

p) Advertising and public relations expenses

Expenses relating to the advertisement and promotion of products to customers and consumers are charged to the profit and loss account of the financial year when they are incurred, except for the cost of samples and point of sales materials that are still considered to be commercially useful and that are recorded on the balance sheet under *Other receivables and prepaid expenses*.

q) Research and development expenditure

Research and development expenditure is charged to the profit and loss account of the fiscal year during which it is incurred.

r) Adjusted operating profit

Adjusted operating profit includes exchange gains and losses.

s) Income tax

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense.

Deferred tax is calculated wherever temporary differences occur between the tax base and the consolidated base of assets and liabilities, using a balance sheet approach and the liability method. Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is valued using the enacted tax rate at the closing date and which will also be in force when the temporary differences reverse.

Deferred tax assets generated by tax loss carry forwards of consolidated companies are only recognised to the extent that a taxable profit is expected during the validity period of these tax loss carry forwards.

Under the French system of tax consolidation, some French companies in the group compensate for their taxable incomes when determining the overall tax charge which only the parent company L'Oréal remains liable to pay. Fiscal consolidation systems also exist outside France.

t) Net operational profit

This item consists of the net income before the following:

- charges to/reversals of provisions for depreciation of treasury shares net of tax,
- capital gains or losses, net of tax, on the disposal of fixed assets,
- restructuring costs net of tax,
- amortisation of goodwill.

u) Method used to calculate net operational profit after minority interests per share

Net operational profit after minority interests per share is obtained by dividing net operational profit after minority interests by the number of shares outstanding during the financial year, after deducting the average number of shares held by consolidated companies and thus deducted from shareholders' equity.

Treasury shares allocated to employees under existing share option schemes are carried under *Marketable securities*. They are therefore included in the number of shares outstanding.

Diluted net operational profit after minority interests per share takes into account any share subscription options with a dilutive effect, according to the "treasury stock method".

v) Recording of financial instruments and derivatives

In accordance with group financial management policies, none of L'Oréal's consolidated companies conduct any money market transactions for speculative reasons:

- With regard to exchange rates, long-term contracts and options are negotiated to cover commercial transactions recorded on the balance sheet and cash flows on commercial transactions whose completion is considered to be highly probable. The losses and gains generated by these instruments are recorded symmetrically with the items that they cover. With regard to the instruments used to hedge cash flows relating to commercial transactions for the next fiscal year, estimated on the basis of information provided by the subsidiaries, the unrealised exchange losses and gains are deferred until the date of completion of the transactions covered.
- With regard to the interest rate risk, the profits generated by interest rate swaps covering financial liabilities are recorded symmetrically with the profit on the debts covered, *prorata temporis*.

• NOTE 2 - CHANGES IN THE SCOPE OF CONSOLIDATION

a) 2003

During the 2003 financial year the group has continued the expansion of The Laboratoires Innéov at European level, with the creation of Innéov Italia, Innéov Österreich, Innéov Hellas and Innéov Suisse.

At the start of October 2003, the group acquired the springs of La Roche-Posay.

The group carried out no divestments in 2003.

b) 2002

The acquisitions made during the 2002 fiscal year are as follows:

	% acquired	Consolidated as from	2002 net sales since acquisition (€ millions)
Fully consolidated companies			
Shu Uemura Cosmetic Corporate (Taiwan)	75.00	January 2002	21.5
Proportionally consolidated companies			
The Laboratoires Innéov ⁽¹⁾	50.00	August 2002	NA
Asset acquisition			
Artec ⁽²⁾		August 2002	13.3

(1) On June 25th 2002, the L'Oréal and Nestlé groups announced the signing of an agreement for the creation of a joint venture, The Laboratoires Innéov, whose aim is to develop the market for cosmetic nutritional supplements worldwide. The Laboratoires Innéov joint venture (France, Germany, Belgium, Spain and Portugal) has been proportionally consolidated since August 2002.

(2) At the end of August 2002, L'Oréal acquired Artec Systems Group Inc., a company which markets professional haircare and colourant products in American hair salons.

The total price paid for the new acquisitions amounted to €152 million.

Shu Uemura Japan, a company in which the group acquired a 35% stake at the end of 2000 through its subsidiary Nihon L'Oréal, has been consolidated by the proportional method since January 1st 2002. At December 31st 2001, this company was accounted by the equity method.

The group carried out no divestments in 2002.

• NOTE 3 - SEGMENT INFORMATION

a) Consolidated sales

1) Breakdown of consolidated sales by branch

	2003		Growth (as %)		2002		2001	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Cosmetics	13,704.3	97.7	-1.8	7.1	13,951.8	97.6	13,394.2	97.5
Dermatology ⁽¹⁾	306.5	2.2	-4.5	10.5	321.1	2.3	292.2	2.1
Other	18.3	0.1	21.2	21.2	15.1	0.1	54.0	0.4
Group	14,029.1	100.0	-1.8	7.2	14,288.0	100.0	13,740.4	100.0

(1) Group share, i.e. 50%.

2) Breakdown of consolidated sales by geographic zone

	2003		Growth (as %)		2002		2001	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,309.7	52.1	3.8	5.0	7,044.6	49.3	6,667.2	48.5
North America	3,981.4	28.4	-10.3	6.8	4,438.7	31.1	4,450.5	32.4
Rest of the World	2,738.0	19.5	-2.4	14.3	2,804.7	19.6	2,622.7	19.1
Group	14,029.1	100.0	-1.8	7.2	14,288.0	100.0	13,740.4	100.0

3) Breakdown of cosmetics sales by geographic zone

	2003		Growth (as %)		2002		2001	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,221.7	52.7	3.7	4.9	6,962.8	49.9	6,580.6	49.1
North America	3,783.7	27.6	-10.4	6.6	4,224.8	30.3	4,256.9	31.8
Rest of the World	2,698.9	19.7	-2.4	14.3	2,764.2	19.8	2,556.7	19.1
Cosmetics branch	13,704.3	100.0	-1.8	7.1	13,951.8	100.0	13,394.2	100.0

b) Adjusted operating profit

1) Breakdown of adjusted operating profit by branch

€ millions	2003	2002	2001
Cosmetics	1,900.0	1,767.8	1,604.2
Dermatology	54.7	65.2	61.8
Other	9.1	7.6	3.0
Group	1,963.8	1,840.6	1,669.0

2) Breakdown of cosmetics adjusted operating profit by geographic zone

€ millions	2003	2002	2001
Western Europe	1,066.0	985.7	857.2
North America	490.0	535.4	522.1
Rest of the World	274.7	261.5	207.3
Total for zones	1,830.7	1,782.6	1,586.6
Non allocated	69.3	-14.8	17.6
Cosmetics branch	1,900.0	1,767.8	1,604.2

For a better understanding, the balance of central expenses and central revenue that cannot be directly attributed to a particular zone is presented under "Non allocated". The figures published for 2001 and 2002 are listed below:

€ millions	2002	2001
Western Europe	970.9	874.8
North America	535.4	522.1
Rest of the World	261.5	207.3
Cosmetics branch	1,767.8	1,604.2

c) Fixed assets

1) Breakdown of net fixed assets by branch

€ millions	Goodwill	Intangible assets	Tangible assets	Financial and other fixed assets	12.31.2003	12.31.2002	12.31.2001
Net value							
Cosmetics	844.0	3,511.0	1,779.8	120.6	6,255.4	6,288.9	6,359.5
Dermatology	-	250.3	48.3	1.4	300.0	324.7	307.5
Other		0.4	15.8	39.1	55.3	78.1	80.3
Group	844.0	3,761.7	1,843.9	161.1	6,610.7	6,691.7	6,747.3

2) Breakdown of cosmetics net fixed assets by geographic zone

€ millions	Goodwill	Intangible assets	Tangible assets	Financial and other fixed assets	12.31.2003	12.31.2002	12.31.2001
Net value							
Western Europe	481.8	2,361.0	1,040.0	42.4	3,925.2	3,636.0	3,426.0
North America	272.1	1,074.0	499.1	51.3	1,896.5	2,217.7	2,417.9
Rest of the World	90.1	76.0	240.7	26.9	433.7	435.2	515.6
Cosmetics branch	844.0	3,511.0	1,779.8	120.6	6,255.4	6,288.9	6,359.5

• NOTE 4 - GOODWILL

<i>€ millions</i>	12.31.2002	Acquisitions Amortisation	Other movements ⁽¹⁾	12.31.2003
Artec	43.9		-2.2	41.7
Biomedic	12.2		-0.9	11.3
Colorama	12.7		0.2	12.9
Jade	18.6			18.6
Kiehl's	13.7		-1.8	11.9
Laboratoires Ylang	7.2		-0.4	6.8
Matrix	254.0		-30.2	223.8
Maybelline International	57.3		-9.0	48.3
Nihon L'Oréal	86.8	2.2		89.0
Sanofi-Synthélabo (equity method)	191.0	170.2		361.2
Shu Uemura	57.8		-7.9	49.9
SoftSheen.Carson.Dermablend	161.7		-21.1	140.6
Other companies	24.6	0.2	0.3	25.1
Gross value	941.5	172.6	-73.0	1,041.1
Artec	0.9	2.2	-0.3	2.8
Biomedic	1.0	0.5	-0.1	1.4
Colorama	1.0	0.7	-	1.7
Jade	6.7	1.0		7.7
Kiehl's	1.7	0.7	-0.2	2.2
Laboratoires Ylang	7.2	-	-0.4	6.8
Matrix	30.2	12.6	-3.1	39.7
Maybelline International	40.1	1.2	-6.5	34.8
Nihon L'Oréal	15.0	4.1		19.1
Sanofi-Synthélabo (equity method)	6.6	13.9		20.5
Shu Uemura	5.9	3.1	-1.1	7.9
SoftSsheen.Carson.Dermablend	32.1	6.9	-3.5	35.5
Other companies	14.8	2.6	-0.4	17.0
Amortisation	163.2	49.5	-15.6	197.1
Net goodwill	778.3	123.1	-57.4	844.0

(1) This item mainly consists of exchange rates changes affecting goodwill from foreign subsidiaries, and valuation adjustments during the allocation period.

Goodwill is amortised over a maximum period of twenty years. The goodwill amount takes into account the deferred tax liabilities on trademarks and other identifiable assets that could be sold separately from the company acquired.

Goodwill valuations are temporary up to the end of the financial year following the year of the acquisition.

The increase in the stake in the Sanofi-Synthélabo group has generated supplementary goodwill of €170.2 million at December 31st 2003 (see note 8).

Exchange rate fluctuations in the 2003 fiscal year had an unfavourable impact of €59.4 million on *Goodwill*; this impact is mainly the result of the change in the parity between the U.S. dollar and the euro during the financial year.

• NOTE 5 - INTANGIBLE ASSETS

€ millions	12.31.2002	Acquisitions Amortisation	Disposals Takeovers	Translation differences	Other movements ⁽¹⁾	12.31.2003
Licences, patents, trademarks and market shares	1,136.5	5.2	-9.9	-109.1	1.5	1,024.2
Business goodwill	2,900.4		-0.7	-132.5	0.9	2,768.1
Other intangible assets	137.2	29.3	-9.6	10.0	-5.9	161.0
Gross value	4,174.1	34.5	-20.2	-231.6	-3.5	3,953.3
Licences, patents, trademarks and market shares	75.1	19.4	-10.0	-5.1	0.1	79.5
Business goodwill	12.5	8.8		-0.7	0.3	20.9
Other intangible assets	75.1	26.6	-7.0	-1.7	-1.8	91.2
Amortisation	162.7	54.8	-17.0	-7.5	-1.4	191.6
Intangible assets – net	4,011.4	-20.3	-3.2	-224.1	-2.1	3,761.7

(1) This mainly consists of the impact of variations in the scope of consolidation and of adjustments of the value of assets which are identifiable during the allocation period.

• NOTE 6 - TANGIBLE ASSETS

€ millions	12.31.2002	Acquisitions Amortisation	Disposals Takeovers	Translation differences	Other movements ⁽¹⁾	12.31.2003
Land and buildings	1,138.8	73.2	-6.3	-48.2	65.9	1,223.4
Machinery and equipment	1,727.5	139.3	-65.1	-104.1	57.8	1,755.4
Other tangible assets and work-in-progress	853.8	277.6	-47.4	-70.9	-136.1	877.0
Gross value	3,720.1	490.1	-118.8	-223.2	-12.4	3,855.8
Land and buildings	514.0	52.2	-3.1	-15.4	-0.6	547.1
Machinery and equipment	1,023.8	136.7	-56.3	-57.8	-11.5	1,034.9
Other tangible assets and work-in-progress	435.2	70.9	-40.2	-31.9	-4.1	429.9
Depreciation and provisions	1,973.0	259.8	-99.6	-105.1	-16.2	2,011.9
Tangible assets – net	1,747.1	230.3	-19.2	-118.1	3.8	1,843.9

(1) These are mainly the result of the impact of changes in the scope of consolidation, and fixed assets in progress allocated to the *Other fixed assets* items.

Tangible assets include capital lease contracts for the following amounts:

€ millions	12.31.2003	12.31.2002
Land and buildings	170.6	169.0
Machinery and equipment	6.8	7.2
Other tangible assets and work-in-progress	12.5	12.4
Gross value	189.9	188.6
Depreciation	84.4	77.3
Net value	105.5	111.3

• NOTE 7 - INVESTMENTS IN NON-CONSOLIDATED COMPANIES

As at December 31st 2003, investments in non-consolidated companies amounted to €10.8 million in gross value and €3.4 million in net value compared with €12.3 million and €4.8 million respectively at December 31st 2002.

• **NOTE 8 - INVESTMENTS IN EQUITY AFFILIATES**

Investments in equity affiliates mainly consist of shares in the Sanofi-Synthélabo group, in which the L'Oréal group has a 20.54% stake at December 31st 2003 compared with 19.98% at December 31st 2002. The increase in the percentage held is the result of the buyback by Sanofi-Synthélabo of its treasury shares in 2003, which have been deducted from shareholders' equity in its consolidated financial statements. This transaction generated a goodwill of €170.2 million in the financial statements of L'Oréal at December 31st 2003 (see note 4).

€ millions	% interest	Contribution at 12.31.2003		Balance sheet value	
		Consolidated reserves	Consolidated profit for year	12.31.2003	12.31.2002
Sanofi-Synthélabo	20.54	1,103.1	421.4	1,524.5	1,437.5
Club des Créateurs de Beauté (Japan)	20.00	1.1	0.1	1.2	1.2
Investments in equity affiliates		1,104.2	421.5	1,525.7	1,438.7

• **NOTE 9 - INVENTORIES**

€ millions	12.31.2003	12.31.2002
Raw materials, packaging, consumables	345.0	397.8
Semi-finished and finished products	925.1	933.5
Gross value	1,270.1	1,331.3
Valuation allowance	176.8	185.2
Inventories – net	1,093.3	1,146.1

• **NOTE 10 - TRADE ACCOUNTS RECEIVABLE**

€ millions	12.31.2003	12.31.2002
Trade accounts receivable	2,070.3	2,075.7
Gross value	2,070.3	2,075.7
Valuation allowance	63.5	84.2
Net value	2,006.8	1,991.5

Trade accounts receivable are due within one year.

• **NOTE 11 - OTHER RECEIVABLES AND PREPAID EXPENSES**

€ millions	12.31.2003	12.31.2002
Fiscal and social receivables	294.8	332.7
Other receivables	167.2	150.3
Deferred expenses	198.0	192.6
Prepaid expenses	132.6	160.6
Point of sales advertising	111.6	109.3
Deferred tax assets	504.2	479.2
Total	1,408.4	1,424.7

• **NOTE 12 - MARKETABLE SECURITIES**

<i>€ millions</i>	12.31.2003	12.31.2002
L'Oréal shares	1,792.6	1,653.5
Marketable securities and other	233.1	160.5
Gross value	2,025.7	1,814.0
Provisions for depreciation	277.1	142.3
Net value	1,748.6	1,671.7

The 26,486,400 L'Oréal shares held for the employee share option scheme have a net value of €1,515.5 million (after a depreciation of €140.3 million for financial year 2003) compared with €1,516.2 million at December 31st 2002.

During 2003, 2,500,000 shares were purchased, 766,900 share options were exercised, and 230,750 shares were sold.

The total stock market value of treasury shares based on the closing price at December 31st 2003 was €1,721.6 million, compared with €1,812.6 million at December 31st 2002.

The marketable securities comprise mainly, apart from treasury shares, SICAV investment funds and unit trusts (on which the return is based on EONIA) and short-term investments. At December 31st 2003, the market value of the marketable securities was €169.8 million, and their net value was €157.7 million. At December 31st 2002, the market value of the marketable securities was €154.8 million, and their net value was €141.6 million.

• **NOTE 13 - SHAREHOLDERS' EQUITY**

The capital stock consists of 676,062,160 shares with a par value of €0.20.

A L'Oréal share buyback programme was authorised by the Annual General Meetings of Shareholders on May 29th 2002 and May 22nd 2003. These shares have been deducted from consolidated shareholders' equity. The proceeds from the transactions relating to these shares net of tax have also been recorded in shareholders' equity.

During fiscal year 2003, L'Oréal sold 1,640,000 shares for an amount of €118.3 million. At December 31st 2003, L'Oréal no longer holds any shares on this basis.

On December 3rd 2003, the Board authorised a share subscription option plan relating to 2,500,000 shares with an exercise price of €63.02 and an exercise period of five years from December 2008 to December 2013.

• **NOTE 14 - MINORITY INTERESTS**

Minority interests only relate to a few companies for insignificant amounts. The amounts were €11.9 million and €11.9 million at December 31st 2003 and 2002 respectively.

• **NOTE 15 - PROVISIONS FOR LIABILITIES AND CHARGES**

a) Balances at closing date

<i>€ millions</i>	12.31.2003	12.31.2002
Provisions for employee retirement obligation and related benefits	906.3	896.3
Deferred tax liabilities	40.5	45.0
Other provisions for liabilities and charges ⁽¹⁾	461.5	512.1
Provisions for restructuring	31.0	59.3
Total	1,439.3	1,512.7

(1) This item includes provisions facing tax risks and litigation, industrial and commercial risks relating to operations (breach of contract, product returns) and personnel costs.

b) Variations in Provisions for restructuring and Other provisions for liabilities and charges during year

<i>€ millions</i>	12.31.2002	Charges ⁽²⁾	Reversals (used) ⁽²⁾	Reversals (not used) ⁽²⁾	Impact of change in scope of consolidation/ exchange rate/ others ⁽¹⁾	12.31.2003
Other provisions for liabilities and charges	512.1	151.2	-140.3	-37.5	-24.0	461.5
Provisions for restructuring	59.3	14.3	-16.7	-5.1	-20.8	31.0

(1) Mainly resulting from translation differences.

(2) These figures may be analysed as follows:

<i>€ millions</i>	Charges	Reversals (used)	Reversals (not used)
• Restructuring costs	14.3	-16.7	-5.1
• Operating provision	131.4	-113.8	-32.9
• Financial provisions	-	-	-
• Income tax	19.8	-26.5	-4.6

c) Provisions for employee retirement obligation and related benefits

Employee retirement obligation and related benefits include in particular:

- pensions and benefits linked to retirement and/or early retirement,
- social benefits for retired employees (pensions, retirement bonuses, life insurance, medical assistance, etc.),
- other long-term benefits (gifts and long service awards).

Provisions for pensions and early retirement

Employee retirement obligations are calculated using an actuarial valuation method based on the projected final salary (projected credit unit method). With regard to retirement obligations, the calculation is made so as to charge each period of service rendered by a group employee with a straight-line unit of its final obligation. Since January 1st 2001, all obligations relating to pensions still to be paid to retired employees and the vested rights of employees have been assessed.

Other long-term and post employment benefits

These benefits have been evaluated on the basis of the same actuarial assumptions as those used to calculate pensions. Provisions have been made for all obligations relating to retired employees and for the vested rights of employees.

The actuarial assumptions used to calculate these obligations take into account the economic conditions in each country or in each group company. The average weighted assumptions for the group are as follows:

	12.31.2003	12.31.2002
• Discount rate	5.5%	5.7%
• Salary increase	4.5%	4.5%
• Long-term return on assets	6.4%	6.8%

The variations during 2003 and 2002 are set out below:

<i>€ millions</i>	Projected pension obligation	Assets	Unrealised gains and losses	Net provision
Balance at December 31st 2001	1,698.8	733.5	72.3	893.0
Net charge for the year:				
- Service cost	88.9			88.9
- Interest cost	93.5			93.5
- Expected return on assets		55.7		-55.7
- Amortisation of unrealised gains and losses			-2.0	2.0
Benefits paid	-68.8	-44.8		-24.0
Contributions paid	5.2	102.9		-97.7
Unrealised gains and losses	42.2	-109.3	151.2	0.3
Translation differences	-82.5	-58.9	-18.9	-4.7
Other movements	4.2	0.3	3.2	0.7
Balance at December 31st 2002	1,781.5	679.4	205.8	896.3
Net charge for the year:				
- Service cost	89.8			89.8
- Interest cost	95.9			95.9
- Expected return on assets		43.6		-43.6
- Amortisation of unrealised gains and losses			-10.3	10.3
Benefits paid	-65.3	-38.5		-26.8
Contributions paid	5.4	115.8		-110.4
Unrealised gains and losses	57.4	38.9	18.5	0.0
Translation differences	-87.5	-56.8	-25.3	-5.4
Other movements	0.2			0.2
Balance at December 31st 2003	1,877.4	782.4	188.7	906.3

The retirement expense charged to the profit and loss account may be analysed as follows:

<i>€ millions</i>	12.31.2003	12.31.2002
Service cost	89.8	88.9
Interest cost	95.9	93.5
Expected return on assets	-43.6	-55.7
Amortisation of unrealised gains and losses	10.3	2.0
Total	152.4	128.7

• **NOTE 16 - BORROWINGS AND DEBTS**

The group carries out financing through medium-term bank loans, and by the issue of short-term paper in France and the issue of short-term commercial paper in the United States. The two programmes represent €1,600 million and USD 800 million respectively.

Liquidity for the issue of commercial paper is ensured by confirmed lines of bank cash. The cash lines, like the medium-term loans, are not subject to any financial ratio clauses or rating clauses.

Debt by type

<i>€ millions</i>	12.31.2003	12.31.2002
Short-term paper	695.0	1,296.9
Bank loans	978.8	1,032.4
Perpetual loan	43.4	53.6
Debts on capital lease contracts	82.0	91.0
Debenture loans	5.0	5.9
Overdrafts	137.0	166.3
Total	1,941.2	2,646.1

Debt by maturity date

<i>€ millions</i>	12.31.2003	12.31.2002
Under 1 year	1,182.1	1,821.1
1 to 5 years	646.1	706.1
Over 5 years	113.0	118.9
Total	1,941.2	2,646.1

**Debt by currency
(after allowing for currency hedging instruments)**

<i>€ millions</i>	12.31.2003	12.31.2002
Euro (EUR)	1,054.2	1,562.5
US dollar (USD)	596.5	805.6
Pound Sterling (GBP)	31.7	3.3
Yen (JPY)	39.7	39.9
Others	219.1	234.8
Total	1,941.2	2,646.1

**Breakdown of fixed rate and floating rate debt
(after allowing for interest rate hedging instruments)**

<i>€ millions</i>	12.31.2003	12.31.2002
Floating rate	1,863.3	1,810.6
Fixed rate	77.9	835.5
Total	1,941.2	2,646.1

Average debt interest rates

The average debt interest rates, after allowing for hedging instruments, were 3.6% in 2002 and 3.3% in 2003 for the euro, and 2.4% in 2002 and 1.4% in 2003 for the U.S. dollar.

Fair value of borrowings and debt

The fair value of fixed rate debt is determined for each loan by the discounting of future cash flows, based on the debenture interest rate curves at the balance sheet date, after allowing for the spread corresponding to the group's risk rating.

The net book value of outstanding bank loans and other floating rate loans is a reasonable approximation of their fair value.

At December 31st 2003, the fair value of the debt amounts to €1,961.3 million. At December 31st 2002, it amounted to €2,671 million.

Debts covered by collateral

There were no significant debts covered by collateral as at December 31st 2003 and December 31st 2002.

Confirmed credit lines

At December 31st 2003, L'Oréal and its subsidiaries have €2,233 million of credit lines confirmed but not used (€2,048 million at December 31st 2002).

• NOTE 17 - DERIVATIVES AND EXPOSURE TO MARKET RISKS

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the group uses derivatives negotiated with organisations with the best credit ratings.

In accordance with the group's rules, the currency and interest rate derivatives are set up exclusively for hedging purposes.

Hedging of currency risk

The group is exposed to currency risk from commercial transactions recorded on the balance sheet or from future transactions considered to be highly probable.

The group's policy on exposure to currency risk from its future commercial transactions is to hedge at least 80% of the currency risk by derivatives once the operating budgets have been allocated by the group's subsidiaries. Currency risks stem mainly (about 85%) from flows initiated inside the group.

All the group's future currency flows are analysed in detailed forecasts for the coming budget year. Currency risks that emerge are hedged by futures sales or purchases or by options, to reduce as far as possible the currency position of each subsidiary. The duration of the derivatives is determined as appropriate for the group's settlement flows.

As the group's companies must borrow and invest their cash in their own currency, the exchange rate risks generated by the management of their cash flow are almost non-existent.

With regard to the hedging methods, the group has set up a system of mutualised management of exchange rate risks which involves clearing by the group's bank, Regefi. The resulting net currency position of the group is hedged on the market. Exchange rate derivatives are negotiated by Regefi or in exceptional cases directly by group subsidiaries if the currency is not convertible, such operations being subject to control by Regefi.

The following derivatives are held for currency risk hedging purposes:

€ millions	Nominal		Market value	
	12.31.2003	12.31.2002	12.31.2003	12.31.2002
Currency futures				
Purchase EURO/currency	1,012.7	1,196.9	44.9	84.2
EUR/USD	379.5	506.2	32.8	67.9
EUR/GBP	161.5	178.8	3.6	6.0
EUR/CHF	128.4	123.6	1.4	-0.5
EUR/CAD	57.9	64.5	2.8	5.7
EUR/West European currencies	75.3	89.0	0.9	-1.0
EUR/East European currencies	95.9	128.0	2.7	0.6
EUR/Asian currencies	51.6	32.2	2.5	2.0
EUR/Latin American currencies	-	12.6	-	1.7
EUR/Other currencies	62.6	62.0	-1.8	1.8
Sale EURO/Asian currencies	-1.5	-32.2	-	4.5
Purchase USD/currencies	319.7	311.6	-11.9	2.4
USD/CAD	36.4	20.7	-2.6	-
USD/Asian currencies	100.3	127.2	-0.9	-0.7
USD/Latin American currencies	100.6	117.9	2.1	5.4
USD/Other currencies	82.4	45.8	-10.5	-2.3
Sale USD/CHF	-101.9	-66.5	9.8	4.8
Other currency pairs	54.1	58.0	-0.9	-1.7
Currency futures total	1,283.1	1,467.8	41.9	94.2
Currency options				
EUR/USD	410.8		38.1	
EUR/GBP	79.5	22.5	0.9	1.4
USD/CAD	-	16.2	-	0.2
USD/BRL	27.7	40.0	1.9	6.3
Other currency pairs	34.7	9.0	1.0	0.2
Currency options total	552.7	87.7	41.9	8.1
O/w call options total	888.1	97.3	66.7	10.6
O/w put options total	-335.4	-9.6	-24.8	-2.5
Total	1,835.8	1,555.5	83.8	102.3

The put options total corresponds exclusively to the sale of previously purchased options when it appeared opportune to replace them by other hedging instruments.

The fair value of the derivatives is their market value.

The group has no significant currency positions that are not hedged in the balance sheet.

Hedging of interest rate risk

The group mainly refinances at floating rates and uses interest rate derivatives to reduce net exposure to interest rate risk. Such derivatives are never held for speculative reasons.

The derivatives are mainly swaps and interest rate options (purchase of caps) which are freely negotiated.

The market values of the derivatives set out below should be compared with the market values of the debts that they hedge.

The interest rate derivatives are as follows:

€ millions	Notional		Market values	
	12.31.2003	12.31.2002	12.31.2003	12.31.2002
Interest rate derivatives				
Borrowing floating interest-rate swaps				
EUR Euribor/fixed rate	332.7	534.5	23.1	36.3
CAD Libcad/fixed rate	-	-	-	-
Borrowing fixed interest-rate swaps				
EUR Euribor/fixed rate	23.8	516.2	-1.1	-4.5
USD Libor/fixed rate	395.7	238.3	-3.1	-
CAD Libcad/fixed rate	5.4	32.3	-0.3	-0.6
Floating/floating interest-rate swaps				
EUR Euribor/Euribor	354.7	197.4	2.2	2.7
Purchases caps				
EUR Euribor	300.0	952.4	0.1	1.7
USD Libor	-	762.6	-	0.1
CAD Libcad	-	12.1	-	-
Total	1,412.3	3,245.8	20.9	35.7

The fair value of the interest rate derivatives is their market value. The market value of the interest rate derivatives is calculated by the discounting of future flows at the interest rate ruling at the balance sheet date or applied by the third party banks.

Sensitivity to changes in interest rates

An increase in interest rates of 100 basis points would have a direct impact on the group's financial charge of €6.5 million at December 31st 2003, compared with €10.7 million at December 31st 2002, after allowing for short-term assets and derivatives (and assuming that total net debt remains stable and that the fixed rate instruments are replaced by floating rate instruments).

The impact of a 100 basis point rise in interest rates on the fair value of the group's fixed rate financial assets and liabilities, after allowing for derivatives, can be estimated at €+11.1 million at December 31st 2003, compared with €+12.5 million at December 31st 2002.

Third party risk

The group has financial relations with international banks with the best credit ratings. The group thus considers that its exposure to third party risk is low.

Furthermore, the financial instruments used in exchange rate and interest rate risk management are issued by leading international banking counterparties.

Share risk

The available cash is invested in the form of non-speculative instruments which can be drawn in very short periods on financial organisations of unquestionable reputation.

At December 31st 2003, the group holds 26,486,400 treasury shares with a net value of €1,515.5 million. For these shares, a variation in the share price of plus or minus 10% relative to the average share price for December of €63.08 would have an impact on the group's consolidated net profit of €+109.8 million and €-121.7 million respectively.

At December 31st 2002, the group held 24,984,050 treasury shares with a net value of €1,516.2 million. For these shares, a variation in the share price of plus or minus 10% relative to the average share price for December of €71.13 would have an impact on the group's consolidated net profit of €+97.6 million and €-105.2 million respectively.

• **NOTE 18 - OFF-BALANCE SHEET COMMITMENTS**

a) Operating lease commitments

They amount to €1,312.6 million at December 31st 2003 compared with €1,310.8 million at December 31st 2002, of which:

- €221.0 million is due in under one year at December 31st 2003 compared with €212.1 million at December 31st 2002,
- €637.7 million is due in 1 to 5 years at December 31st 2003 compared with €579.1 million at December 31st 2002,
- and €453.9 million is due in over 5 years at December 31st 2003 compared with €519.6 million at December 31st 2002.

b) Other off-balance sheet commitments

The confirmed credit lines are indicated in note 16.

The other off-balance sheet contingent liabilities are as follows:

<i>€ millions</i>	12.31.2003	12.31.2002
Commitments given ⁽¹⁾	49.8	58.2
Minorities buyback commitments	280.5	155.0
Documentary credits	3.4	3.6
Commitments received	25.5	27.6
Investment orders	169.3	144.9

(1) These consist mainly of commitments given to administrations or commitments concerning loans granted to third parties who are partners of the group.

c) Shareholders' agreement

L'Oréal and the Total group have concluded a shareholders' agreement concerning their respective interests in Sanofi-Synthélabo and governing their concerted action in relation to this company. The agreement, drawn up in anticipation of the merger of Sanofi and Synthélabo that became effective on May 18th 1999, will remain in force until December 2nd 2004.

The agreement stipulates that the two parties will consult with one another before all annual general meetings and Board meetings, and before any important decision resulting in a commitment for Sanofi-Synthélabo. Furthermore, if a transaction could mean that either party could lose the possibility of accounting for its interest in Sanofi-Synthélabo by the equity method, the transaction is subject to the prior approval of both partners.

L'Oréal and the Total group have agreed that each will retain 19.4% of the current share capital of Sanofi-Synthélabo until the expiry of the agreement (except that each of the two groups is allowed to sell 0.5% of the share capital of Sanofi-Synthélabo per rolling period of 12 consecutive months: in this case, the other group is granted a pre-emption right for the shares concerned). At December 31st 2003, the two groups held 19.5% and 24.4% of the share capital respectively, which means that the Total group is free to sell a 5.0% stake, which would make its interest almost the same as that of L'Oréal. If Total wishes to sell its "free" shares, it cannot do so to a competitor of L'Oréal or of Sanofi-Synthélabo.

On November 28th 2003 L'Oréal and Total notified the *Autorité des Marchés Financiers* and Sanofi-Synthélabo of their decision not to renew the shareholders' agreement between the two groups beyond December 2nd 2004.

d) Contingent liabilities

In its normal operations, the group is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The group sets aside a provision wherever a risk is found to exist, and an estimate of its cost is possible.

At the present time, there is no exceptional event or dispute which could materially and with serious probability affect the results, financial situation, assets or operations of the L'Oréal company and group.

e) Environmental risks

The group carefully follows regulations and laws relating to environmental protection, and does not expect that they will have any significant impact on the future operations, financial situation, results or assets of the group.

• NOTE 19 - NET SALES

Net sales represent sales to third parties by L'Oréal and its French and foreign subsidiaries.

In 2003, net sales amounted to €14,029.1 million, compared with €14,288 million in 2002.

The breakdown of net sales by branch and geographic zone is indicated in the "Segment information" section of the notes.

Breakdown of sales - France/Rest of the World

	2003		2002	
	€ millions	as %	€ millions	as %
France	2,059.7	14.7	2,019.9	14.1
Rest of the World	11,969.4	85.3	12,268.1	85.9
Group	14,029.1	100.0	14,288.0	100.0

• NOTE 20 - PERSONNEL COSTS AND NUMBER OF EMPLOYEES

Personnel costs include amounts paid as employee profit sharing and the actuarial charge relating to the employee benefits.

The total number of employees was 50,500 at December 31st 2003, compared with 50,491 at December 31st 2002.

Number of employees ⁽¹⁾	12.31.2003	12.31.2002
Western Europe	24,737	24,755
North America	9,754	10,021
Rest of the World	16,009	15,715
Total	50,500	50,491

(1) Including companies consolidated by the proportional method.

Remuneration of directors and management

€ millions	2003	2002
Board of Directors	0.8	0.7
Management structures ⁽¹⁾	15.8	15.7

(1) Remuneration paid by all group companies.

Remuneration of senior managers

The gross total remuneration paid to the Chairman and Chief Executive Officer for 2003 amounted to €6,576,193, including benefits and directors' fees, of which the fixed part amounted to €3,052,193.

• **NOTE 21 - RESEARCH AND DEVELOPMENT EXPENDITURE**

This expenditure amounted to €480 million in 2003, compared with €469 million in 2002.

• **NOTE 22 - CHARGES TO PROVISIONS**

This item amounted to €29.7 million in 2003 compared with €-51.2 million in 2002. It mainly concerns current assets for an amount of €14.6 million (€-2.4 million in 2002), and liabilities and charges for an amount of €15.2 million (€-48.8 million in 2002).

• **NOTE 23 - FINANCIAL EXPENSE - NET (EXCLUDING EXCHANGE RATE GAINS AND LOSSES)**

<i>€ millions</i>	2003	2002
Net interest expense	-52.3	-69.9
Net gain on disposals of marketable securities	-2.0	8.0
Payment discounts	-46.9	-56.9
Other	2.0	1.3
Net charges to financial provisions	5.3	-24.7
Financial expense - net	-93.9	-142.2

The exchange rate effect is included in the adjusted operating profit.

• **NOTE 24 - INCOME TAX**

a) Detailed breakdown of corporate income tax

<i>€ millions</i>	2003	2002
Current tax		
- operating profit	595.6	625.4
- non-operational items	-13.0	-17.2
Deferred tax		
- operating profit	33.1	-45.6
- non-operational items	-49.4	-49.3
Income tax	566.3	513.3
Of which:		
- tax on restructuring costs	-7.6	-15.0
- tax on capital gains and losses on fixed assets	-6.0	-7.4
- tax on treasury shares	-48.8	-44.1

b) Analysis of tax charge

The difference between the theoretical tax charge, calculated on the basis of the tax rate of the parent company, and the effective tax charge for the group in 2003 may be analysed as follows:

<i>€ millions</i>	2003	2002
Net income before tax	1,644.0	1,453.2
Parent company tax rate	35.43%	35.43%
Theoretical tax on net income	582.5	514.9
Impact of permanent differences	143.2	109.3
Impact of tax rate differences	-105.2	-77.2
Change in non-recorded deferred taxes	1.3	-13.9
Other ⁽¹⁾	-55.5	-19.8
Group tax charge	566.3	513.3

(1) Including tax credits, tax reassessments and provisions for tax liabilities.

c) Deferred taxes in the balance sheet

The variation in deferred taxes (assets and liabilities) may be analysed as follows:

<i>€ millions</i>	
Balance of deferred tax assets at December 31 st 2001	425.9
Balance of deferred tax liabilities at December 31 st 2001	-88.7
Profit effect	94.9
Translation differences	-4.3
Other effects	6.4
Balance of deferred tax assets at December 31 st 2002	479.2
Balance of deferred tax liabilities at December 31 st 2002	-45.0
Profit effect	16.3
Translation differences	-0.1
Other effects	13.3
Balance of deferred tax assets at December 31 st 2003	504.2
Balance of deferred tax liabilities at December 31 st 2003	-40.5

Deferred tax assets and liabilities recorded in the balance sheet may be divided into the following categories:

<i>€ millions</i>	12.31.2003		12.31.2002	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	498.8	40.5	473.2	45.0
Tax credits and tax loss carry-forwards	5.4		6.0	-
Deferred tax total	504.2	40.5	479.2	45.0

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amounts to €68.8 million at December 31st 2003, compared with €72.7 million at December 31st 2002.

• NOTE 25 - SHARE IN NET OPERATIONAL PROFIT OF EQUITY AFFILIATES

This item states the net operational profit of equity affiliates, as defined in the Accounting principles.

• **NOTE 26 - CAPITAL GAINS AND LOSSES ON THE DISPOSAL OF FIXED ASSETS – NET OF TAX**

This item amounted to €-8.9 million in 2003, compared with €-16.6 million in 2002.

In 2003 as in 2002, this item mainly consisted of the disposal or exceptional amortisation of non-strategic fixed assets whose individual amounts are not material.

In 2001, this item mainly consisted of the profit from the sale of all holdings in the Marie Claire group, which took place in March 2001, and the impact of the disposal of Lanvin S.A. and its subsidiaries. The capital gain net of tax from these two transactions amounted to €110.2 million.

• **NOTE 27 - RESTRUCTURING COSTS – NET OF TAX**

These costs are mainly provisions and costs relating to industrial and commercial reorganisation of existing companies and companies acquired during the year.

They amounted to €-14.6 million in 2003, compared with €-31.5 million in 2002.

• **NOTE 28 - AMORTISATION OF GOODWILL**

Amortisation of goodwill amounted to €-49.5 million in 2003, compared with €-50.3 million in 2002, and is set out in note 4, "Goodwill".

• **NOTE 29 – NET OPERATIONAL PROFIT AFTER MINORITY INTERESTS PER SHARE (€)**

Net operational profit after minority interests per share is based on the weighted average number of shares outstanding, after deducting the average number of shares held by consolidated companies which are not included in shareholders' equity. Treasury shares held for stock option plans and entered under *Marketable securities* are not deducted in this calculation.

Diluted net operational profit after minority interests per share takes into account any share subscription options with a dilutive effect, according to the "treasury stock method".

The table below indicates net operational profit per share for the two years presented:

	12.31.2003		
	Net operational profit after minority interests (€ millions)	Number of shares	Net operational profit after minority interests per share (€)
Net operational profit after minority interests	1,653.3	676,021,722	2.45
Subscription options	-	198	
Diluted net operational profit after minority interests per share	1,653.3	676,021,920	2.45

	12.31.2002		
	Net operational profit after minority interests (€ millions)	Number of shares	Net operational profit after minority interests per share (€)
Net operational profit after minority interests per share	1,456.2	675,990,516	2.15

At December 31st 2002, no other share equivalent having a dilutive effect exists.

• **NOTE 30 - CASH USED FOR WORKING CAPITAL**

In 2003 and in 2002, this item amounted to €-21.6 million and €162.8 million respectively, and may be analysed as follows:

<i>€ millions</i>	2003	2002
Inventories	-30.5	-67.3
Receivables	-341.1	-288.8
Debts	350,0	518.9

• **NOTE 31 - CHANGES IN OTHER FINANCIAL ASSETS**

This line includes flows relating to treasury shares during the accounting period, classified either as marketable securities or deducted from shareholders' equity.

• **NOTE 32 - IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION**

In 2003, this item mainly relates to the acquisition of the springs of La Roche-Posay, as well as the payment of minority interests during the year.

In 2002, this item mainly related to the acquisition of Artec Inc.

• **NOTE 33 - CASH AND CASH EQUIVALENTS AT END OF YEAR**

This item amounted to €655.3 million and €529.3 million at December 31st 2003 and December 31st 2002 respectively, and may be analysed as follows:

<i>€ millions</i>	12.31.2003	12.31.2002
Marketable securities excluding treasury shares	233.0	160.5
Cash and short-term funds excluding accrued interest	550.9	534.4
Overdrafts, etc.	-128.6	-165.6

• **NOTE 34 - SUBSEQUENT EVENTS**

Under the terms of an agreement signed at the end of 2003, the L'Oréal group will acquire the control of Shu Uemura Cosmetics, Inc., the company that manufactures and markets Shu Uemura brand cosmetics in Japan. This company will be consolidated by the full consolidation method from January 1st 2004.

At the end of 2003, the L'Oréal group signed an agreement with a view to acquiring the Chinese skincare brand Mininurse. This business will be consolidated during the first half of 2004.

At the end of January 2004, the L'Oréal group signed an agreement to acquire the Chinese make-up and skincare brand Yue-Sai. The completion of the deal remains subject to a certain number of conditions in China, and primarily to the agreement of the Chinese authorities. This business will be consolidated during the first half of 2004.

L'Oréal has approved Sanofi-Synthelabo's offer for Aventis, and will approve the issuance of new shares that will be submitted to the shareholders' meeting. L'Oréal will keep its Sanofi-Synthelabo's shares. Upon completion of the transaction, L'Oréal intends to stop consolidating its stake in Sanofi-Synthelabo under the equity method. L'Oréal will reflect the dividends received from Sanofi-Synthelabo in its income statement.

Consolidated companies

A - COMPANIES CONSOLIDATED BY THE FULL CONSOLIDATION METHOD⁽¹⁾

Companies	Head Office	N° Siren	% Interest	% Control ⁽²⁾
Anglo Overseas Finance (India) Private Ltd	India		100.00	
Areca & Cie	France	784 787 517	100.00	
Avenamite S.A.	Spain		100.00	
Beautycos International Co Ltd	China		100.00	
Belcos	Japan		100.00	
Belocap Productos Capilares Ltda	Brazil		100.00	
Biotherm	Monaco	56 S 00206	99.80	
Biotherm Distribution & Cie	France	552 127 458	100.00	
Caribel Fragrances Inc.	Puerto Rico		100.00	
Carson Midrand Manufacturing (Pty) Ltd	South Africa		100.00	
Carson Products West Africa Ltd	Ghana		100.00	
Centre Logistique d'Essigny	France	443 660 618	100.00	
Centrex	France	728 201 898	100.00	
Chimex	France	548 201 490	100.00	
Cobelsa Cosmetics S.A.	Spain		100.00	
Colainaf	Morocco		100.00	
Compagnie Thermale Hôtelière et Financière	France	552 090 383	99.96	
Consortium Général de Publicité	France	552 089 690	100.00	
Cosbel SA de CV	Mexico		100.00	
Cosmelor	Japan		100.00	
Cosmephil Holdings Corporation	Philippines		100.00	
Cosmetica Activa Portugal Ltda	Portugal		100.00	
Cosmetil	Morocco		49.80	100.00
Cosmétique Active Belgilux	Belgium		100.00	
Cosmétique Active Deutschland GmbH	Germany		100.00	
Cosmétique Active España	Spain		100.00	
Cosmétique Active France	France	325 202 711	99.99	
Cosmétique Active International	France	350 760 559	100.00	
Cosmétique Active Ireland	Ireland		100.00	
Cosmétique Active Italia	Italy		100.00	
Cosmétique Active Nederland	Netherlands		100.00	
Cosmétique Active Österreich GmbH	Austria		100.00	
Cosmétique Active Suisse	Switzerland		99.40	
Cosmétique France AB	Sweden		100.00	
Cospar S.A.	France	742 005 200	100.00	
Dr Pfalz	Germany		100.00	
Elebelle (Pty) Ltd	South Africa		100.00	
Episkin	France	412 127 565	100.00	
Erwiton S.A.	Uruguay		100.00	
Exclusive Signatures International (UK) Ltd	United Kingdom		100.00	

(1) In accordance with the provisions of article D248-12 of French trading law, it is hereby stated that some information provided above is incomplete.

(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control ⁽²⁾
Exclusive Signatures International	France	433 976 255	100.00	
Fapagau et Cie	France	318 247 285	100.00	
Faprogi	France	393 461 454	100.00	
Finval	France	341 643 781	100.00	
Frabel SA de CV	Mexico		100.00	
France Beauté Aktiebolag	Sweden		100.00	
French Cosmetics UK Limited	United Kingdom		100.00	
Garnier New Zealand Ltd	New Zealand		100.00	
Gemey Maybelline Garnier	France	339 419 962	100.00	
Gemey Paris – Maybelline New York	France	339 381 584	100.00	
Geral Inc.	United States		100.00	
Goldys International	France	337 844 914	100.00	
Helena Rubinstein	France	542 033 485	100.00	
Helena Rubinstein Italia Spa	Italy		100.00	
Holdial	France	324 084 698	100.00	
Kosmepol Sp Z.O.O.	Poland		100.00	
L & J Re	France	413 178 740	100.00	
Laboratoire Garnier & Cie	France	572 186 047	100.00	
Lai Mei Cosmetics International Trading Co Ltd	China		100.00	
Lancarome A/S	Denmark		100.00	
Lancôme Institut et Cie	France	332 111 848	100.00	
Lancôme Parfums & Beauté & Cie	France	302 387 196	100.00	
Lancos	Japan		100.00	
La Roche-Posay Dermato-Cosmétique	France	410 336 127	99.96	
La Roche-Posay Laboratoire Pharmaceutique	France	306 688 714	99.96	
LaScad	France	319 472 775	100.00	
Lavicosmetica Cosmetique Active Hellas	Greece		51.00	
Lehoux et Jacque	France	572 072 544	100.00	
L.I.D.V.	France	975 620 675	100.00	
L'Oréal Argentina S.A.I.C.	Argentina		100.00	
L'Oréal Australia	Australia		100.00	
L'Oréal Baltic	Latvia		100.00	
L'Oréal Belgilux	Belgium		99.99	
L'Oréal Canada Inc.	Canada		100.00	
L'Oréal Ceska Republica S.R.O.	Czech Republic		100.00	
L'Oréal Chile S.A.	Chile		100.00	
L'Oréal (China) Co Ltd	China		100.00	
L'Oréal Colombia S.A.	Colombia		100.00	
L'Oréal Danmark A/S	Denmark		100.00	
L'Oréal Deutschland GmbH	Germany		100.00	

(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control ⁽²⁾
L'Oréal Division Productos de Lujo S.A.	Spain		100.00	
L'Oréal Division Productos Gran Publico S.A.	Spain		100.00	
L'Oréal Division Productos Profesionales S.A.	Spain		100.00	
L'Oréal España S.A.	Spain		100.00	
L'Oréal Finland Oy	Finland		100.00	
L'Oréal Guatemala	Guatemala		100.00	
L'Oréal Hellas S.A.	Greece		100.00	
L'Oréal Hong Kong Limited	Hong Kong		100.00	
L'Oréal H.U.P. GmbH & Co Kg	Germany		100.00	
L'Oréal H.U.P. Beteiligungs GmbH	Germany		100.00	
L'Oréal India Ltd	India		100.00	
L'Oréal Indonesia	Indonesia		100.00	
L'Oréal Investments BV	Netherlands		100.00	
L'Oréal Israel Ltd	Israel		92.97	
L'Oréal Italia Spa	Italy		100.00	
L'Oréal Japan Ltd	Japan		100.00	
L'Oréal Korea	South Korea		100.00	
L'Oréal Liban	Lebanon		75.17	
L'Oréal Libramont	Belgium		99.99	
L'Oréal Luxe Producten Nederland BV	Netherlands		100.00	
L'Oréal Luxury Products Division Australia	Australia		100.00	
L'Oréal Luxury Products Norge	Norway		100.00	
L'Oréal Luxusprodukte GmbH	Germany		100.00	
L'Oréal Magyarorszag Kozmetikai Kft	Hungary		100.00	
L'Oréal Malaysia	Malaysia		97.50	
L'Oréal Maroc	Morocco		50.00	100.00
L'Oréal Mexico SA de CV	Mexico		100.00	
L'Oréal Mexico Servicios SA de CV	Mexico		100.00	
L'Oréal Middle East Fze	United Arab Emirates		100.00	
L'Oréal Nederland BV	Netherlands		100.00	
L'Oréal New Zealand	New Zealand		100.00	
L'Oréal Norge A/S	Norway		100.00	
L'Oréal Österreich GmbH	Austria		100.00	
L'Oréal Peru S.A.	Peru		100.00	
L'Oréal Philippines	Philippines		100.00	
L'Oréal Polska Sp Z.O.O.	Poland		100.00	
L'Oréal Portugal	Portugal		100.00	
L'Oréal Prodotti di Lusso Italia Spa	Italy		100.00	
L'Oréal Produits de Luxe Belgilux	Belgium		100.00	
L'Oréal Produits de Luxe France	France	314 428 186	100.00	

(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control ⁽²⁾
L'Oréal Produits de Luxe Hellas AE	Greece		100.00	
L'Oréal Produits de Luxe International	France	309 064 947	100.00	
L'Oréal Produits de Luxe Österreich	Austria		100.00	
L'Oréal Produits de Luxe Portugal Lda	Portugal		100.00	
L'Oréal Produits de Luxe Suisse S.A.	Switzerland		100.00	
L'Oréal Produktion Deutschland Beteiligung GmbH	Germany		100.00	
L'Oréal Produktion Deutschland GmbH & Co Kg	Germany		100.00	
L'Oréal Romania	Romania		100.00	
L'Oréal Saipo Industriale Spa	Italy		100.00	
L'Oréal Saipo Spa	Italy		100.00	
L'Oréal Services Centre de Coordination S.A.	Belgium		99.99	
L'Oréal Singapore Pte Ltd	Singapore		100.00	
L'Oréal Slovenija Kozmetika D.O.O.	Slovenia		100.00	
L'Oréal Slovensko S.R.O.	Slovakia		100.00	
L'Oréal South Africa Holdings Ltd	South Africa		100.00	
L'Oréal Suisse S.A.	Switzerland		100.00	
L'Oréal Sverige AB	Sweden		100.00	
L'Oréal Taiwan Co. Ltd	Taiwan		100.00	
L'Oréal Thailand Ltd	Thailand		100.00	
L'Oréal Türkiye	Turkey		100.00	
L'Oréal UK Ltd	United Kingdom		100.00	
L'Oréal Uruguay S.A.	Uruguay		100.00	
L'Oréal Usa Inc.	United States		100.00	
L'Oréal Venezuela CA	Venezuela		100.00	
L'Oréal Zagreb	Croatia		100.00	
Marigny Manufacturing Australia Pty Ltd	Australia		100.00	
Maybelline KK	Japan		100.00	
Maybelline Suzhou Cosmetics Ltd	China		100.00	
Nihon L'Oréal KK	Japan		100.00	
Ormes Bel Air	France	329 744 809	100.00	
Parbel of Florida Inc.	United States		100.00	
Par-Bleue	France	394 015 812	100.00	
Parfums & Beauté Malaysia	Malaysia		98.77	
Parfums Cacharel et Cie	France	321 422 172	100.00	
Parfums Guy Laroche	France	304 504 574	100.00	
Parfums Paloma Picasso & Cie	France	333 006 252	100.00	
Parfums Ralph Lauren	France	334 121 415	100.00	
Parlanvin	France	381 480 060	100.00	
Parmobel Limited	Cyprus		75.00	
Prestige & Collections International	France	334 171 113	100.00	

(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control ⁽²⁾
Procosa - Productos de Beleza S.A.	Brazil		100.00	
Productora Albesa S.A.	Spain		100.00	
Productos Capilares L'Oréal S.A.	Spain		100.00	
Redken France	France	441 459 443	100.00	
Regefi	France	592 065 239	100.00	
Saleïne Cloe	France	442 372 579	100.00	
Scental	Hong Kong		100.00	
Sélective Beauté International et Cie	France	333 314 722	100.00	
Shu Uemura Cosmetic Corporate	Taiwan		75.00	
Siampar Limited	Thailand		100.00	
Sicôs et Cie	France	687 020 214	100.00	
Sincos Pte Ltd	Singapore		100.00	
Socex De Expansao Mercantil Em Cosmeticos	Brazil		99.00	
Société Civile Immobilière Socinay	France	428 623 292	100.00	
Société de Développement Artistique	France	417 893 112	100.00	
Société Hydrominérale de La Roche-Posay	France	542 065 040	99.96	
Sofamo	Monaco	58 S 00670	99.97	
Sofy	France	305 949 034	100.00	
Soprocos	France	586 680 092	100.00	
Soproral	France	383 069 663	100.00	
Sparlys	France	652 054 065	100.00	
Swan Beauties Pvt Ltd	India		100.00	
Thai Shu Uemura	Thailand		68.15	
Venprobel	Venezuela		100.00	
Yasulor Indonesia	Indonesia		100.00	
Zao L'Oréal	Russian Federation		100.00	

(2) Equivalent to the interest percentage except if specified.

B - COMPANIES CONSOLIDATED BY THE PROPORTIONAL METHOD

Companies	Head Office	N° Siren	% Interest	% Control ⁽³⁾
Beauté Créateurs	France	475 682 068	50.00 ⁽¹⁾	
Club Créateurs Beauté Korea Ltd	South Korea		50.00 ⁽¹⁾	
Cosimar Japon KK	Japan		50.00 ⁽¹⁾	
Galderma Argentina S.A.	Argentina		50.00 ⁽²⁾	
Galderma Australia Pty Ltd	Australia		50.00 ⁽²⁾	
Galderma Belgilux N.V.	Belgium		50.00 ⁽²⁾	
Galderma Brasil Limitada	Brazil		50.00 ⁽²⁾	
Galderma Canada Inc.	Canada		50.00 ⁽²⁾	
Galderma Colombia S.A.	Colombia		50.00 ⁽²⁾	
Galderma Hellas	Greece		50.00 ⁽²⁾	
Galderma Hong Kong	Hong Kong		50.00 ⁽²⁾	
Galderma India Private Ltd	India		50.00 ⁽²⁾	
Galderma International	France	325 186 617	50.00 ⁽²⁾	
Galderma Italia Spa	Italy		50.00 ⁽²⁾	
Galderma Korea Ltd	South Korea		50.00 ⁽²⁾	
Galderma KK	Japan		50.00 ⁽²⁾	
Galderma Laboratories Inc.	United States		49.05 ⁽²⁾	50.00
Galderma Laboratorium GmbH	Germany		50.00 ⁽²⁾	
Galderma Laboratories South Africa Pty Ltd	South Africa		50.00 ⁽²⁾	
Galderma Mexico SA de CV	Mexico		50.00 ⁽²⁾	
Galderma Nordic AB	Sweden		50.00 ⁽²⁾	
Galderma Omega	France	440 139 533	50.00 ⁽²⁾	
Galderma Peru Laboratorios	Peru		50.00 ⁽²⁾	
Galderma Pharma S.A.	Switzerland		50.00 ⁽²⁾	
Galderma Philippines Inc.	Philippines		50.00 ⁽²⁾	
Galderma Polska	Poland		50.00 ⁽²⁾	
Galderma Production Canada Inc.	Canada		50.00 ⁽²⁾	
Galderma Research & Development	France	317 099 679	50.00 ⁽²⁾	
Galderma Research And Development Inc.	United States		50.00 ⁽²⁾	
Galderma S.A.	Switzerland		50.00 ⁽²⁾	
Galderma Singapore	Singapore		50.00 ⁽²⁾	
Galderma UK Ltd	United Kingdom		50.00 ⁽²⁾	
Galderma Uruguay	Uruguay		50.00 ⁽²⁾	
Innéov Belgique	Belgium		50.00 ⁽²⁾	
Innéov Deutschland GmbH	Germany		50.00 ⁽²⁾	
Innéov Espana S.A.	Spain		50.00 ⁽²⁾	
Innéov France	France		50.00 ⁽²⁾	
Innéov Hellas AE	Greece		50.00 ⁽²⁾	

(1) Companies jointly owned with Trois Suisses

(2) Companies jointly owned with Nestlé

(3) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control ⁽³⁾
Innéov Italia Spa	Italy		50.00 ⁽²⁾	
Innéov Österreich GmbH	Austria		50.00 ⁽²⁾	
Innéov Suisse	Switzerland		50.00 ⁽²⁾	
Laboratoires Galderma	France	440 139 772	50.00 ⁽²⁾	
Laboratoires Innéov	France	443 051 784	50.00 ⁽²⁾	
Laboratoires Innéov Unipessoal Portugal Ltda	Portugal		50.00 ⁽²⁾	
Laboratorios Galderma S.A.	Spain		50.00 ⁽²⁾	
Laboratorios Galderma Chile Limitada	Chile		50.00 ⁽²⁾	
Laboratorios Galderma Venezuela S.A.	Venezuela		50.00 ⁽²⁾	
Le Club des Créateurs de Beauté	Belgium		50.00 ⁽¹⁾	
Le Club des Créateurs de Beauté Taiwan	Taiwan		50.00 ⁽¹⁾	
Le Club des Créateurs Beauté UK	United Kingdom		50.00 ⁽¹⁾	
Le Club des Créateurs Beauté USA	United States		50.00 ⁽¹⁾	
Le Club des Créateurs Cosmetic Versand Verwaltungs GmbH	Germany		50.00 ⁽¹⁾	
Le Club des Créateurs Cosmetic Versand GmbH And Co Kg	Germany		50.00 ⁽¹⁾	
Shu Uemura Cosmetics Inc.	Japan		35.00	

(1) Companies jointly owned with Trois Suisses

(2) Companies jointly owned with Nestlé

(3) Equivalent to the interest percentage except if specified.

C - COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Companies	Head Office	N° Siren	% Interest	% Control ⁽¹⁾
Club des Créateurs de Beauté KK	Japan		20.00	
Nobara Inc.	United States		35.00	
Sanofi-Synthélabo	France	395 030 844	20.54	27.89
Shu Uemura International (Hong Kong)	Hong Kong		22.75	

(1) Equivalent to the interest percentage except if specified.

Auditors' report on the consolidated financial statements

(Year ended December 31st 2003)

Free translation of the original French language report for convenience purposes only.

This report includes information specifically required by French law and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the report of the Board of Directors.

This report, together with the Statutory Auditors' Report addressing financial and accounting information in the President's report on Internal Control, should be read in conjunction with French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended December 31st 2003.

The consolidated financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the group as at December 31st 2003 and the results of operations for the year then ended, in accordance with rules and accounting principles generally accepted in France.

Justification of our assessments

In accordance with article L.225-235 of the French Commercial Code (*Code de commerce*) requiring to justify our assessments, applicable this financial year for the first time, we draw your attention to the matters set out below. These matters contribute to the opinion expressed above in relation to the consolidated financial statements taken as a whole, and do not constitute a separate opinion on the items mentioned:

- goodwill and intangible assets have been valued in accordance with the group's accounting policies described in Notes 1-d and 1-e to the consolidated financial statements,
- obligations relating to pensions, early retirement benefits and other related benefits granted to employees have been valued and recorded in accordance with the group's accounting policies described in Notes 1-n and 15-c to the consolidated financial statements.

As part of our audit, we reviewed whether these accounting methods were appropriate and, in relation to estimates, whether the assumptions used and the resulting valuations were reasonable.

Specific verifications

We have also performed the procedures required by law on the group financial information given in the report of the Board of Directors. We have no comment to make as to the fair presentation of this information nor its consistency with the consolidated financial statements.

Paris and Neuilly, February 20th 2004

Pierre Coll

Etienne Jacquemin



<http://www.loreal.com>
<http://www.loreal-finance.com>

L'ORÉAL

Incorporated in France as a "Société Anonyme"
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