2004 Annual Report

L'ORÉAL

Contents

The Reference Document of L'Oréal comprises three separate volumes:

- 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 as required by law, available prior to the Annual General Meeting convened for Tuesday, April 26th 2005.

Profile

Since it was founded nearly a century ago by the chemist Eugène Schueller, L'Oréal has been focusing its research and expertise on one business: cosmetics.
L'Oréal has consistently applied its policy of investing in research, ensuring that its products fulfil the highest possible standards of quality, safety and innovation in order to meet the beauty and well-being needs of men and women around the world.
Because there is no single model of beauty, the group has 17 distinct and complementary brands enjoying worldwide recognition, each with different roots and offering the variety needed to match different physical features, tastes and lifestyles.

> CHAIRMAN'S MESSAGE

A 20th year of double-digit growth Solid bases for our development

2004 was an important year in strategic terms. We reorganised the shareholding structure, abolished double voting rights and improved corporate governance. We supported the merger of Sanofi-Synthélabo with Aventis, which enabled us to deconsolidate our stake in pharmaceuticals and thus refocus the company on its core cosmetics business. In China, we made two acquisitions which, although small, are very promising. Lastly, we achieved our stated objective of a twentieth consecutive year of double-digit profit growth.

A successful year in a difficult environment

2004 was a successful year in a difficult environment. We came up against a sharp and unforeseeable drop in consumer spending in Europe. The North American market, meanwhile, did not show any signs of picking up until near the end of the year. By contrast, the rapid expansion of new and emerging markets continued. The other difficulty in the economic environment is the continued weakness of the dollar and many other currencies, which strongly affected our results.

Despite these hostile conditions, our like-for-like sales growth was strong, reaching almost double that of the cosmetics market. We won market share all over the world, including Europe, even though we are already firmly established there.

Our ability to keep on achieving high growth can be attributed to five strategic successes. The first is the success of innovations, particularly when they are focused on higher-value products such as ReFinish by L'ORÉAL PARIS, Réflection by KÉRASTASE and Innéov Hair Mass.

The next factor is the success of our strategy of retail channel diversification. The rapid growth of our Professional Products Division and Active Cosmetics Department has once again demonstrated the effectiveness

of this strategy, which enables us to derive maximum benefit from the most dynamic markets.

The growth achieved also reflects the success of our business segment strategy. Our brands are now almost exclusively concentrated on high-value-added product categories, where competing is a matter of innovation, creativity, brand strength, and the ability to anticipate and respond quickly to changing trends. These segments are the least vulnerable to pricing competition.

It is also the success of the offensive strategy we have been applying for more than 10 years in the United States, where L'Oréal's sales grew by 8% in 2004, breaking the 4-billion-dollar barrier thanks particularly to the outstanding success of GARNIER Fructis.

Lastly, the record growth rates in China, India, the Russian Federation and many other countries confirm the success of our strategy of vigorous expansion in new and emerging markets. The strategic change of direction we took around ten years ago, although relatively marginal at the outset, is now becoming a very promising reality.

Another improvement in margins

2004 was also notable for a further improvement in margins.

This reflects the efforts made since 2003 to offset the weakening of the dollar: improving our industrial, administrative and commercial productivity and reducing central expenses, with the sole exception of investments in research, which once again increased faster than sales.

This profitability growth also stems from two sources of continuous improvement: the marked increase in profit in the Rest of the World zone, and the reduction of our production costs, achieved by concentrating and specialising our industrial facilities, lowering purchasing costs and the ongoing process of simplifying the constituents of our products.

Outlook

Of course, the economic environment is subject to new uncertainties in 2005, such as consumer spending in Europe and exchange rate trends.

Looking further ahead, we have good reason to be optimistic. The cosmetics market is constantly growing, despite the occasional setback. Our markets should continue to be favourable in the most developed countries as we broaden our appeal to new groups of consumers, such as men, young people who start using our products from an increasingly early age, and senior citizens who use cosmetics for a longer period of time.

As for the emerging markets, they represent, for the first time, a greater proportion of the cosmetics market than North America. Our brands have become remarkably popular in these countries. This makes us confident that their growth potential should remain high over the coming years. Within five years, the rest of the world could account for some 30% of our total sales. Furthermore, we have been improving our margins in this part of the world for several years, and we are looking forward to the future with serenity.

The foundations for our future expansion are solid: our markets should continue to grow, our brands and technologies constitute an outstanding platform for our development, we will continue to apply our policy of targeted acquisitions. Furthermore, we are aiming to steadily improve our margins. Whatever happens in the future, Sanofi-Aventis should make a growing contribution to our profits, and particularly to our earnings per share. In short, we will therefore continue to set our sights on strong profit growth.

Finally, the great cultural diversity of our teams guarantees us creativity and responsiveness. Our confidence is based on their enthusiasm, and their spirit of adventure and conquest. I would like to take this opportunity to thank them.

Lindsay Owen-Jones
Chairman and Chief Executive Officer of L'Oréal

Composition of the Board of Directors

at December 31st 2004

5 different nationalities are represented on the Board

1,000 is the minimum number of shares held by each director

4 years: the statutory length of the tenure of each director

Auditors
PricewaterhouseCoopers Audit
Deloitte & Associés

Substitutes
Yves Nicolas
Jean-Paul Picard

Lindsay Owen-Jones(1)
Age: 58. 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). Board member of BNP Paribas and Sanofi-Aventis. Member of the Supervisory Board of Air Liquide.

Jean-Pierre Meyers(2)(6)
Age: 56. L'Oréal Board member since 1987 (term of office renewed in 2001). **Vice-Chairman of the Board**. Nestlé S.A. (Switzerland) Board member.

Rainer E. Gut(2)(4)
Age: 72. 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 (term of office renewed in 2004). **Vice-Chairman of the Board**.

Liliane Bettencourt(2)(3)
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).

Françoise Bettencourt Meyers
Age: 51. Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2001).

Peter Brabeck-Letmathe
Age: 60. 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). Vice-Chairman of the Board of Crédit Suisse Group and Winterthur (Switzerland). Roche Holding Board member.

Francisco Castañer Basco(2)(6)
Age: 60. Spanish. With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board member since 1998 (term of office renewed in 2002). Board member of Alcon (Switzerland).

The full list of the directors' offices and directorships, in accordance with legal requirements, is included in the Management Report of the Board of Directors.

François Dalle
Age: 86. 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. L'Oréal Board member since 1950 (term of office renewed in 2001).

Jean-Louis Dumas(4)
Age: 66. Joined Hermès in 1964, Chief Executive Officer in 1971. Chairman of Hermès group since 1978. President of Holding Hermès International since 1994. L'Oréal Board member since 2002. Member of the Supervisory Board of PSA Peugeot Citroën.

Xavier Fontanet(5)
Age: 56. 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 IMS (*Entreprendre pour la Cité*). Board member of Beneteau and Crédit Agricole S.A.

Bernard Kasriel(2)
Age: 58. With the *Institut du développement industriel* from 1970 to 1975. Chief Executive Officer of Braud from 1972 to 1974. Executive Vice-President of the *Société phocéenne de métallurgie* from 1975 to 1977. Joined Lafarge in 1977, appointed Executive Vice-President in 1982. Seconded to the United States between 1987 and 1989, appointed Chief Executive Officer in 2003. L'Oréal Board member since April 29th 2004. Board member of Lafarge and Sonoco Products Company (United States).

Marc Ladreit de Lacharrière
Age: 64. 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 and Chief Executive Officer of Fimalac. Chairman of Fitch Ratings, Inc. L'Oréal Board member since 1984 (term of office renewed in 2002). Board member of Renault and Casino.

Franck Riboud
Age: 49. 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).

Olivier Lecerf finished his term of office as Board member on March 31st 2004.

(1) Chairman of the Committee for Strategy and Implementation.
(2) Member of the Committee for Strategy and Implementation.
(3) Chairwoman of the "Management and Remuneration" Committee.
(4) Member of the "Management and Remuneration" Committee.
(5) Chairman of the Audit Committee.
(6) Member of the Audit Committee.

Corporate governance in 2004

- February 2004: new agreements between L'Oréal's traditional shareholders
- Simplification of shareholding structure
- Elimination of double voting rights
- Creation of a Committee for Strategy and Implementation

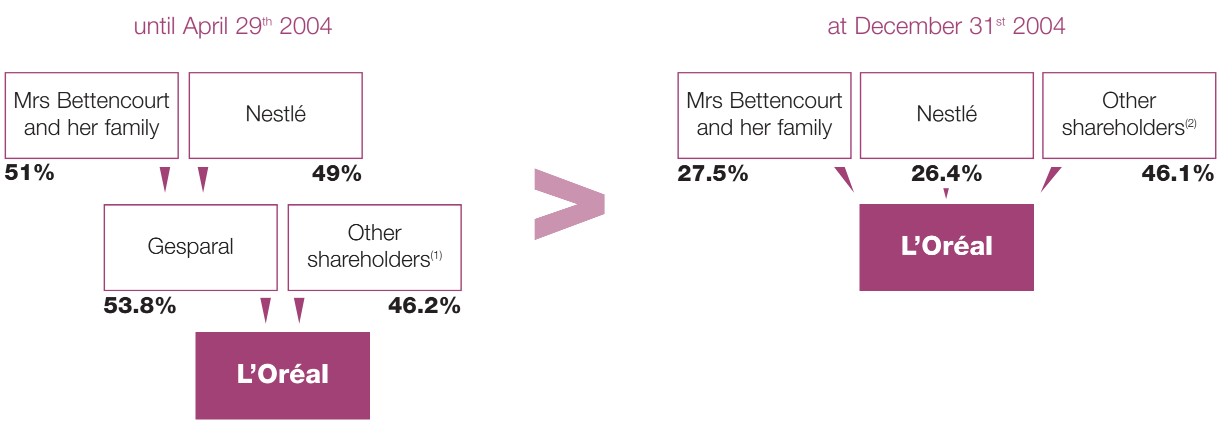
GOOD CORPORATE GOVERNANCE CONTRIBUTING TO THE COMPANY'S SUCCESS

The clarification of the shareholding structure and improved corporate governance are conducive to a spirit of transparency, simplicity and modernity. Strategic issues are now discussed only at Board level. L'Oréal ensures that its corporate governance is in line with the best practices, while renewing the stability of its shareholding structure for a number of years.

A BALANCED, DIVERSIFIED, EXPERIENCED AND RESPONSIBLE BOARD

Three directors are proposed by the Bettencourt family and three by Nestlé. The two Vice-Chairmen of the Board respectively represent the two parties. The Board members contribute their expertise and their professional experience, gained in a diversified range of activities in the international business world. They are required to act with due care and attention, and have complete freedom of judgement, which enables them to exercise total independence in the decision-making and work of the Board, and, where applicable, of its Review Committees. Each Board member is aware of the rules relating to the possession and use of inside information. It is compulsory for Board members to notify the Board if any conflict of interest arises, even if the conflict is only potential, in which case they are not allowed to participate in the corresponding deliberations.

SIMPLIFICATION OF SHAREHOLDING STRUCTURE

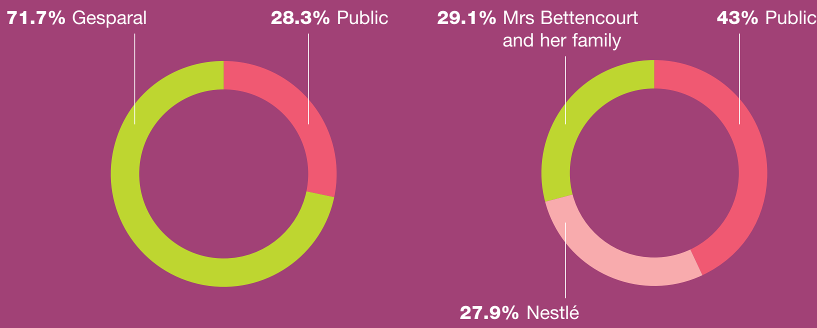


(1) Of which 3.8% of treasury stock.
(2) Of which 5.6% of treasury stock.

Elimination of double voting rights

The shareholders of L'Oréal approved the elimination of double voting rights at the Extraordinary General Meeting held on April 29th 2004. L'Oréal now applies the principle of one voting right per share. The percentage of voting rights held by the public has increased from 28.3% to 43%.

CHANGE IN THE BREAKDOWN OF VOTING RIGHTS



THE WORK OF THE BOARD IN 2004

The Board met nine times in 2004, with an average attendance of 85%. Extraordinary meetings were called to consider issues such as the merger and absorption of Gesparal by L'Oréal and the take-over of Aventis by Sanofi-Synthélabo.

A precise definition of the mission of each Committee has been adopted by the Board.

The Board invited senior L'Oréal managers to its meetings to examine the strong competitive positioning of the group in cosmetics markets and the quality of its market share. After considering the strategic analysis and commentary of the General Management, the Board focused its attention on the main priorities of the company and approved the major lines of development.

GOOD PRACTICES

In L'Oréal's view, the Internal Rules of the Board and the Insider Trading Rules, together with ethical values and principles, help to foster good corporate governance and individual integrity.
The Board decided to amend its Internal Rules, changing the voting thresholds required for the approval of projected acquisitions, and more clearly defining the missions of the Committee for Strategy and Implementation.
The Board is notified when an operation is concluded and implemented, and all transactions amounting to more than €150,000,000 are submitted to the Board for prior approval.

THE BOARD'S COMMITTEES

The Committee for Strategy and Implementation

The missions of the Committee for Strategy and Implementation are to clarify, through its analyses and discussions, the strategic orientations of the group which are submitted to the Board, and to monitor the implementation and progress of significant ongoing operations.
In particular, the Committee reviews: the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences, acquisition opportunities, and financial transactions that could significantly change the balance sheet structure.
More broadly, the Committee discusses all issues considered to be of essential importance for the future of the group in strategic terms, and for maintaining its general financial stability.
The Committee is composed of six L'Oréal Board members: two representing the Bettencourt family, two representing Nestlé, the Chairman of the Board of Directors and one other independent Board member.

The Audit Committee

In 2004, the Committee reported to the Board and expressed its approval

THE BOARD'S REVIEW COMMITTEES

THE AUDIT COMMITTEE

3 members:
- Xavier Fontanet (Chairman)
- Jean-Pierre Meyers
- Francisco Castañer Basco

4 meetings in 2004.

THE "MANAGEMENT AND REMUNERATION" COMMITTEE

3 members:
- Liliane Bettencourt (Chairwoman)
- Jean-Louis Dumas
- Rainer E. Gut

4 meetings in 2004.

THE COMMITTEE FOR STRATEGY AND IMPLEMENTATION

6 members:
- Lindsay Owen-Jones (Chairman)
- Liliane Bettencourt
- Jean-Pierre Meyers
- Rainer E. Gut
- Francisco Castañer Basco
- Bernard Kasriel

Created on April 29th 2004.
3 meetings in 2004.

concerning all the procedures in place, particularly those relating to the compilation of the financial statements. The financial statements closed in conjunction with the Statutory Auditors were established satisfactorily and with a high degree of security. The new regulations concerning the Internal Control, together with the Chairman's Report, are considered to be an opportunity for progress rather than a difficulty.
If, in the course of its work, the Committee detects a material risk which does not seem to be adequately addressed, it notifies the Chairman of the Board accordingly.
The Committee has furthermore examined provisions, insurance, legal disputes and legal risks, the Internal Audit missions and the Report on Internal Control. It has been informed of the progress made on IFRS and the impact of these accounting standards on the presentation of the financial statements, with an estimate of the impact on items in the balance sheet and the profit and loss account.

The "Management and Remuneration" Committee

The missions of this Committee are to make proposals to the Board concerning the remuneration of corporate officers and the attribution of stock options, to assist the Chairman and the Board in their review of succession plans for the group's senior management positions, and to review the composition of the Board of Directors.
The Committee may meet at any time it considers appropriate, for example to assess the performance of the company's senior management.
At the start of each financial year, the Committee proposes a target level of remuneration for each executive corporate officer. The principle is that fixed remuneration may represent one-half of this target amount. At the end of the financial year, the variable remuneration is based partly on an analysis of the company's performance and partly on a qualitative assessment of management aspects.

CONTINUOUS IMPROVEMENT IS ESSENTIAL FOR GOOD CORPORATE GOVERNANCE

The Board of Directors has adopted a method for assessing its work that is closely related to the concerns of Board members arising from their responsibilities. The interviews held with Board members by the Secretary of the Board, in accordance with generally accepted practices, led to the compilation of a report summarising the Board members' main remarks and proposals.
The quality of Board meetings is steadily improving. Considerable efforts have been made to provide more detailed information to the Board and to ensure that strategic issues are thoroughly reviewed. The Board members recognise the value of inviting senior managers to make presentations at certain meetings, and wish to see this practice continue.

The *modus operandi* of the Board of Directors has been reviewed each year since 1996.

For further information, please refer to the Board of Directors' Management Report and the Chairman's Report in the 3rd volume of the Reference Document, available in the "Annual Report" section on the Internet site www.loreal-finance.com:
- *Change in the shareholding structure;*
- *Organisation of the Board of Directors in 2004;*
- *Remuneration of senior managers and corporate officers;*
- *Chairman's Report on the preparation and organisation of the Board's work, Internal Control procedures and the limitation of the powers of the General Management;*
- *Internal Rules of the Board of Directors.*

1 2 3

4 5 6 7

8 9

Management Committee

1 Lindsay Owen-Jones CBE
Chairman and Chief Executive Officer

2 Béatrice Dautresme
Executive Vice-President
Corporate Communications
and External Affairs

3 Jean-François Grollier
Executive Vice-President
Research and Development

4 Marcel Lafforgue
Executive Vice-President
Production and Technology

5 Jean-Jacques Lebel
President
Professional Products

6 Christian Mulliez
Executive Vice-President
Administration and Finance

7 Patrick Rabain
President
Consumer Products

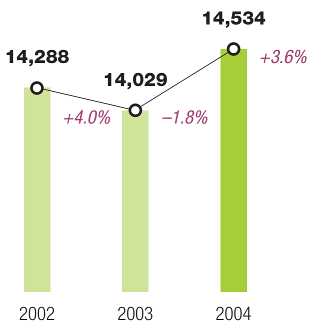
8 Geoff Skingsley
Executive Vice-President
Human Resources

9 Gilles Weil
President
Luxury Products

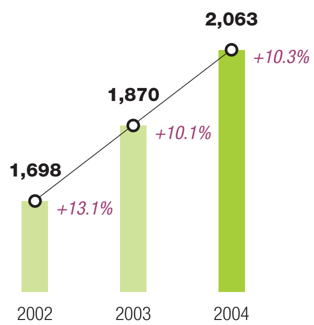
L'Oréal financial highlights

- Another year of strong growth and market share gains
- Rapid growth in North America
- Spectacular expansion in new and emerging markets
- Double-digit growth in pre-tax profit for the 20th consecutive year
- Profitability sharply improved once again in 2004

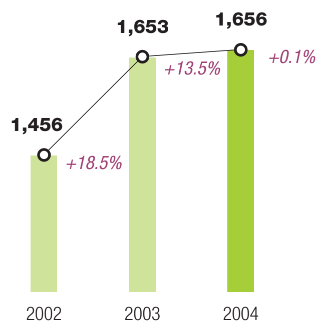
GROUP PERFORMANCE OVER THREE YEARS



CONSOLIDATED SALES
(€ millions)



PRE-TAX PROFIT OF CONSOLIDATED COMPANIES
(€ millions)



NET OPERATIONAL PROFIT AFTER MINORITY INTERESTS
(€ millions)

BREAKDOWN BY BRANCH(1)

Consolidated sales by branch

2004	€ millions	Like-for-like growth	Growth based on published figures
Cosmetics	14,220	+6.3%	+3.8%
Dermatology(2)	293	+1.8%	–4.3%

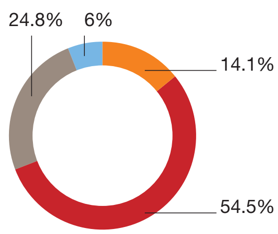
Pre-tax profit of consolidated companies by branch

2004	€ millions	Weight	Growth	% of sales
Cosmetics	2,000	96.9%	+10.5%	14.1%
Dermatology(2)	44	2.1%	–5.7%	15.1%

(1) The group's business is organised into two branches: cosmetics and dermatology. The other divisions do not constitute a branch.
(2) Group share, i.e. 50%.

L'ORÉAL COSMETICS BRANCH

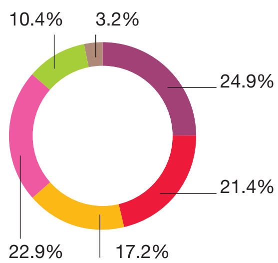
Breakdown of 2004 consolidated cosmetics sales by division



	€ millions	Growth based on published figures	Like-for-like growth
Professional Products	1,998	+5.2%	+7.6%
Consumer Products	7,754	+3.3%	+5.8%
Luxury Products	3,520	+2.3%	+5.2%
Active Cosmetics	852	+13.8%	+15.0%
Total cosmetics sales(1)	**14,220**	**+3.8%**	**+6.3%**

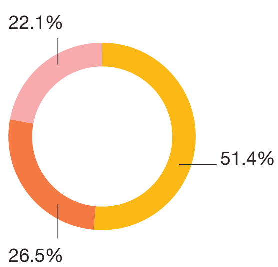
(1) The difference between the total cosmetics sales and the combined total of the 4 divisions and department (€96 million) consists mainly of mail order sales.

Breakdown of 2004 consolidated cosmetics sales by business segment



	€ millions	Growth based on published figures	Like-for-like growth
Haircare	3,545	+2.6%	+4.9%
Make-up	3,036	+4.1%	+7.9%
Hair colourants	2,443	–0.4%	+3.5%
Skincare	3,249	+11.1%	+12.0%
Perfumes	1,484	–0.8%	+2.4%
Other	462	+1.1%	–1.2%
Total cosmetics sales	**14,220**	**+3.8%**	**+6.3%**

Breakdown of 2004 consolidated cosmetics sales by geographic zone



	€ millions	Growth based on published figures	Like-for-like growth
Western Europe	7,312	+1.3%	+1.1%
North America	3,772	–0.3%	+8.1%
Rest of the World, of which:	3,135	+16.2%	+18.1%
· Asia	1,269	+19.3%	+17.0%
· Latin America	724	+7.0%	+16.2%
· Eastern Europe	524	+27.3%	+29.3%
· Other countries	618	+13.2%	+13.9%
Total cosmetics sales	**14,220**	**+3.8%**	**+6.3%**

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

	2003		2004	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,066	14.8%	1,117	15.3%
North America	490	12.9%	509	13.5%
Rest of the World	275	10.2%	327	10.4%
Total for zones	**1,831**	**13.4%**	**1,953**	**13.7%**
Non allocated	69	+0.5%	146	+1.0%
Cosmetics total	**1,900**	**13.9%**	**2,099**	**14.8%**

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

BALANCE SHEET, CASH FLOWS AND FINANCIAL RATIOS[1]

2004 balance sheet (€ millions)

Total: 18,179

ASSETS			LIABILITIES
Fixed assets	11,534	10,560	Shareholders' equity
		4	Minority interests
		1,922	Provisions for liabilities and charges
Inventories and receivables - net	4,665	2,175	Borrowings and debts
Cash and marketable securities	1,981	3,519	Current liabilities

2004 sources and applications of funds (€ millions)

SOURCES			APPLICATIONS
Profit of consolidated companies	3,336	517	Capital expenditure
Depreciation and charges to provisions	627	1,179	Operating cash flow
Dilution profit[2]	–2,200	213	Change in working capital requirements
		–146	Dividends received from equity affiliates

Cash flow: 1,763

Financial ratios

		2003	2004
Pre-tax profit of consolidated companies / Sales	=	13.3%	**14.2%**
Net operational profit of consolidated companies / Sales	=	11.8%	**11.4%**
Net operational profit after minority interests / Opening shareholders' equity	=	22.3%	**20.4%**
Gearing[3]	=	16.3%	**15.9%**

(1) See accouting principles (Volume 2 of the Annual Report).
(2) Dilution profit resulting from the take-over of Aventis by Sanofi-Synthélabo.
(3) Gearing= $\dfrac{\text{Debts – long-term loans and other debtors – marketable securities excluding treasury stock – cash and cash equivalents}}{\text{Shareholders' equity – treasury stock + minority interests}}$

1994-2004: ten years of consolidated

(€ millions)	**2004**	2003	2002	2001
Results of operations				
Consolidated sales	**14,534**	14,029	14,288	13,740
Pre-tax profit of consolidated companies	**2,063**	1,870	1,698	1,502
As a percentage of consolidated sales	***14.2***	*13.3*	*11.9*	*10.9*
Income tax	**696**	629	580	536
Net operational profit	**1,659**	1,661	1,464	1,236
As a percentage of consolidated sales	***11.4***	*11.8*	*10.2*	*9.0*
Net operational profit after minority interests	**1,656**	1,653	1,456	1,229
Total dividend	**554**	494	433	365
Balance sheet				
Fixed assets	**11,534**	8,136	8,130	8,140
Current assets	**6,645**	6,876	6,843	6,724
Of which cash and marketable securities	***1,981***	*2,303*	*2,216*	*1,954*
Shareholders' equity(3)	**10,564**	8,136	7,434	7,210
Borrowings and debts	**2,175**	1,941	2,646	2,939
Per share data *(notes 4 to 6)*				
Net operational profit after minority interests per share(7) (8) (9)	**2.46**	2.45	2.15	1.82
Net dividend per share(10) (11)	**0.82**	0.73	0.64	0.54
Tax credit	**–**	0.37	0.32	0.27
Share price as of December 31st (10)	**55.85**	65.00	72.55	80.90
Weighted average number of shares outstanding	**673,547,541**	676,021,722	675,990,516	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 Synthélabo, 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.

financial data

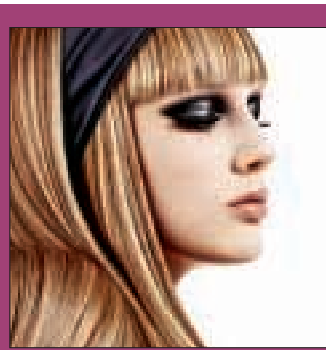
2000 (2)	1999 (1) (2)	1998 (1)	1998	1997	1996	1995	1994
12,671	10,751	9,588	11,498	10,537	9,200	8,136	7,260
1,322	1,125	979	1,339	1,183	1,011	897	816
10.4	*10.5*	*10.2*	*11.6*	*11.2*	*11.0*	*11.0*	*11.2*
488	429	375	488	422	328	285	256
1,033	833	722	807	722	644	579	529
8.2	*7.7*	*7.5*	*7.0*	*6.9*	*7.0*	*7.1*	*7.3*
1,028	827	719	719	641	568	515	476
297	230	191	191	165	144	125	114
7,605	5,918	5,299	5,590	5,346	4,687	3,550	3,366
6,256	5,139	4,229	4,937	4,512	4,048	3,617	3,182
1,588	*1,080*	*762*	*903*	*825*	*810*	*685*	*844*
6,179	5,470	5,123	5,428	5,015	4,429	3,938	3,642
3,424	1,914	1,718	1,748	1,767	1,598	848	979
1.52	1.22	1.06	1.06	0.95	0.84	0.76	0.70
0.44	0.34	0.28	0.28	0.24	0.21	0.18	0.17
0.22	0.17	0.14	0.14	0.12	0.11	0.09	0.09
91.30	79.65	61.59	61.59	35.90	29.79	18.17	15.09
676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	614,601,970	614,601,970

(5) Figures restated to reflect the one-for-ten bonus share allocation decided by the Board of Directors as of May 23rd 1996.
(6) Ten-for-one share split (Annual General Meeting of May 30th 2000).
(7) Net earnings per share are based on the weighted average number of shares outstanding in accordance with the accounting standards in force.
(8) 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 stock, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill.
(9) At December 31st 2004, 8.5 million subscription options have been allocated to group executives, and could lead to the issue of the same number of shares.
(10) 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.
(11) The dividend is fixed in euros since the Annual General Meeting of May 30th 2000.

A unique portfolio of global

Professional Products

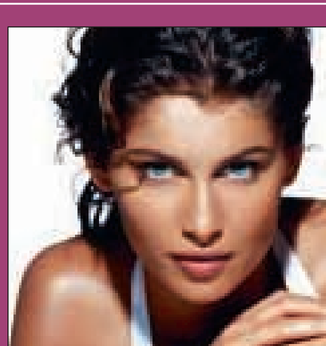
€1,998 million*



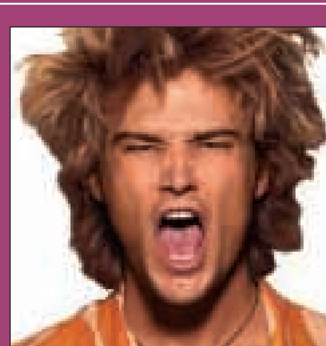
L'ORÉAL PROFESSIONNEL PARIS

Consumer Products

€7,754 million*



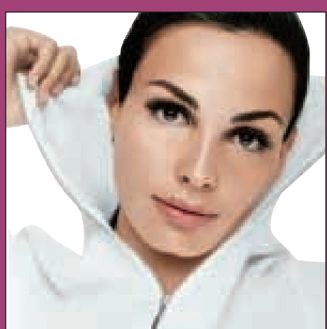
L'ORÉAL PARIS



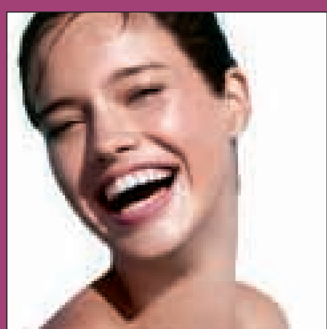
GARNIER

Luxury Products

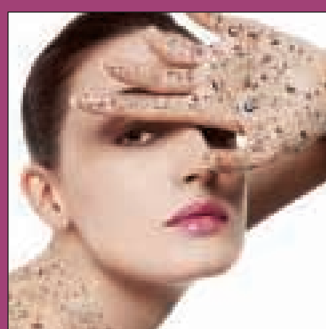
€3,520 million*



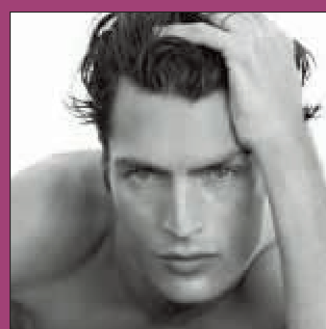
LANCÔME PARIS



BIOTHERM



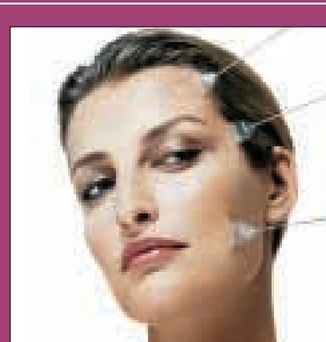
HR HELENA RUBINSTEIN



GIORGIO ARMANI PARFUMS

Active Cosmetics

€852 million*



VICHY LABORATOIRES

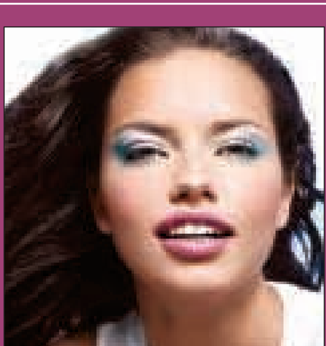
HEALTH IS VITAL. START WITH YOUR SKIN.

*2004 consolidated sales.

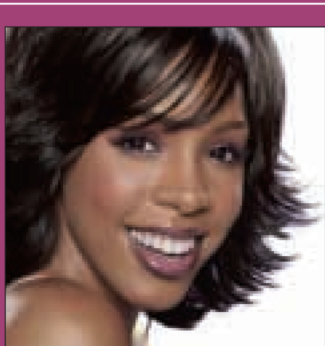
brands

REDKEN
5TH AVENUE NYC

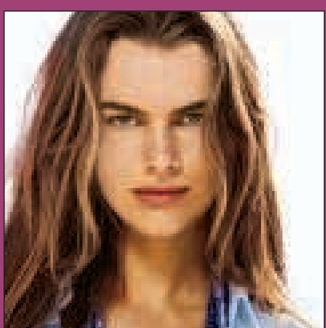
MATRIX



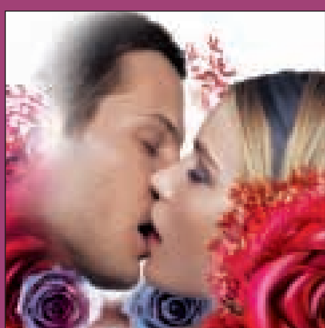
MAYBELLINE NEW YORK
MAYBE SHE'S BORN WITH IT. MAYBE IT'S MAYBELLINE.



SOFTSHEEN·CARSON®



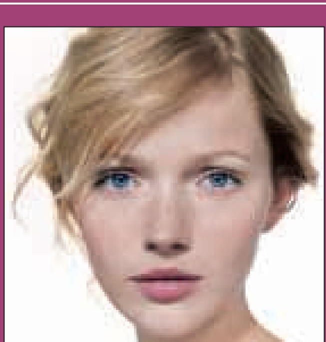
RALPH LAUREN



cacharel

Kiehl's
SINCE 1851

shu uemura



LA ROCHE-POSAY
LABORATOIRE PHARMACEUTIQUE

NEW YORK • LONDON • MUMBAY • STOCKHOLM • MONTREAL • OSLO

MOSCOW • BUENOS AIRES • KUALA LUMPUR • SÃO PAULO • CARACAS

Global momentum drives growth

HONG KONG • VILNIUS • TOKYO • MEXICO • SHANGHAI • WARSAW

PRAGUE • TAIPEI • MELBOURNE • ISTANBUL • MADRID • JOHANNESBURG

Global expansion is at the heart of L’Oréal’s growth strategy. The group, now present in over 130 countries, is constantly striving to raise market share and roll out its brands in new countries, to win over increasing numbers of consumers worldwide.

UNITED STATES

Garnier scores points with Fructis

The launch of GARNIER Fructis shampoo and haircare products early in 2003, and its styling line, Fructis Style, in 2004, proved highly successful in the United States. The market share gains recorded by the brand already make it a serious challenger for its competitors. This haircare success story has strengthened the position of the GARNIER brand as the third pillar of the Consumer Products Division in the U.S. market, alongside L'ORÉAL PARIS and MAYBELLINE.

BRAZIL

Dermatologists fully support Active Cosmetics

In Brazil, where frequent dermatological consultations encourage the use of high value-added cosmetics, the Active Cosmetics Department proved an instant success when it launched in 2000. Today, VICHY and LA ROCHE-POSAY are continuing their roll-out in Brazil and the rest of Latin America. Their success is backed up by an even stronger commitment to dermatologists, together with eye-catching and top quality merchandising, and improved advisor training.

JAPAN

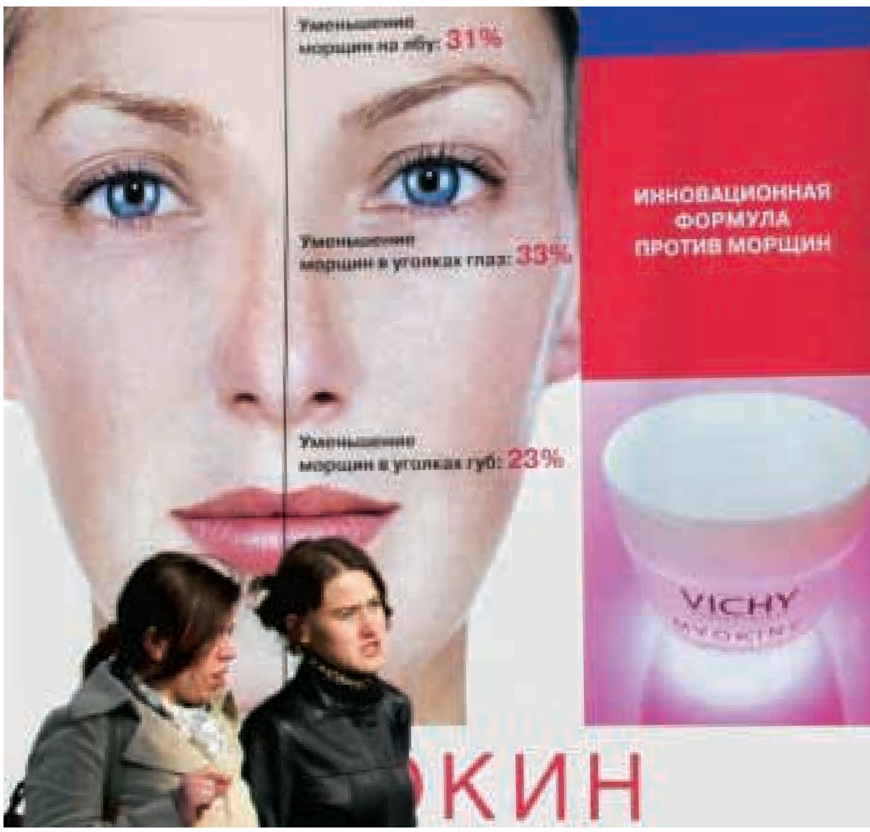
Kérastase magic does the trick

KÉRASTASE is introducing Japanese women to "haircare institute" luxury. The brand's professional and sophisticated hair salons, a byword for luxury and well-being, are proving phenomenally successful in Japan. Customers receive a comprehensive service from attentive advisors, a personal diagnosis, special haircare services and expert massages. These ingredients create a truly magical environment.

UNITED KINGDOM

ReFinish from L'Oréal Paris: an exceptional start

Following its outstanding success in the United States, the ReFinish micro-dermabrasion kit from L'ORÉAL PARIS Dermo-Expertise is now conquering Europe. Launched in October in the United Kingdom, this innovative and upmarket product was launched with a dedicated media campaign highlighting the close links between the Dermo-Expertise brand and the world of dermatology.



RUSSIAN FEDERATION

Vichy, leader in skincare

The VICHY brand, sold through a network of some 3,000 pharmacies across the Russian Federation, is now number one in skincare products across all distribution channels. Its success is due to the strength of the professional advice and the closer contact with customers at the point-of-sale. Product visibility has also improved through high-quality merchandising. VICHY's combined efforts have helped to modernise Russian pharmacies.

CHINA

A Maybelline lipstick in the hand of every woman in China

The sales of MAYBELLINE, which has been in China since 1998, really took off thanks to an ambitious and effective strategy "quality for everyone" that enabled the brand to extend its presence beyond the 600 largest Chinese towns. MAYBELLINE hostesses travel all over the country to teach customers the art of make-up through lessons and demonstrations. In a recent survey, 95% of Chinese women questioned named MAYBELLINE as their favourite make-up brand. The group's target of putting a MAYBELLINE lipstick in the hand of every woman in China is becoming a reality. Water Shine lipstick is winning over increasing numbers of consumers, thanks to its combination of quality and very competitive pricing.

UNITED STATES

Redken wins over American men

Redken For Men is on its way to conquering the United States. The launch was supported by targeted communication in highly fashionable New York venues. In the space of a few weeks, the brand and its all-new haircare range have succeeded in seducing U.S. hairdressers and their customers.

SOUTH AFRICA

Success of Dark and Lovely hair relaxers from SoftSheen.Carson

In September, South African consumers were introduced to the latest version of the famous Dark and Lovely hair relaxer line from SOFTSHEEN.CARSON. For the relaunch, the world's leading brand in the ethnic haircare market organised an impressive programme of events particularly appreciated by its customers. The result was an immediate and overwhelming product success. SOFTSHEEN.CARSON has now strengthened the number one position it has held for several years in haircare in South Africa. For the brand and for the group, South Africa constitutes a gateway to the entire African continent.

UNITED KINGDOM

Lancôme's Hypnôse mascara is a massive hit

Striking posters for Hypnôse mascara from LANCÔME are on display on the streets of London and on the sides of London cabs. The impactful campaign focused the attention of U.K. consumers on the extremely innovative formula of Hypnôse, which is now the number one mascara in the U.K. market. This excellent performance in make-up contributed to LANCÔME's nationwide growth.

INDIA

Vichy moves into India

Building on its educational image, VICHY created the original "Doctor Vichy" concept. Through this service, healthcare professionals provide consumers with personalised advice on their skin, and the use and benefits of VICHY products. The brand's travelling Skin Check-Up Centres have proved extremely successful with Indian women, in cities such as Mumbai, New Delhi, Bangalore, Chennai and Hyderabad.

CHINA

Matrix, the American dream in Asia

Matrix, the famous American haircare brand, is continuing its global roll-out and is now set to conquer the Chinese market. The scale of the challenge is enormous, with a potential of 300,000 salons in China. As the only global affordable professional brand in China, Matrix benefits from a unique position in this country.

Elsève from L'Oréal Paris becomes the number one shampoo in the market

2004 was a winning year for Elsève from L'Oréal Paris in the Czech Republic: it became leader in the haircare market and has expanded its market share rapidly with a star product strategy featuring products such as Color Vive, the benchmark for the market. Elsève has become the sought-after brand of young urban women leading active lives. These very demanding and sophisticated consumers are driving growth in the cosmetics markets.

CZECH REPUBLIC

MEXICO

L'Oréal leads the way in fragrances

In 2004, Cacharel, Giorgio Armani and Ralph Lauren scored big successes in Mexico with the launches of their perfumes Amor Amor, Emporio Night, Ralph Lauren Blue and Romance Silver. The Luxury Products Division has reinforced its number one position in the Mexican market.
In women's fragrances, Ralph Lauren has maintained its number one ranking, with perfumes such as Ralph, the unchallenged leader since its first launch. Ralph Lauren, with Polo Blue, and Giorgio Armani, with Acqua di Gío and Armani Mania are ranked first and second in men's fragrances.

INDIA

Light from Garnier Skin Naturals wins over Indian women

After its anti-wrinkle products, eye contour creams and moisturisers with sun protection, GARNIER launched its first anti-blemish skincare product in the Indian market. Light from Garnier Skin Naturals represents a technological breakthrough by combining a sun filter, an exfoliant and anti-oxidants. Its advanced formula makes it a high value-added product, setting it clearly above its competitors. The product perfectly meets the needs of many Indian women, and proved a big success immediately after its launch in an extremely competitive skincare market. The new line's four products are now available from tens of thousands of points of sale, ensuring excellent distribution for this highly innovative range.

UNITED STATES

Resounding success for Kiehl's

KIEHL'S is continuing its impressive roll-out in the United States and the rest of the globe. No fewer than 11 new boutiques were opened in 2004, including six in the United States. This success reflects the strong identity of KIEHL'S, a brand that can trace its origins back to the opening of a New York pharmacy in 1851.

> RESEARCH AND DEVELOPMENT

At the cutting edge of innovation in cosmetics

Almost 3,000 people, 13 research centres and 13 evaluation centres across the world play their part in devising some 4,000 new formulas for the main cosmetics businesses: hygiene, skin-care, sun protection, make-up, haircare, hair colourants, styling and fragrances. Research at L'Oréal takes a wide variety of forms and is totally international. This was demonstrated once again in 2004.

• *By enlarging objects 10,000 times, these electronic microscopes are used to explore and understand the intimate structure of the hair and skin.*

A KEY MISSION: APPLICATION-FOCUSED RESEARCH

The intense activity and productivity of L'Oréal research would be impossible without a streamlined and global organisation of resources. Advanced research focuses on two areas of development: skin and hair, the two human materials to which cosmetics can be applied. The most advanced knowledge of skin and hair is essential for the design of truly effective products.

The development laboratories, meanwhile, are organised according to the fields in which they operate: haircare, skincare, make-up and perfumes. In each case, the structures are international, as are the transversal functions and support services, such as patents, regulatory affairs, information systems, supplier relations and safety.

This organisational structure reflects the group's targets of profitability, productivity and growth. Global coordination prevents duplication and fosters technology transfers as well as the enrichment of existing technology. It also raises awareness of local issues and suggests how products can be adapted to suit both consumers' expectations and regulatory requirements. With this aim in mind, the policy is to apply the most stringent requirements all over the world.

COSMETIC AND DERMATOLOGICAL RESEARCH CENTRES IN THE WORLD

EUROPE

AMERICAS

ASIA

Internationalisation also goes hand in hand with the global roll-out of local brands acquired by the group, such as YUE-SAI, SHU UEMURA, MAYBELLINE, REDKEN and SOFTSHEEN.CARSON, which were originally developed in their home countries.

The bridges built between advanced research and applied research and development are made even more effective as they are enriched with shared knowledge, concepts and new technologies. Advanced research provides applied research and development entities with concepts, compounds and instrumentation, which then are adapted to suit the specific positioning of each brand in its markets.

The success of these applications depends on the know-how of the formulators, who select different technologies to be highlighted in all the group's products (the technology may be an operating procedure to achieve a specific emulsion of oil in water, or an association of polymers to provide properties such as suppleness, smoothness and shine).

All of our researchers around the world, from advanced research to development, are continually focused on the application, products, brands and consumers. This focus enables us to correctly anticipate future developments.

RESPECT FOR DIVERSITY

Diversity – whether cultural, ethnic, regulatory or scientific – is a key consideration when devising a cosmetic product to be applied to healthy skin and hair in order to maintain good condition, to cleanse or protect against the effects of the sun, wrinkles, blemishes or hair loss. Setting out from the basic principle that "all are equal, all are different", it is clearly essential to integrate diversity in all its forms in order to build the future of cosmetics.

During the 1980s, L'Oréal research took the practical step of investing in the life sciences to gain a better understanding of the effects of exposure to the sun on the skin, the ageing and whitening of skin and hair, and the growth and loss of hair. The use of *in vitro* methods to reconstitute skin and to grow hair that has been kept alive has led not only to a greater understanding of these two human organs, but also to the development of precisely targeted tests to evaluate the harmlessness and efficacy of both ingredients and finished products without animal testing.

Investing in physical methods to explore skin and hair is another research priority. Increasingly powerful microscopes, microelectronic sensors, nanosensors, image analysis and modelling can all be

RESEARCH AND DEVELOPMENT BUDGET[1]
(€ millions)

€507
million
invested in 2004[1]

(1) These figures incorporate all research costs for cosmetics and dermatology (100%).

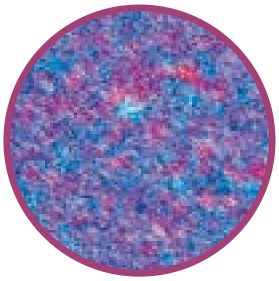
Behind the scenes: Hypnôse mascara

Hypnôse, the volume-effect mascara from LANCÔME, is a successful product, extremely popular with consumers, based on a thorough knowledge of lashes, expertise in formulation and texture, the ideal matching of the brush with the formula, and the application of two recently developed technologies.

What part does science play in Hypnôse?

An intimate knowledge of the lash thanks to the microscopy platform and the discovery (with a resolution of one micron) of every detail of its structure, which is very close to that of hair.

The art of fomulation, that is the mixing of ingredients which are not always compatible (oils, waxes, polymers, pigments, fillers, etc.) to colour and increase the volume of the lash, by adding body without forming lumps while keeping the lashes separate.



used to explore structure, understand the resulting properties, analyse the mode of action of a product and devise tools for the objective analysis of product efficacy.

Furthermore, the gradual extension of our research centres over three continents, with one centre recently opened in Chicago and another planned in Shanghai, will enable us to explore the characteristics of all ethnic groups, formulate specific products or adapt existing international products. This forms part of a wider "melting pot" process taking place over the whole planet, and the opening up of new markets in Asia, Latin America and Africa.

L'ORÉAL TURNS EVALUATION INTO A SCIENCE

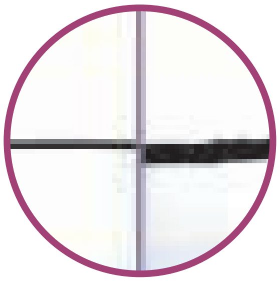
The intensification of evaluation efforts is today strengthening L'Oréal's research capability. Evaluation can provide proof of the harmlessness and efficacy of products by the use of reliable and reproducible methods, and enables the monitoring of actual performance in normal conditions of use by consumers the world over. This extraordinary challenge cannot be taken up without knowledge and research.

The process begins with a knowledge of markets and beauty rituals in the four corners of the world, obtained in our 13 evaluation centres, and continues with the choice of raw materials, based on almost 100 years of formulation expertise.

L'Oréal can also draw on an immense database, containing information about skin and hair at and below the surface, depending on age and environmental factors such as exposure to the sun, climate, pollution and lifestyle. This makes it possible to design products containing more than thirty ingredients. The harmlessness of the ingredients is evaluated by applying strictly defined procedures.

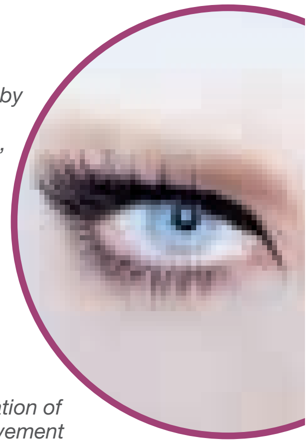
Research must also be focused on ensuring traceability for which chemical analysis is essential. Finally, the formulation stage actually gives birth to the product, which is tested, once again, to ensure its harmlessness and check its performance levels. In carrying out this task, L'Oréal has two advantages: the development of *in vitro* models and instrumental methods for non-invasive *in vivo* analysis. Reconstructed skin that reproduces the main functions of human skin, and hair that has been kept alive and grows like human

2,979
employees of cosmetic and dermatological research



The originality of Hypnôse lies in the adoption of a technology that has been patented by L'Oréal for hair: associations of cationic and anionic polymers that ensure a smooth sheathing of the fibre, and a texture agent that refines the fibre.

The volume effect is obtained thanks to the combination of texture and brush (the design of the brush has also been patented).



Proof of efficacy is obtained by image analysis before and after the mascara application, and by electron microscopy. Lastly, studies are carried out in actual conditions of use on a large number of consumers, by beauticians, sensorial analysis specialists and statisticians in our evaluation centres around the world.

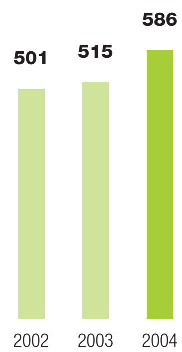
The development and evaluation of a mascara requires the involvement of researchers from around twenty disciplines before the product can be launched.

hair on the head are remarkable evaluation tools from a biological viewpoint. Some stages of skin ageing can be simulated and the cycle of a hair can be studied. Instrumental methods objectively measure parameters such as moisturisation, wrinkle surface, colour, sebum secretion, hair breakage resistance, diameter, and even subjective characteristics such as softness and touch. In many cases, these results are enriched by external evaluations. Sensorial analysis is also used to check that the formula is synergistic with perceptions. The final verdict is that of the consumer and the professional hairdresser or beautician, and here again L'Oréal research carefully listens to their views expressed in its application rooms all over the world.

The complexity of healthy skin and hair, together with the expectations of each consumer, explain why the evaluation of the performance of a cosmetic product is so important. L'Oréal has turned evaluation into a science.

The laboratories have gone beyond the stage of evaluating harmlessness and efficacy by focusing also on ecotoxicity, traceability and sustainable development. The raw materials chosen must also meet these requirements.

Evaluation, like all the other research activities, can only progress by remaining attentive to the outside world and ensuring that knowledge is shared, particularly through exchanges with suppliers, other research centres and other sectors of the industry. In 2004, L'Oréal research published some sixty scientific articles. It is also involved in around a hundred external collaborative projects, demonstrating its spirit of openness and its eagerness to be "in at the start". All these activities give rise to a mosaic of talents which are crucial for the creation of a really effective beauty care product.



PATENTS
(cosmetic and dermatological research)

21,203
international extensions of patents in 2004

> PRODUCTION AND TECHNOLOGY

Performance and productivity drive growth

In 2004, L'Oréal's production exceeded 4 billion units for the first time ever. At a time of rising raw material and oil prices, the downward trend in costs continued due to the productivity of the group's facilities and the effectiveness of its purchasing policies.

NEW MANUFACTURING PROCESSES AND PACKAGING INNOVATIONS

A new process for manufacturing bleaching paste by extrusion was developed for the Professional Products Division. Platinium from L'ORÉAL PROFESSIONNEL is proving to be a great commercial success.

In 2004, 80 packaging patents were filed, reflecting the group's research efforts. Over 50 new products have benefited from the patents, including Deep Sea Therapy from SHU UEMURA, GARNIER Kit Nuanceur hair colourant and Hypnôse mascara from LANCÔME.

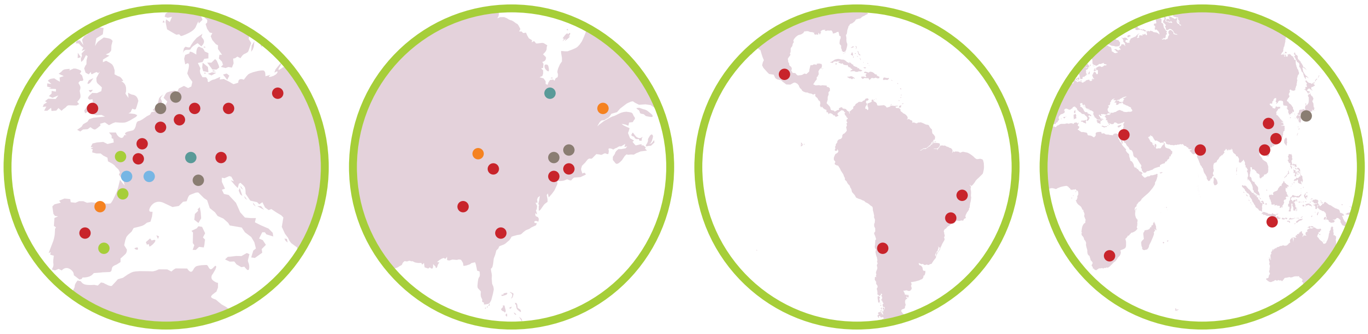
• *Skincare manufacturing unit, Pune (India) factory, opened in February 2004.*

2004	Cosmetics output	Cosmetics sales
Western Europe	51%	51%
North America	27%	27%
Rest of the World	22%	22%
TOTAL	**100%**	**100%**

	2002	2003	2004
Millions of units			
Cosmetics plant output	3,725.2	3,852.8	**4,307.0**
€ millions			
Cosmetics investments (production & physical distribution commitments)	318.3	332.0	**293.1**
Index (base: 100 in 2002)			
Comparable product purchasing price index trend	100	98.2	**93.9**
Units			
Packaging patents	78	81	**80**

- *Consumer Products: 26 factories*
- *Luxury Products: 6 factories*
- *Professional Products: 3 factories*
- *Active Cosmetics: 2 factories*
- *Dermatology: 2 factories*
- *Raw materials: 3 factories*

INDUSTRIAL FACTORIES IN THE WORLD



EUROPE
20 factories

NORTH AMERICA
10 factories

SOUTH AMERICA
4 factories

AFRICA · ASIA
8 factories

QUALITY, SAFETY AND THE ENVIRONMENT

94% of output from the group's factories is certified to comply with ISO 9001, version 2000. On the environmental front, 20 factories out of the total of 42 were ISO 14001-certified at the end of 2004. The group's target is to gain certification for all the factories. Moreover, safety indicators at the manufacturing sites improved once again, by 17% in 2004.

PRODUCTION REORGANISATION CONTINUES

The policy of creating technologically specialised production centres, which began several years ago, continued in 2004.

The make-up powder factory at Albesa in Spain was transferred from Consumer Products to the Luxury Products Division, which now has four factories in Europe (one for make-up, one for perfumes and two specialising in skincare). The Consumer Products Division has now concentrated its make-up powder production at the Turin site in Italy. Consolidating shampoo production at Rambouillet in France has cut manufacturing costs, particularly for GARNIER's Ultra Doux line in Europe.

The streamlining of production also led to the closure of the nail varnish factory at Linden in the United States.

Lastly, to optimise the cost base, the management teams of the West Caldwell and Piscataway factories in the United States were merged into a single operational department.

SUBSIDIARY SUPPLY LOGISTICS

The concentration of production has been backed up by a reorganisation of the subsidiary supply logistics. Consequently, the distribution flow to the subsidiaries offers an excellent service level and inventories are kept to a minimum.

As a result of the reorganisation, the Luxury Products Division has been able to reduce its subsidiary supply operations from four to two.

COST REDUCTION

Industrial costs have been once again reduced, thanks to the growth in volumes produced and the streamlining of the plant base. A thorough product value analysis and a concerted cost reduction effort by the factories' suppliers have enabled substantial savings on purchasing. The growth in sourcing from Asia and the increasing use of reverse auctions have also strengthened this momentum.

The combination of all these actions generated savings much greater than the increase in raw materials costs. Steps are already being taken to maintain this momentum in 2005.

GROWTH IN CHINA MOVES UP A GEAR

The MININURSE and YUE-SAI acquisitions mean the group now has two additional factories in China. They will be used to produce skincare products for the L'ORÉAL PARIS, MININURSE and YUE-SAI brands. Meanwhile, work has begun to double the capacity of the Suzhou plant in China. From now on the Suzhou factory will specialise in make-up and hair colourants. The production capacity of the Consumer Products Division in Asia, with its factories in China and its plant in Indonesia, can now meet all the needs of the Asian market.

> HUMAN RESOURCES

Developing leadership and expertise

In 2004, L'Oréal confirmed its fundamental strategic priorities in the field of human resources: to attract talent, to develop the leadership qualities of its employees, and to strengthen their expertise.

• *Finding tomorrow's leaders: the winning team "L'Oréal e-Strat Challenge" 2004.*

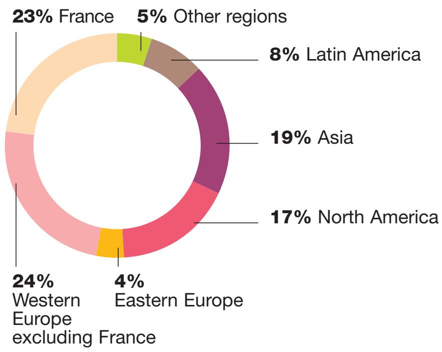
TRACKING DOWN THE TALENT OF TOMORROW

Quality and selectivity are the key criteria of L'Oréal's recruitment policy. In 2004, partnerships with 178 graduate schools and universities across the world were in place. The global dimension of the group's two business games was stepped up: 30,000 students from 113 countries registered for the "L'Oréal e-Strat Challenge", which was opened up to 23 new countries this year, and the "L'Oréal Marketing Award" gave 3,300 students from 26 countries the chance to become product managers for a 4-month spell.

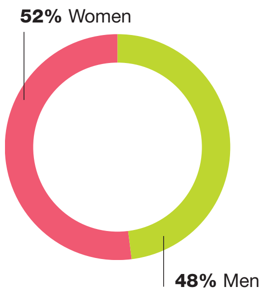
To spot the talent of tomorrow and raise awareness of its businesses, L'Oréal also launched two new initiatives:
• the group's "Creativity & Business Workshops", a unique opportunity to spot creative talent, brought together more than 200 students from a wide variety of backgrounds (fashion, design, graphic arts, economics, etc.),
• the "L'Oréal Industrial Challenge" is a competition between 48 French and Chinese trainee engineers to reward the most innovative industrial project.

In 2004, L'Oréal was number one in the rankings of preferred companies to work for, according to European business school students, following a Universum survey of 5,219 students from 19 European countries.

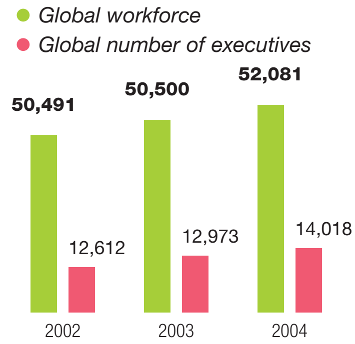
EMPLOYEES BY GEOGRAPHIC ZONE



PERCENTAGES OF FEMALE AND MALE EXECUTIVES



CHANGE IN WORKFORCE



L'Oréal hired 1,820 executives of 70 nationalities in 2004, including 211 young executives who had completed an operational internship.

DEVELOPING LEADERSHIP QUALITIES

One of the keys to L'Oréal's success is its readiness to promote talented young people to operational positions and give them responsibilities early in their careers, while providing a tailor-made training programme. In 2004, 29% of young executives, with an average age of 31 years, took up a new management position.

All the group's executives took part in an individual development and assessment interview as part of the group's "Talent Development" scheme. Specific programmes for developing leadership qualities have also been developed, particularly with CEDEP (European Centre for Continuing Education): the international general management programme "Global Leadership for Growth" brought together 100 high-potential executives who attended crossed sessions in New York, Singapore and Fontainebleau.

"Human Resources Development Committee" meetings are also held in all the countries to stake out career paths which promote open-mindedness and the gathering of new experience.

The structure of L'Oréal's Management Committees reflects the possibilities for individual development, mobility and diversity offered by the group: 28% of Committee members are non-locals, 38% are women, and average length of service at L'Oréal is 11 years.

STRENGTHENING EXPERTISE

The individual development of employees is based on the transmission of knowledge, training and the right combination of experience. This is why L'Oréal recognises the value of making career changes and encourages training.

In 2004, 60% of the group's executives attended a training course. The "Management Development Centers" (MDC) based in New York, Paris, Rio de Janeiro and Singapore intensified their programmes of professional meetings. Improvements were also made to the main training and development modules, and steps taken to ensure they are even more firmly rooted in professional realities.

2004 HIGHLIGHTS

- **April: the prize winners of the 4th "L'Oréal e-Strat Challenge" are from INSEAD Singapore, the Kellogg School of Management (United Sates) and Universitas (Indonesia).**
- **May: L'Oréal tops the 2004 "Trendence European Student Barometer" rankings, based on a survey of 12,000 European students.**
- **June: the 12th "L'Oréal Marketing Award" is won by students of York University-Schulich School of Business (Canada), which also receives the "Publicis Communications Award".**
- **July: Professor Douglas B. Holt is appointed to the "L'Oréal Chair of Marketing" at the Said Business School of Oxford University.**
- **October: L'Oréal receives the "Hong Kong Caring Company Award" for its involvement in aid efforts.**
- **November: L'Oréal is ranked number one in a European corporate reputation survey by the U.S. organisation Reputation Institute and the Harris Interactive market research institute.**

Good citizenship and a sense of responsibility

As the nature of L'Oréal's business is focused on people's well-being, the group's aspirations are not limited to financial performance. In 2004, L'Oréal published its first-ever sustainable development report – also available on the Internet – in which the group asserts its determination to link closely its economic growth with strong ethical principles and a genuine awareness of its responsibilities to the wider community.

• *Professor Lucia Mendonça Previato, 2004 L'Oréal-Unesco For Women in Science Award winner for Latin America, in the Institute for Biophysics at the Federal University of Rio de Janeiro, with her students. She has spent most of her career furthering the understanding, treatment and prevention of the Chagas disease, which is often lethal and is endemic in Latin America.*

For more information, please consult the group's sustainable development report, or the Internet version on our Web site: www.loreal.com.

PROTECTING THE ENVIRONMENT AND STRENGTHENING SAFETY

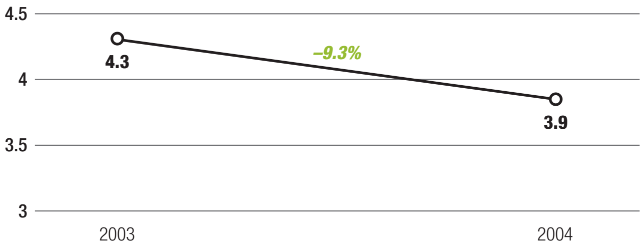
Environmental protection has always been at the heart of L'Oréal's industrial policy. The group is constantly striving to limit water and energy consumption, reduce atmospheric emissions, and raise the percentage of waste that is recycled, reused or recovered in another form. Significant advances have been made. In 2004, the water and energy consumption of the group's factories and distribution centres was reduced by 11% and 8% respectively, and once again there was an improvement in the waste reuse and recycling index.

The safety, hygiene and health of employees constitute another key component of the group's policy. Stringent programmes are applied for this purpose at each administrative site, laboratory, distribution centre and factory. Furthermore, L'Oréal USA is recognised by the American magazine *Occupational Hazards* as one of the 16 companies in the United States which offer the greatest safety in the workplace.

Moreover, in order to continuously increase the effectiveness and safety of its product formulations, L'Oréal attaches great importance to the selection of raw materials. The group now applies all the criteria of sustainable development when selecting materials, and closely involves its suppliers in the selection process.

WORK ACCIDENTS PER MILLION HOURS WORKED[1]

In one year, the work injury frequency rate of the group's industrial sites and distribution centres has fallen by 9.3%.



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

CHANGE IN ENVIRONMENTAL INDICATORS

(group factories and distribution centres)

	2003	2004	Change
Water consumption *(litre/finished product)*	0.84	0.75	–10.7%
Energy consumption *(kWh/1,000 finished products)*	204	188	–7.8%
Waste reuse and recycling index *(%)*	88.8%	89.3%	+0.5%

STRENGTHENING SOCIAL DIALOGUE

The L'Oréal group is committed to a constructive social dialogue through the various bodies that represent personnel in countries in which it operates.

Accordingly, the European dimension of the group's European Works Council (IEDS) has been strengthened to allow for the enlargement of the European Union to 25 member states, following the accession of 10 more countries. Poland and the Czech Republic were able to join the IEDS in June 2004, as they succeeded in meeting all the representation conditions.

COMMITMENT TO COMMUNITIES

As a company that believes in good citizenship, L'Oréal is eager to contribute to projects that serve the wider community and reflect the values it has upheld for almost a century.

The most striking example of L'Oréal's commitment in this area is the international For Women in Science programme, developed in association with Unesco since 1999. This partnership, which aims to encourage women from all continents to pursue careers in science, was extended in 2004 for a further five-year period. Each year, 5 eminent female researchers are chosen to receive L'Oréal-Unesco awards for their achievements by a jury chaired by three Nobel prize winners. 15 talented young female scientists are also awarded fellowships to help them to continue their research. Since the creation of the programme, 91 female researchers from more than 50 countries have received awards for their work, or have been encouraged to progress in their careers.

In addition to these international awards, national initiatives have been launched to encourage women to work in scientific fields. The L'Oréal-Unesco partnership scheme is now in place in around twenty countries, setting up national fellowships, and educational and tutorial programmes to familiarise young women with scientific careers.

Moreover, in South Africa, L'Oréal provides its 800 employees with guidance on the prevention of AIDS (in the form of information, advice, testing…). The group has also launched hairdresser training programmes, already attended by more than 60,000 people each year, which include an AIDS information and prevention module. Hairdressers and employees thus pass on the information in their salons, families and villages, contributing both directly and indirectly to raising awareness of this issue amongst tens of thousands of people.

A RECOGNISED COMMITMENT

The group's efforts have been recognised: L'Oréal is the only French company to be included in all eight international sustainable development stock market indices (the Dow Jones Sustainability Indexes, ASPI Eurozone, the FTSE4Good Indexes, and the Ethibel Sustainability Index).

L'ORÉAL AND DIVERSITY

In October 2004, L'Oréal received the first-ever *Global Leadership Award* in the United States, from the organisation Diversity Best Practices, in recognition of its commitment to diversity amongst employees, consumers, suppliers and other partners.
In December 2004, L'Oréal signed the *Diversity Charter*, which formally expresses its determination to combat discrimination, and to recruit and promote people from a wide range of cultural backgrounds and ethnic origins.

> COSMETICS

At the service of the consumer in every distribution channel

Professional Products Division

The Professional Products Division is dedicated to the hairdressing community the world over. Its products are not only used but also sold in salons, where clients can take advantage of professional expertise and advice. Its diversified range of high-performance and innovative products meets the requirements of salon professionals in hair colourants, texture and haircare.

L'ORÉAL PROFESSIONNEL

KÉRASTASE

REDKEN

MATRIX

Consumer Products Division

The Consumer Products Division markets its products through mass-market retail channels. Its portfolio of complementary brands enables the development of products that meet its customers' aspirations. Its products combine high technology and strong added-value with affordable pricing for a wide range of men and women.

L'ORÉAL PARIS

GARNIER

MAYBELLINE NEW YORK

YUE-SAI

SOFTSHEEN·CARSON

CLUB DES CRÉATEURS DE BEAUTÉ

Luxury Products Division

The Luxury Products Division has a portfolio of prestigious brands whose products are sold in selective retail outlets: department stores, perfumeries, travel retail outlets and the group's own boutiques. The Division's brands provide exclusive products featuring innovations developed by L'Oréal research. All customers, men and women, 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
KIEHL'S
SHU UEMURA

Active Cosmetics Department

The Active Cosmetics Department markets dermo-cosmetic skincare products sold in pharmacies and specialist sections of drugstores. The Active Cosmetics Department designs products which ensure safety and efficacy for consumers. All over the world, the Department's brands are supported by the advice of pharmacists and dermatological prescription, providing a personalised service for its customers.

VICHY
LA ROCHE-POSAY
INNÉOV

Professional Products

L'ORÉAL PROFESSIONNEL • KÉRASTASE • REDKEN • MATRIX

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 services and products are specially designed to meet the expectations of hairdressers for hair colouring, texture and care.

Partnership with hairdressers the world over

The Professional Products Division, the partner of some 400,000 hair salons worldwide, continued to expand in 2004. A large number of successful launches, market share gains and the introduction of its brands into new countries enabled the Division to record yet another year of growth.

CHALLENGES AND GROWTH STRATEGY

Number one in the professional products market, the Division took even more determined steps to focus the international expansion of its brand portfolio in new and emerging markets, by offering high quality products and services, particularly with the MATRIX brand.

In countries where the Division is already strongly represented, technological innovations increased our market share with outstanding products such as Platinium from L'ORÉAL PROFESSIONNEL for the extremely buoyant bleaching segment.

Ensuring the growth of the Division also means driving and expanding markets. In 2004, the Division grasped the excellent growth opportunity provided by the market for men's products.

Lastly, the additional resources allocated to training in an ever-increasing number of salons enabled the Division to consolidate its partnerships with the profession and help ensure that good health and safety practices are applied by hairdressers and consumers.

"With like-for-like sales up by +7.6%, the Professional Products Division continued to win market share in 2004. In Western Europe, sales increased by +4.2% and the Division's positions were strengthened. In North America, the level of growth (up 9.2%) was substantially higher than the market trend. The growth rate was +7.2% in Asia, +46.8% in Eastern Europe, +13.1% in Latin America and +14.8% in the other countries."

Jean-Jacques Lebel,
President Professional Products

2004 HIGHLIGHTS

• Launch of Platinium from L'Oréal Professionnel, a lightening paste for highlights which is even easier and safer to use.

• Successful offensive on the men's products market with the launch of the Redken For Men line, which provides a full range of solutions for all men's needs.

• Launch of Kérastase Réflection for the comprehensive treatment of coloured hair.

• For the first time, Matrix moved into China, the Middle East and Eastern Europe.

• *The roll-out of Matrix salons in China reflects the continuing international expansion of the American brand in 2004.*

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Western Europe	969.5	1,011.1	50.6%	4.2%
North America	601.9	604.7	30.3%	9.2%
Rest of the World	328.6	382.4	19.1%	14.8%
TOTAL	**1,899.9**	**1,998.2**	**100%**	**7.6%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Hair colourants	773.3	800.9	40.1%	6.7%
Styling and waves	356.7	364.3	18.2%	6.1%
Shampoos and haircare	770.0	833.0	41.7%	9.1%
TOTAL	**1,899.9**	**1,998.2**	**100%**	**7.6%**

• KÉRASTASE – Réflection
The Kérastase Réflection haircare range ensures lasting beauty for coloured hair.

ACTIVITY AND DEVELOPMENTS IN 2004

L'Oréal Professionnel

2004 was another year of strong growth and market share gains for L'ORÉAL PROFESSIONNEL.

The brand's performance reflects some remarkable product success stories, and the development of new services in each of the brand's core businesses:
• Platinium lightening paste, with its revolutionary new technology, achieved spectacular sales figures immediately after its launch, and won over new salons for the brand;
• the relaunch of the Tecni.art styling line with the help of the product portfolio of Artec, a recently acquired American brand, breathed new life into this business segment and is proving extremely successful;
• the continuing rapid expansion of Série Expert haircare products the world over was boosted by recent dynamic launches for the Volume Extrême and Shine Curl lines;
• the strong growth rate of X-Tenso in the texture segment reached a particularly high level in Asia (Thailand, South Korea, Taiwan), where this market is expanding fast.

Kérastase

The global expansion of KÉRASTASE continued rapidly in exclusive salons which now offer the whole range of the brand's "haircare institute" services. Growth rates were spectacularly high, particularly in the United States (up 41.3%), Japan (up 23.8%) and the rest of Asia (up 29.5%), where new luxury salons were opened.

The contribution of innovations to the sales growth was crucially significant, with the creation of two new haircare categories:
• Injection de Force, a pre-treatment haircare product for the reconstruction of weakened hair, for professional salon use only;
• the Réflection haircare line, which provides immediate and lasting shine for coloured hair by hair fibre micromeshing. The initial results of this range, launched in several European countries, are extremely promising in terms of the brand's growth in 2005.

• L'ORÉAL PROFESSIONNEL – Platinium
A new highlighting service with a paste-based technology for total respect of the hair.

• L'ORÉAL PROFESSIONNEL – Tecni.art
A creative professional styling line for the best hairdressers the world over.

• REDKEN – Redken For Men
The first range of men's haircare products for covering grey hair.

• MATRIX – Curl.life
Haircare to boost the vitality of curly hair.

Redken

The American brand, REDKEN from New York, achieved +14% growth in 2004, further strengthening its number two position in the North American market.

The Redken For Men range, which offers comprehensive solutions for all men's hair needs (haircare, styling and grey hair coverage), proved remarkably successful.

The quality of Color Fusion hair colourants, backed up by an effective strategy for winning and training new users, ensured a second year of double-digit growth and won the brand a large number of new customers.

All the initiatives taken in the haircare segment in 2004 proved successful. Clear Moisture, for normal to dry hair, with exclusive micronutrition technology, was highly popular. Smooth Down, launched at the end of 2003 in the United States and marketed globally at the start of 2004, became one of the best-selling products in this field.

The revamping of the styling line, with a succession of star product launches, has contributed to the boom in this category, which is strongly focused on salon resale.

Matrix

In its home market, the American brand MATRIX strengthened its leadership, particularly in the hair colourant segment, with a sharp increase in Socolor sales. For the second year running, Color Sync confirmed its success.

With a catalogue of products ideally suited to the different markets, the brand successfully globalised its operations. In September it moved into China, supported by a network of distributors that will gradually cover the whole country. In the Middle East, the brand has already won very substantial positions. In Eastern Europe, the footholds established are opening up a large growth potential for the future.

2005 OUTLOOK

The strategy of conquering emerging markets in China, India, the Russian Federation and Latin America, and a brand portfolio that is particularly well-suited to these markets, should make a substantial contribution to increasing the Division's sales. A programme of launches and innovations in each of the main business segments should improve the substantial positions the Division already enjoys in Western Europe and North America, whatever the economic or competitive context. The programme will benefit from synergies expected both in the reduction of industrial costs and the optimisation of our organisational structures.

Consumer Products

L'ORÉAL PARIS • GARNIER • MAYBELLINE NEW YORK • YUE-SAI • SOFTSHEEN·CARSON • CLUB DES CRÉATEURS DE BEAUTÉ

The mission of the Consumer Products Division is to reach as many consumers as possible by widely distributing its products through all channels. With a brand portfolio that is highly diversified in terms of price positioning and cultural origin, the Consumer Products Division markets high technology products in five categories: hair colourants, styling, haircare, skincare and make-up.

Strong unit sales growth and market share gains

In 2004, the sales of the Consumer Products Division made strong volume gains, up 7% (with like-for-like sales up 5.8%), thanks to very strong expansion in new and emerging markets (notably China, the Russian Federation, Brazil and India), a fine performance in North America, and improved market share figures for the Division in Europe.

CHALLENGES AND GROWTH STRATEGY

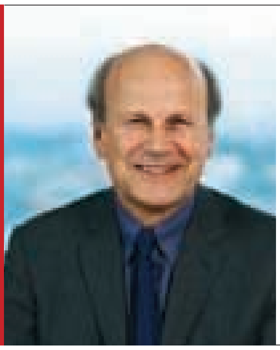
The key challenge for the Consumer Products Division is the creation of value through product innovation, by ensuring that the advances made in our laboratories match up with the needs of consumers the world over. The constant flow of innovations and improvements of our products maintains consumer interest in our brands and protects them against competition from lower quality cut-price products.

The other main challenge is the global roll-out of the Division's brands to better take advantage of the most dynamic markets. 2004 saw market share gains move up a gear in new and emerging markets with GARNIER and MAYBELLINE, and the breakthrough of GARNIER in the United States.

The extension of the brands to include additional target groups, such as senior citizens and men, is also a priority. The launch by L'ORÉAL PARIS, previously a brand for women only, of its first men's skincare line in two European countries was a major step forward.

The Consumer Products Division is also striving to generate additional resources to finance expansion in new markets and to increase the level of media support, while improving margins across the board. Above all, it was the strong growth in unit sales that generated a positive impact on our factories and enabled us to steadily improve our production costs. But the Division is also applying cost saving programmes in its organisational structures, and is carrying out a systematic value analysis of its products in order to make substantial cost savings.

Lastly, looking beyond the quality of the product range, it is increasingly important for the Division, in partnership with its distributors, to make sales outlets as attractive as possible, by improving the quality of presentation and promotions, and by developing new services.



"2004 was an extremely dynamic year: a resounding success in new and emerging markets, where our unit sales advanced by nearly 50% in countries such as China, the Russian Federation and India; the satisfaction of seeing strong growth in North America, reflecting GARNIER's successes in particular; market share gains in Western Europe in skincare and hair colourants, and a good defensive performance in shampoos. Mobilised by a strong programme of innovations, our teams delivered an excellent final quarter with +8.5% like-for-like growth."

Patrick Rabain,
President Consumer Products

2004 HIGHLIGHTS

• In Western Europe, the Division – already the leader in haircare, styling and hair colourants – became number one in value terms in the facial skincare market: a historic achievement.

• In the United States, the successful launch of Garnier Fructis enabled the Division to break through the 10% share barrier in the shampoo market.

• In China and the Russian Federation, our affordable brands Garnier and Maybelline gained very strong positions, thanks to a marketing mix based on more aggressive pricing, in line with local consumers' needs.

• With Men Expert, L'Oréal Paris has created the first sophisticated men's personalised skincare line sold in mass-market outlets. Men Expert is already number one in several countries, and is contributing to the boom in this additional market.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Western Europe	3,991.3	3,982.2	51.4%	–0.4%
North America	2,080.3	2,071.7	26.7%	8.0%
Rest of the Word	1,434.8	1,700.5	21.9%	20.4%
TOTAL	**7,506.4**	**7,754.4**	**100%**	**5.8%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Hair colourants	1,676.6	1,638.8	21.1%	1.9%
Haircare and styling	2,280.6	2,313.8	29.8%	3.2%
Make-up	1,982.8	2,060.6	26.6%	8.2%
Skincare	1,178.9	1,374.9	17.7%	15.4%
Other	387.4	366.4	4.7%	–4.2%
TOTAL	**7,506.4**	**7,754.4**	**100%**	**5.8%**

• L'ORÉAL PARIS – Happyderm
New skin exhilirating moisturiser for women aged 18 to 30. With a plant-based active ingredient, Phyto-Dorphynes™, it makes skin soft, supple and radiant.

• L'ORÉAL PARIS – Invincible Kiss Proof
This lipstick, with its innovative long-lasting zero-trace tattoo effect, was number one in France and Hungary, number two in the Netherlands and number three in Spain in 2004.

ACTIVITY AND DEVELOPMENTS IN 2004

L'Oréal Paris

In 2004, the brand achieved +5% like-for-like growth. Contrasted performances include a very strong growth in skincare and make-up, and a consolidation of the brand's positions in haircare.

The world's number one cosmetics brand with some 4 billion euros of sales, L'ORÉAL PARIS targets consumers who want increasingly effective products featuring the latest technologies. These products are sold as premium products in their distribution channel: their positioning is halfway between the mass-market and prestige sectors.

Originally an expert haircare brand, L'ORÉAL PARIS has transformed itself by building up skincare and make-up know-how that is today widely acknowledged by consumers the world over.

Its dream team of beauty ambassadors from all over the world, its famous slogan "Because you're worth it", and its high-technology product innovations are advantages that enable the brand to successfully target higher-value sectors and substantially improve its profitability. In 2004, the brand once again used advanced technology to offer innovative products:
• in skincare, the mature skin product Age Perfect uses an ingenious system combining two active ingredients – elastium and pure vitamin C – to brighten and smooth the skin while reducing the appearance of surface lines and wrinkles. Another product, the ReFinish micro-dermabrasion kit, has a spectacular visible effect on skin, putting L'Oréal Dermo-Expertise at the heart of the new anti-ageing aesthetic dermatology market. Happyderm for younger skin has also been extremely successful. Finally, Perfect Slim with glucide captors became the world's top-selling slimming product in 2004;
• in make-up, Kiss Proof lipstick includes NAD, a L'Oréal patented compound, which provides spectacular colour resistance and is exceptionally comfortable to wear. True Match foundation perfectly adjusts to the texture and colour of the skin, thanks to a new pigment source;

• L'ORÉAL PARIS – ReFinish
ReFinish is a micro-dermabrasion kit sold in mass-market outlets for home use. It works in two stages: a resurfacing exfoliant, and a post-treatment moisturiser.

• in hair colourants, the brand launched Color Pulse hair colourant mousse which proved popular with young consumers in a new target group.

Lastly, the brand entered the men's skincare sector at the end of 2004 with L'Oréal Men Expert.

Garnier

The brand's sales increased by +12% like-for-like and even more faster in unit terms, reflecting spectacular expansion in new and emerging markets and the continuing success of Fructis shampoos and conditioners in the United States.

GARNIER sales are now approaching 2 billion euros, demonstrating that the brand has achieved critical mass and is on course to succeed in its bid to become one of the major world players in the sector and a benchmark for value creation.

GARNIER offers affordable, effective products based mainly on natural ingredients. The brand closely monitors the local implementation of its strategy, making sure that a close relationship is established with consumers. It has developed a remarkable ability to catch the sensibilities of consumers in countries with very different cultures.

In hair colourants, GARNIER sales advanced, thanks largely to two key initiatives:

• Color Naturals, a hair colourant cream which has been spectacularly successful, initially in India and more recently in Eastern Europe and the Russian Federation;

• Multi-Lights Kit, launched at the end of the year in Europe. This innovative product makes it easier for consumers to give a multi-tonal effect to their hair at home.

In skincare, GARNIER achieved strong growth, thanks to the launch of Pure A, a daily treatment moisturiser to deal with skin imperfections, and the successful revamping of Ultra Lift anti-wrinkle firming day cream, which uses a new ginger-based active ingredient that uncreases and smoothes wrinkles.

At the start of 2004 GARNIER acquired the Chinese brand MININURSE, number three in the skincare market in sales volume terms. GARNIER revamped the main facial moisturiser of the range, Vita Nourishing, and also launched new products under the MININURSE brand, such as Whitening Light and Fresh moisturiser.

In haircare, GARNIER also grew, thanks to the popularity of Fructis shampoos and conditioners. Fructis continued its success in the United States, and in 2004 was launched in India.

• GARNIER – Color Naturals
A multi-lingual hair colourant kit with an innovative cream-based technology specially aimed at new and emerging markets.

• GARNIER-MININURSE – Fresh
Fresh 24-hour daytime moisturiser and Fresh 24-hour moisturising lotion symbolise the rapid integration of MININURSE by GARNIER. The Fresh moisturising range is a franchise specially developed for Asia.

• MAYBELLINE –
XXL Length + Volume
A new benchmark for mascara that boasts microfibre technology and two brushes to ensure extra length (more than 40%) and a six-fold volume increase.

Maybelline New York

The world's number one make-up brand performed well in 2004, with growth of +7% like-for-like.

While sales growth was a little slower in Western Europe and North America, market share was maintained or increased. By contrast, there were spectacular sales increases in growth driver countries – Turkey, Poland, the Russian Federation, China, Mexico and Australia – with growth rates of between +20% and +50% in value terms.

In these countries a virtuous circle has now taken hold: the very rapid increase in sales has sharply reduced the production costs of our Chinese factory, enabling us to cut price points and attract new consumers.

There were some outstanding product success stories in 2004, particularly in foundations and mascaras, with double-digit growth rates in every region of the world.

Wonderfinish foundation has become a flagship product in the range, while Dream Matte Mousse foundation – with a revolutionary elastic formula that provides a soft, perfect matt finish – was very well received in the American and European markets.

After extending Volum' Express – the world's best-selling mascara – by creating a "Turbo Boost" version, MAYBELLINE launched a dual-application product, XXL Length + Volume, with thickening microfibres, which provides dramatic length to the lashes.

Lastly, in lipsticks the brand launched in Europe Forever Superstay, a dual-application product which is long lasting, very glossy and extremely comfortable.

• MAYBELLINE – Dream Matte Mousse
A new mousse foundation whose ultra-light texture, suitable for all types of skin, gives a unifying peach-skin effect.

• YUE-SAI – Legendary Lipstick and Duo Eye-shadow
YUE-SAI make-up products offer shades specially designed to suit Asian skin tones.

Yue-Sai

In the second quarter of 2004, L'Oréal acquired the well known Chinese cosmetics and skincare brand YUE-SAI, sold mainly through counters in department stores. This has enriched the group's brand portfolio with a specifically Chinese approach to beauty, which is already looking promising.

SoftSheen.Carson

After a flat start to the year, the brand achieved strong growth in the second half, with growth of about +10% in like-for-like sales worldwide, with a particularly good performance of +20% in South Africa.

This performance is the result of two major initiatives:
• the relaunch of the world's number one hair relaxer product, Dark and Lovely, following the development of new anti-dehydration technology;
• the launch of Optimum Oil Therapy, a brand-new generation of haircare products.

These two patented breakthroughs were made at the Chicago-based L'Oréal Institute for Ethnic Hair and Skin Research, which opened in 2003.

2004 was also marked by the relocation of the American division SOFTSHEEN.CARSON to the New York headquarters of L'Oréal USA, which will allow the brand's growth rate to increase and generate increasing synergies with the rest of our American business.

CCB
Club des Créateurs de Beauté

2004 was a varied year for cosmetics mail order and Internet sales company CCB, which is jointly owned 50/50 by L'Oréal and 3 Suisses, with a good performance in Taiwan and France, and a more difficult year in Germany and Japan.

Internet sales grew very strongly in 2004, up 70% compared with 2003.

Lastly, a great number of product initiatives were taken in the Agnès b., Professeur Christine Poelman and Jean-Marc Maniatis ranges.

• SOFTSHEEN.CARSON – Dark and Lovely
SOFTSHEEN.CARSON relaunches its flagship brand, Dark and Lovely, with a formula that for the first time combines a hair relaxer with a moisturiser.

2005 OUTLOOK

The division will benefit from a number of favourable factors in 2005:
• the very warm reception for the products which were launched in the second half of 2004,
• several new initiatives will be taken in 2005, particularly in the most dynamic high added value categories, such as skincare,
• the dynamic impetus of the new and emerging markets, whose increasing share of global sales speeds up the development of our brands.

Luxury Products

LANCÔME • BIOTHERM • HELENA RUBINSTEIN • GIORGIO ARMANI • RALPH LAUREN • CACHAREL • KIEHL'S • SHU UEMURA

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 technologies, and whose high added value reflects the quality of L'Oréal's research.

Brand boutiques unlock new growth opportunities

The Luxury Products Division posted good growth figures in 2004, particularly in North America, Latin America, travel retail and Eastern Europe, as well as in China and Southern Asia. The economic climate was however more difficult in a number of European countries.

CHALLENGES AND GROWTH STRATEGY

Cultural diversity and the need to adapt products for each geographic zone are generating growing complexity. The Luxury Products Division has responded to this challenge by setting strategic priorities:
• develop the major global products for each brand, and adapt textures and application methods to suit local expectations,
• anticipate demand for products and services by strengthening the close relationship with customers,
• improve responsiveness by listening to the customer and fostering imagination and creativity.

Building on these principles, the Division is determined to strengthen market share gains by continuing its strategic and innovative launches in the flagship brands. Commercial dynamism and the opening of the group's own boutiques for LANCÔME, BIOTHERM and KIEHL'S, combined with modernisation and the strong advertising impact of the brands, will also contribute to growth. Furthermore, the Division will continue to target its customers even more specifically thanks to its portfolio of complementary brands. Lastly, the optimisation of structures and procedures will improve productivity gains at all levels.

This strategy is designed to speed up the international expansion of our brands, while keeping us at the cutting edge of creation, by developing new point-of-sale services, ensuring the loyalty of existing customers and winning over new target groups.

All these aspects form the basis of our sustainable growth strategy.

"The Luxury Products Division recorded another year of growth in 2004, reflecting the success of a large number of products featuring innovative technologies. The Division continued to win market share, particularly in anti-ageing skincare, lipsticks and mascaras, while perfume sales once again rose faster than the global market.
The upturn in the North American and South American markets, and the gathering pace of growth in Eastern Europe, in China and in travel retail all had a favourable impact on our sales growth."

Gilles Weil,
President Luxury Products

2004 HIGHLIGHTS

- **LANCÔME revamped its image and opened its own boutiques.**
- **GIORGIO ARMANI strengthened its market leader position in men's fragrances with Armani Black Code.**
- **BIOTHERM launched its innovative new-generation anti-wrinkle product: Line Peel.**
- **After the success of Polo Blue, RALPH LAUREN launched Ralph Lauren Blue.**
- **HELENA RUBINSTEIN extended its mascara range with Lash Queen.**
- **KIEHL'S grew strongly by opening new boutiques.**
- **SHU UEMURA stepped up its growth in Asia and North America.**

• *The opening of the first LANCÔME boutique in the United States has already won the brand 2,000 new customers since October 2004.*

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Western Europe	1,616.8	1,627.0	46.2%	0.5%
North America	1,055.8	1,047.0	29.7%	7.7%
Rest of the World	768.1	845.6	24.0%	12.1%
TOTAL	**3,440.6**	**3,519.6**	**100%**	**5.2%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Skincare	1,233.4	1,270.7	36.1%	5.4%
Perfumes	1,358.2	1,365.9	38.8%	4.0%
Make-up	849.1	883.0	25.1%	6.7%
TOTAL	**3,440.6**	**3,519.6**	**100%**	**5.2%**

• LANCÔME - Resurface Peel
Resurface Peel is a resurface peeling kit with glycolic acid combined with Physio-Peel Enhancer™, exclusive to LANCÔME, to stimulate the skin's natural exfoliation process.

• LANCÔME - Hypnôse
Leader in the mascara market, LANCÔME invents personalised volume with Hypnôse, a massive international success in 2004. Hypnôse now enjoys number one position worldwide and number two in the United States behind Définicils.

ACTIVITY AND DEVELOPMENTS IN 2004

Lancôme

LANCÔME, the world's number one luxury cosmetics brand, achieved like-for-like growth of +4.3%. Growth was particularly strong in China (up 71%) and Latin America (up 22%). Travel retail sales were also robust with a 15.7% increase.

2004 saw an advertising and merchandising makeover with the development of a new point-of-sale image and the opening of the brand's own boutiques in Hong Kong, Shanghai, Paris and New Jersey (United States).

In facial skincare, a key event was the launch of Resurface Peel, the first skin peeling kit designed for home use.
In addition, Aquafusion, a new moisturiser for women aged 20-30, was successfully launched in the fourth quarter.

In make-up, the worldwide success of the new Hypnôse mascara strengthened the brand's leadership of this segment. Lipstick sales increased once again, as Juicy Rouge and Juicy Wear continue the success record set by Juicy Tubes, launched in 2002.

Lastly, the arrival of a new make-up designer, Gucci Westman, will further strengthen the creative impact of the LANCÔME brand.

• LANCÔME – Juicy Rouge
Following on from Juicy Tubes, the LANCÔME success story continues with Juicy Rouge, the first lipstick line with a glossy effect.

Biotherm

BIOTHERM, the expert skincare brand, is also a gateway to the luxury products universe for young consumers.

In 2004, its worldwide growth reached +9.2%, with very strong increases in Asia (up 24.9%) and Latin America (up 25.6%). The brand was relaunched in the United Kingdom at the start of the year.

The opening of three of its own boutiques in Hong Kong, London and California provided an opportunity to renew the brand's merchandising and create a closer relationship with customers.

BIOTHERM continued to apply its innovation strategy in 2004:
• in anti-ageing skincare with the anti-wrinkle product: Line Peel,
• in the moisturising market with Oléosource and Aquasource Non Stop,
• in bodycare with Abdo-Choc, an abdomen firming treatment,
• in the men's market with Age Fitness, an active skincare line that effectively protects skin from the first signs of ageing.

Furthermore, the Skin Loving Colors make-up line continued its geographic expansion, and proved its strong appeal for young people.

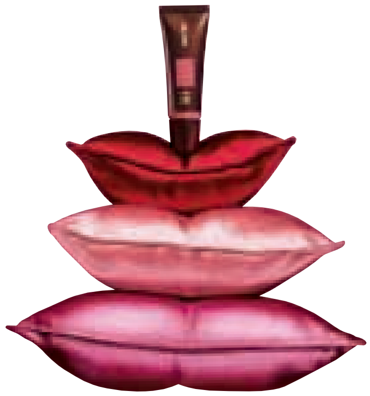
• BIOTHERM – Light
BIOTHERM's star foundation product in 2004 with a formula that features a soothing, vitalising and protective compound.

• BIOTHERM – Glossy Splash
At the heart of BIOTHERM's Skin Loving Colors make-up range, Glossy Splash is an aquatic moisturising gloss with mirror-like reflections that produce an explosion of light on the lips.

• BIOTHERM – Line Peel
The latest skincare innovation from BIOTHERM is a dual-purpose product for everyday use that smoothes wrinkles and visibly renews the skin.

• HELENA RUBINSTEIN – Full Kiss
Full Kiss is a gloss cream that re-plumps the lips and combines make-up and skincare.

• RALPH LAUREN – Ralph Cool
A luxurious fragrance with fruit tones, a hedonistic message and brightly-coloured packaging are the hallmarks of Ralph Cool, the latest RALPH LAUREN perfume for the 15-25 age group.



Helena Rubinstein

HELENA RUBINSTEIN increased its anti-ageing skincare expertise with the launch of Life Pearl. The brand also demonstrated its innovative ability, with essential skincare product Hydra Genius, and scored a resounding success in Japan with Pore Genius serum.

In make-up, following the success of Color Clone foundation, the brand strengthened its positions in the mascara sector with Lash Queen and launched the first Full Kiss gloss cream.

HELENA RUBINSTEIN has also built up a high profile creative team, including architect Andrée Putman and make-up artist Charlotte Tilbury, who are helping to project the brand's upmarket image.

Giorgio Armani

The two major launches, Armani Mania for women and Armani Black Code for men, bolstered the growth of GIORGIO ARMANI, which is today the world's number three brand.

In addition, the Giorgio Armani Cosmetics make-up line has continued its expansion in Asia and has become one of the leaders in the top U.S. specialty stores.

Ralph Lauren

In 2004, RALPH LAUREN continued its global growth with an increase of +7.2%. Following the continuing success of Polo Blue, the launches of Ralph Lauren Blue for women and Ralph Cool for young people gave the brand's sales another boost. At the end of the year, the main event was the U.S. launch of the classic women's fragrance Lauren Style.

Cacharel

CACHAREL enjoyed double-digit growth thanks to the resounding worldwide success of Amor Amor. With more than 5 million bottles sold since the launch, this perfume is now one of the brand's flagship products. In 2004, Anaïs Anaïs was rejuvenated with a new sensual and romantic advertising campaign, embodied by Kate Moss.

• GIORGIO ARMANI – Armani Black Code
GIORGIO ARMANI unveils his first-ever Oriental perfume for men: with an enveloping fragrance and a touch of Hollywood glamour, Armani Black Code conjures up elegance and sensuality.

Kiehl's

Growth at KIEHL'S gathered speed with a worldwide increase of +40%. The opening of new boutiques and the launch of products such as Abyssine cream, the new anti-ageing skincare product Cryste Marine, and the men's skincare product Facial Fuel contributed to this dynamic performance, while highlighting the brand's "Modern Apothecary" image. The pace of KIEHL'S expansion is increasing, and the brand will be a powerful growth driver for the Luxury Products Division.

Shu Uemura

SHU UEMURA, now controlled by the L'Oréal group, stepped up its globalisation, achieving particularly strong growth in the Asian and American markets. The launch of innovative new skincare and make-up products, based on natural Japanese ingredients, and the brand's introduction in China and in American specialty stores contributed to this dynamic growth trend, which should be even stronger in 2005.

• SHU UEMURA – High Performance Balancing Cleansing Oil
Launched 30 years ago, the cleansing oils of SHU UEMURA are one of the best-kept beauty secrets. At the end of 2004, the brand commissioned a limited edition of product packs from the young Japanese manga artist, Ai Yamaguchi.

• KIEHL'S – Cryste Marine Cream
Cryste Marine firming cream is formulated with a mineral-rich botanical ingredient found on rock formations next to the Mediterranean sea. With a unique ability to absorb nutrients from high waves and sea mist, this unusual flower is known to boost cell renewal.

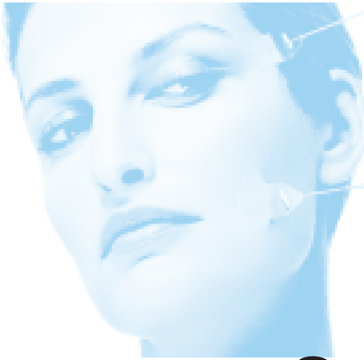
2005 OUTLOOK

The Division boasts a number of advantages – expertise, a wealth of talent, a diversified product portfolio, innovative strength and a powerful commercial presence – which will help it win market share and boost the success of its brands the world over.
Synergies, combined with reductions in industrial and administrative costs, will provide the resources needed to launch ground breaking and innovative products in a constant effort to improve results.

Active Cosmetics

VICHY • LA ROCHE-POSAY • INNÉOV

The Active Cosmetics Department is the world leader in dermocosmetic skin-care products sold in pharmacies. With three unique and complementary brands in its portfolio, the Active Cosmetics Department provides products that are specifically developed for the pharmaceutical and dermatological channels which fully meet consumers' expectations in terms of safety and efficacy.



Strong global growth continues

Dynamic growth in Western Europe and the increasingly rapid international expansion of its brands enabled the Active Cosmetics Department to achieve +15% like-for-like sales growth in 2004. This strong growth reflects market share gains in all parts of the world.

CHALLENGES AND GROWTH STRATEGY

The Active Cosmetics Department, the world leader in skincare, once again made market share gains in Western Europe, while speeding up the roll-out of its brands, particularly in Eastern Europe, Latin America and Asia.

Its brands built up their positions in the core sectors, facial skincare (including care for skin with imperfections), bodycare and in the foundation market.

The Department's main challenges today are expansion in the United States and Japan, and the development of nutritional cosmetics worldwide.

All over the world, its brands are supported by pharmacists' advice and dermatologists' prescriptions which are the main driving forces for growth.

Stepping up investments in training and education for these professionals contributes to the sustainable development of their activities, which are closely associated with the Department's brands.

• VICHY – Flexilift Teint
Thanks to its silicone texture, Flexilift Teint is an anti-wrinkle foundation that lifts the complexion without setting the features in place.

ACTIVITY AND DEVELOPMENTS IN 2004

Vichy

The brand markets hypoallergenic products, formulated with Vichy thermal spa water and active dermatological ingredients. The products are excellent value for money and are supported by pharmacists' advice and dermatologists' recommendations.

In 2004, VICHY's sales grew by +14.5%. This achievement was based on four major success stories:
• the gathering pace of growth in Western Europe, despite a clear weakening of markets in the second half;
• the continuing strong dynamism of growth driver areas outside Western Europe, particularly in Eastern Europe (up 37%), Asia (up 49%) and Latin America (up 35%);
• the success of the product launches in 2004:
- Flexilift Teint, an anti-wrinkle foundation with a skin lifting effect,
- Liposyne, a body contouring draining treatment, number one in its segment,
- Novadiol Anti-Age Spot, day care for face and neck, with procystein, which has reinvigorated the whole Novadiol range;
• the strong growth maintained by products launched in 2003, particularly:
- Normaderm, an anti-imperfection hydrating care product for women under 30, which has kept VICHY in the number one position in this market,

• VICHY – Novadiol Anti-Age Spot
Novadiol Anti-Age Spot is the first day care for face and neck, with procystein, to control melanine production and correct blemishes.

2004 HIGHLIGHTS

- **Creation of the first L'Oréal Active Cosmetics technical centre in Germany.**
- **Launch of INNÉOV's second product, Innéov Hair Mass, in eight European countries.**
- **Strong growth of the LA ROCHE-POSAY brand in facial skincare and imperfection correction.**
- **VICHY confirms its leadership in the facial skincare, slimming and foundation segments.**

- Myokine, an anti-wrinkle skincare product, which is the top-selling facial product in Canadian drugstores in value terms.

As a result, VICHY is now one of the top three brands in facial skincare in Italy, Spain, Portugal, Belgium, Germany, Austria, the Russian Federation, Poland, Czech Republic, Slovenia, Turkey, the Netherlands, Norway, Chile and Canada for all distribution channels combined.

In addition to these success stories, the international roll-out of the Sun Protection and Skin Check-Up Centres for the general public, set up in conjunction with pharmacists and dermatologists, reinforce the VICHY brand's highly popular professional and informative image.

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.

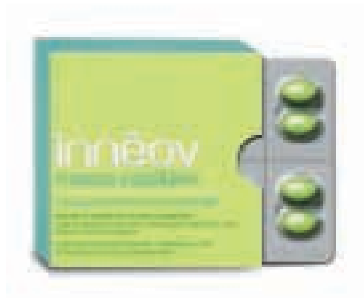
• In Mexico and the rest of the world, the brands of the Active Cosmetics Department deal with a wide range of skin problems, and are supported by personalised advice by pharmacists.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Western Europe	559.4	610.3	71.6%	9.2%
North America	42.2	45.5	5.3%	13.8%
Rest of the World	147.5	196.3	23.0%	38.2%
TOTAL	**749.0**	**852.1**	**100%**	**15.0%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Skincare	565.4	658.4	77.3%	17.8%
Haircare	65.9	63.9	7.5%	–4.0%
Make-up	61.5	73.4	8.6%	23.5%
Other	56.3	56.3	6.6%	2.7%
TOTAL	**749.0**	**852.1**	**100%**	**15.0%**



LA ROCHE-POSAY – Rosaliac
Rosaliac is the first skin perfecting anti-redness moisturiser for women aged 25-35 with sensitive and reactive skin. It neutralises the sources of redness for lasting comfort and radiance.

LA ROCHE-POSAY – Novalip High Resolution
The kissproof technology of Novalip High Resolution has won over women aged 40-50 who are looking for a long-lasting, comfortable lipstick with intense colours.

INNÉOV – Innéov Hair Mass
A nutritional complement which directly targets the hair bulb to foster the development of thick, dense and luminous hair.

The products are based on an active dermatological ingredient: La Roche-Posay thermal spa water, which is naturally rich in anti-free radical selenium, with its soothing properties.

In 2004, LA ROCHE-POSAY sales grew by +14.2% as a result of four key factors:
• global sales trends, with double-digit growth in Western Europe, notably in Spain and Italy, backed up by strong growth in Asia (up 41%), particularly in China and Japan, in Latin America (up 29%) and in North America (up 16%);
• +17% growth in facial skincare, driven by:
- the successful launch of Rosaliac, a skin perfecting anti-redness line aimed at women aged 25-35 with sensitive and reactive skin that is prone to redness,
- the strengthening of the core ranges Effaclar (launch of Effaclar AI), Hydraphase (launch of cleansing product) and the rising popularity of Mela-D, an everyday depigmentation skincare product launched in 2003;
• the development of make-up lines, supported by the launch of Novalip High Resolution lipstick and the powerful advance of foundations;
• growing support from our dermatology business: symposiums at international congresses, 25 clinical trials, a large number of publications, including a major article on sun protection in the *Journal of Investigative Dermatology*, partnership activities such as the La Roche-Posay Foundation, which offers awards for dermatological research, and the setting up of 40 make-up workshops in hospital units the world over.

Innéov

In 2004, the Laboratoires Innéov, a joint venture in nutritional cosmetics between L'Oréal and Nestlé, continued to expand in Central Europe by moving into a tenth country, Poland.

Building on the brand's exceptional ability to win over new customers and ensure strong product loyalty through high consumer satisfaction, the first Innéov Firmness product is now confirming its success in all markets.

The training of dermatological advisors in pharmacies, together with programmes combining free samples, loyalty building and customer sponsorship, have helped to popularise this new product as part of women's daily beauty regime.

2004 also saw new haircare developments: by launching Innéov Hair Mass, a product aimed at a wide range of women affected by low hair mass, INNÉOV entered the largest segment of the nutritional supplement market in eight European countries. The innovative feature of the product is the taurine-based formulation, which specifically targets the bulb where the hair is made to produce clinically-proven improvements in the number, volume and quality of hair follicles.

In 2005, the brand's international expansion will continue and the catalogue will be extended to include an additional product.

2005 OUTLOOK

Expansion in new and emerging markets worldwide, the roll-out of the INNÉOV brand and technological innovations aimed at new target groups of consumers, particularly in skincare and haircare, will ensure strong growth for the Active Cosmetics Department. The success of the products launched over the last two years provides a solid foundation for future growth. The modernisation of the pharmaceutical channel and the increasing role played by dermatologists in skincare will foster the growth of Active Cosmetics brands and strengthen their identity.

> DERMATOLOGY

Committed to dermatology

Galderma, the joint venture between L'Oréal and Nestlé dedicated exclusively to dermatology, is committed to developing innovative treatments and products to meet the needs of dermatologists and their patients.

Galderma reported sales of €587 million, an increase of +1.8% over 2003 (on a like-for-like basis), in a very tough prescription drugs market, particularly in the United States. In Europe, the difficulties encountered in Germany after the enforcement of new drug regulations were compensated by the very good results obtained in France. In this very competitive environment, the company has advanced from the 6th ranking position in revenues in 2003 to the 3rd in 2004 in the dermatological market (source: IMS dataview MAT Q3/2004 – D class).

To strengthen its research and development efforts, already one of the most important worldwide, a new research and pre-clinical development studies facility was inaugurated, representing the first phase of a new state-of-the-art centre in Sophia Antipolis, France. The second phase of construction of this site, dedicated to formulation and clinical development, is already under way.

Despite strong competition, Differin®, Galderma's top-selling product, maintained its leading position in the treatment of moderate acne. Loceryl®, an antifungal drug, of which the main form is a lacquer for the treatment of nail mycoses, maintained strong growth. Metvix®, a new non-surgical treatment for skin cancer exploiting the principles of photodynamic therapy, continued its expansion thanks to new launches in Benelux, Switzerland and Australia. Tri-Luma®, a treatment for melasma, a hyperpigmentation condition of the face, was launched with remarkable results in South Korea and all Latin American countries. It has also consolidated its position as market leader in the United States. Clobex® Shampoo, the first high potency corticosteroid in such a formulation for the treatment of scalp psoriasis, was very well received by the U.S. dermatologists.

2005 OUTLOOK

Galderma continues to advance in the promising melasma market, spurred by the global sales strategy implemented for Tri-Luma®. Since it was first launched in the United States, this highly effective hyperpigmentation product has recorded success after success. Following Latin America in 2004, Tri-Luma® will be launched in several Asian countries in 2005. This strategy reinforces Galderma's leadership in this high growth potential segment.

SALES BY GEOGRAPHIC ZONE(1)

€ millions	2003	2004	% of 2004 sales	Like-for-like growth 2004/2003
Western Europe	139.6	145.3	24.8%	4.0%
North America	395.4	358.9	61.2%	–1.0%
Rest of the World	78.1	82.6	14.1%	11.2%
TOTAL	**613.0**	**586.8**	**100%**	**1.8%**

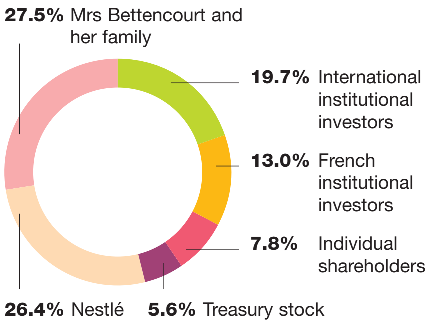
(1) 100% of Galderma's sales.

• GALDERMA – Clobex® Shampoo
A shampoo for scalp psoriasis, launched in the United States.

Financial information provision

L'Oréal is committed to regularly informing all its shareholders, as well as institutional investors and analysts. To this end, the company has developed a wide range of accessible tools to provide key information regarding the group, its activities and results:

- a Reference Document filed with the French securities regulator (AMF), available for consultation on Internet,
- a dedicated website www.loreal-finance.com,
- 4 Letters to Shareholders,
- a Shareholder Digest,
- participation in shareholder trade fairs and meetings.



BREAKDOWN OF SHARE OWNERSHIP AS AT DECEMBER 31ST 2004

NET DIVIDEND PER SHARE (EXCLUDING TAX CREDIT)
(€)

FINANCIAL INFORMATION CALENDAR FOR 2005

Wednesday, January 26th 2005
2004 annual sales release

Thursday, February 17th 2005
Release of the 2004 certified results and annual financial information meeting

Tuesday, April 26th 2005
Annual General Meeting of Shareholders at the Carrousel du Louvre (Paris, France)

Tuesday, July 12th 2005
First half 2005 sales release

Friday, September 2nd 2005
First half 2005 results release

Wednesday, October 19th 2005
First nine months 2005 sales release

YOUR CONTACTS

By telephone
- from France:
freephone number 0 800 66 66 66
- from abroad: + 33 1 40 14 80 50

By Internet
www.loreal-finance.com, its Shareholder's Corner or the mobile website for PDA:
loreal-finance.com *mobile edition*

By mail
Actionnariat L'Oréal
BNP Paribas – Securities Services
Service aux émetteurs
Immeuble Tolbiac
75450 Paris cedex 09 - France

L'Oréal
Headquarters
41, rue Martre 92117 Clichy - France
Tel: +33 1 47 56 70 00
Fax: +33 1 47 56 80 02

Persons to contact

- for shareholders
Mr Jean-Régis Carof,
Director of International Financial Communications

- for analysts and institutional investors
Mrs Caroline Millot,
Director of Investor Relations

- for French journalists
Mr Lorrain Kressmann,
Director of French Press Relations

- for international journalists
Mr Mike Rumsby,
Director of International Press Relations

10-YEAR INVESTMENT IN L'ORÉAL SHARES[1] (€)

Purchase of 90 shares at €166.02[2] on December 31st 1994	14,941.80
Reinvestment of dividends	
Valuation at December 31st 2004 (1,099 shares at €55.85)	61,379.15
Initial capital multiplied by 4.1 in 10 years **Total Shareholder Return: 14.5%**	

(1) See Volume 3 of this Reference Document (shareholder value creation).
(2) There was a ten-for-one share split on July 3rd 2000.

2

Consolidated financial statements **2004**

L'ORÉAL

Consolidated financial statements 2004

The consolidated financial statements as presented below were closed by the Board of Directors on February 16th 2005, and were announced in a news release on February 17th 2005.

These financial statements will be submitted to the shareholders for approval at the Annual General Meeting on April 26th 2005, in accordance with article L. 225-100 of the French Commercial Code.

The Board of Directors

The Reference Document of L'Oréal comprises three separate volumes:

- 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 as required by law, available prior to the Annual General Meeting convened for Tuesday, April 26th 2005.

Contents

Compared consolidated balance sheets

€ millions

Assets (net values)	12.31.2004	12.31.2003	12.31.2002
Fixed assets	**11,533.7**	**8,136.4**	**8,130.4**
Goodwill *(note 4)*	**817.2**	**844.0**	**778.3**
Intangible assets *(note 5)*	**3,739.7**	**3,761.7**	**4,011.4**
Tangible assets *(note 6)*	**1,943.7**	**1,843.9**	**1,747.1**
Financial assets	**5,033.1**	**161.1**	**154.9**
Investments in non-consolidated companies *(note 7)*	4,896.3	3.4	4.8
Long-term loans and other debtors	46.8	77.5	69.7
Deposits and bonds	90.0	80.2	80.4
Investments in equity affiliates *(note 8)*	**–**	**1,525.7**	**1,438.7**
Current assets	**6,645.4**	**6,875.7**	**6,842.3**
Inventories *(note 9)*	1,126.1	1,093.3	1,146.1
Prepayments to suppliers	62.3	64.5	63.9
Trade accounts receivable *(note 10)*	2,063.6	2,006.8	1,991.5
Other receivables and prepaid expenses *(note 11)*	1,412.9	1,408.4	1,424.7
Marketable securities *(note 12)*	1,579.6	1,748.6	1,671.7
Cash and cash equivalents	400.9	554.1	544.4
TOTAL ASSETS	**18,179.1**	**15,012.1**	**14,972.7**

€ millions

Liabilities	12.31.2004	12.31.2003	12.31.2002
Shareholders' equity *(note 13)*	**10,559.5**	**8,124.3**	**7,421.8**
Capital stock	135.2	135.2	135.2
Additional paid-in capital	953.5	953.4	953.4
Retained earnings	5,845.1	5,544.2	5,055.8
Net income	3,625.7	1,491.5	1,277.4
Minority interests *(note 14)*	**4.2**	**11.9**	**11.9**
Provisions for liabilities and charges *(note 15)*	**1,921.6**	**1,439.3**	**1,512.7**
Borrowings and debts *(note 16)*	**2,174.7**	**1,941.2**	**2,646.1**
Current liabilities	**3,519.1**	**3,495.4**	**3,380.2**
Customers' deposit and advances	0.3	0.4	0.7
Trade accounts payable	2,108.0	2,078.0	2,006.7
Other liabilities	1,410.8	1,417.0	1,372.8
TOTAL LIABILITIES	**18,179.1**	**15,012.1**	**14,972.7**

Compared consolidated profit and loss accounts

€ millions

	12.31.2004	12.31.2003	12.31.2002
Net sales *(note 19)*	**14,533.9**	**14,029.1**	**14,288.0**
Purchases and variation in inventories	–2,577.3	–2,519.2	–2,519.0
Personnel costs *(note 20)*	–2,701.9	–2,703.8	–2,757.0
External charges	–6,469.2	–6,362.0	–6,521.2
Taxes and similar payments	–227.8	–203.8	–211.6
Depreciation	–479.9	–450.6	–449.7
Charges to provisions *(note 22)*	38.1	29.7	–51.2
Operating profit	**2,115.9**	**1,819.4**	**1,778.3**
Exchange gains and losses	45.6	144.4	62.3
Adjusted operating profit	**2,161.5**	**1,963.8**	**1,840.6**
Financial expense – net *(note 23)*	–98.7	–93.9	–142.2
Pre-tax profit of consolidated companies	**2,062.8**	**1,869.9**	**1,698.4**
Income tax *(note 24)*	–696.0	–628.7	–579.8
Net operational profit of consolidated companies	**1,366.8**	**1,241.2**	**1,118.6**
Share in net operational profit of equity affiliates *(note 25)*	292.2	419.8	345.2
Net operational profit	**1,659.0**	**1,661.0**	**1,463.8**
Charges to provisions for depreciation of treasury stock – net of tax	–104.5	–88.9	–80.3
Capital gains and losses on disposals of assets – net of tax *(note 26)*	2,182.8	–8.9	–16.6
Restructuring costs – net of tax *(note 27)*	–27.2	–14.6	–31.5
Amortisation of goodwill *(note 28)*	–81.3	–49.5	–50.3
Net income before minority interests	**3,628.8**	**1,499.2**	**1,285.1**
Minority interests	–3.1	–7.7	–7.7
Net income after minority interests	**3,625.7**	**1,491.5**	**1,277.4**
Average number of shares outstanding	673,547,541	676,021,722	675,990,516
Net income after minority interests per share *(in euros)*	5.38	2.21	1.89
Net operational profit after minority interests	**1,655.7**	**1,653.3**	**1,456.2**
E.P.S.: Net operational profit after minority interests per share (in euros) *(note 29)*	**2.46**	**2.45**	**2.15**

Consolidated statement of changes in shareholders' equity

€ millions

	Common shares outstanding	Capital stock	Additional paid-in capital	Translation differences (2)	Retained earnings	Treasury stock owned by consolidated companies (3)	Total
At 12.31.2001	**676,062,160**	**135.2**	**953.4**	**–228.9**	**6,339.4**		**7,199.1**
Dividends paid (not paid on treasury stock)					–391.7		–391.7
Translation differences				–565.6			–565.6
Net changes in treasury stock owned by consolidated companies	–1,640,000					–116.1	–116.1
Other movements(1)					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**	**7,243.8**	**–116.1**	**7,421.8**
Dividends paid (not paid on treasury stock)					–460.0		–460.0
Translation differences				–448.8			–448.8
Net changes in treasury stock owned by consolidated companies	1,640,000				2.2	116.1	118.3
Other movements(1)					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**	**8,279,0**	**–**	**8,124.3**
Dividends paid (not paid on treasury stock)					–513.8		–513.8
Translation differences				–24.8			–24.8
Net changes in treasury stock owned by consolidated companies	–12,340,000					–691.8	–691.8
Other movements(1)					39.9		39.9
2004 consolidated net income (after minority interests)					3,625.7		3,625.7
At 12.31.2004	**663,722,160**	**135.2**	**953.4**	**–1,268.1**	**11,430.8**	**–691.8**	**10,559.5**

(1) The other movements figure mainly relates to adjustments generated by the Sanofi-Synthélabo merger as well as for 2004 to a reversal of provision for risks relating to pension plans initially accounted for through equity at adoption of preferential method (€36.9 million).
(2) The figure of €–1,268.1 million at December 31st 2004 includes € –63.5 million of translation differences resulting from subsidiaries located in the euro area.
(3) This item relates to shares bought back in the context of the L'Oréal share buyback programmes (note 13).

Compared consolidated statements of cash flows

€ millions

	12.31.2004	12.31.2003	12.31.2002
Cash flow from operating activities			
Profit of consolidated companies	3,336.2	1,077.7	939.9
Elimination of expenses and income with no impact on cash flow:			
• depreciation and charges to provisions	640.9	615.2	721.2
• changes in deferred taxes	–14.0	–16.3	–94.9
• losses or gains on disposals of assets of consolidated companies	-2,199.7	7.8	15.4
• other non-cash movements	–0.4	–2.9	–2.5
Gross cash flow of consolidated companies	**1,763.0**	**1,681.5**	**1,579.1**
• Dividends received from equity affiliates	145.9	120.1	94.4
• Cash used for working capital *(note 30)*	–213.0	–21.6	162.8
Net cash provided by operating activities (A)	**1,695.9**	**1,780.0**	**1,836.3**
Cash flows from investing activities			
• Investments in fixed assets	–517.3	–557.9	–539.1
• Changes in other financial assets *(note 31)*	–632.6	–13.1	–476.3
• Disposals of fixed assets	32.6	19.0	26.8
• Effect of changes in the scope of consolidation *(note 32)*	–465.4	–36.9	–202.6
Net cash used by investing activities (B)	**–1,582.7**	**–588.9**	**–1,191.2**
Cash flows from financing activities			
• Dividends paid	–542.9	–487.5	–427.0
• Changes in financial debt	361.4	–552.3	–242.2
Net cash used by financing activities (C)	**–181.5**	**–1,039.8**	**–669.2**
Net effect of exchange rates changes (D)	–9.3	–25.3	–40.7
Change in cash and cash equivalents (A+B+C+D)	**–77.6**	**126.0**	**–64.8**
Cash and cash equivalents at beginning of year (E)	**655.3**	**529.3**	**594.1**
Cash and cash equivalents at end of year (A+B+C+D+E) *(note 33)*	**577.7**	**655.3**	**529.3**

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

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.

There were no changes in the accounting principles applied in 2003 or 2004.

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 share of the group in 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.

Newly-acquired brands are valued by an independent expert. The discounted cash flow method is used in order to make it easier to follow up the value in use after acquisition. Two approaches have been adopted to date:
- **Premium-based approach**: this method involves estimating the part of future flows that could be generated by the activity without the brand,
- **Royalty-based approach**: this involves estimating the value of the brand by reference to the levels of royalties demanded for the use of similar brands, based on sales forecasts drawn up by the group.

These approaches are based on a qualitative analysis of the brand in order to ensure that the assumptions selected are relevant. The discounting rate retained refers to the weighted average cost of capital (WACC) for the target acquired.

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 value in use or market value. If there is an indication of an impairment of intangible assets, an impairment test is carried out and, if necessary, a depreciation is recorded. Brands and market shares are valued 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.

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 five 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 stock – Stock option plans – Share buyback programme

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 stock option plans 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.

Treasury stock held that are specifically allocated to employee stock option plans are booked as *Marketable securities.*

Stock 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.

Any other treasury stock bought back in the context of the share buyback programme are booked at acquisition cost in deduction 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.

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.

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*.

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 stock 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 stock allocated to employees under existing stock option plans 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 "share buyback 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 - 2004

In January 2004, the L'Oréal group completed the acquisition of the Chinese skincare brand MININURSE. MININURSE's activities have been fully consolidated (100%) since this date. In 2003, MININURSE's sales came to around €40 million.

In May 2004, the L'Oréal group completed the acquisition of the Chinese make-up and skincare brand YUE-SAI. This business has been fully consolidated (100%) since June 2004. In 2003, YUE-SAI's sales came to around €38 million.

The group has acquired the control of Shu Uemura Cosmetics, Inc., the company that manufactures and markets SHU UEMURA brand's cosmetics in Japan. This company, which was previously proportionately consolidated (35%), has been fully consolidated (100%) since January 1st 2004. In 2003, its total sales were €69 million.

The group bought out the minority interests of Lavicosmetica Cosmétique Active Hellas (Greece) and Parmobel (Cyprus) in the first quarter of 2004, and Shu Uemura Cosmetic Corporate (Taiwan) in December 2004. These companies are now fully consolidated.

The cost of these new acquisitions represented approximately €530 million. The total amount of goodwill and other intangible assets resulting from these acquisitions came out at €412 million and €110 million respectively.

The definitive results of Sanofi-Synthélabo's offer for Aventis published by the French securities regulator (*Autorité des marchés financiers*, AMF) on August 12th 2004, confirmed the success of the operation, leading to the acquisition of 95.47% of Aventis' capital. Further to this operation, L'Oréal had 10.41% of the capital and 17.23% of the voting rights of the new Sanofi-Aventis group.
As such, L'Oréal stopped consolidating its stake in Sanofi-Synthélabo on August 12th 2004, generating a €2.8 billion gross capital gain on dilution. The shareholders' agreement concluded between L'Oréal and the Total group concerning their respective interests in Sanofi-Synthélabo ended on December 2nd 2004.

At L'Oréal's Extraordinary General Meeting on April 29th 2004, its shareholders voted to approve the merger and absorption of Gesparal by L'Oréal. Further to this operation, the Bettencourt family and Nestlé became direct shareholders in L'Oréal with approximately 27.5% and 26.4% of the capital and 28.6% and 27.4% in voting rights respectively. This transaction did not have any significant impact on the L'Oréal group's structure or results, since Gesparal held only L'Oréal shares and did not have any debt at the time of the merger.

b - 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.

NOTE 3 - SEGMENT INFORMATION

a - Consolidated sales

1 · Breakdown of consolidated sales by branch

	2004		Growth (as %)		2003		2002	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Cosmetics	14,219.8	97.8	3.8	6.9	13,704.3	97.7	13,951.8	97.6
Dermatology[1]	293.4	2.0	–4.3	1.8	306.5	2.2	321.1	2.3
Other	20.7	0.2	13.3	13.3	18.3	0.1	15.1	0.1
Group	**14,533.9**	**100.0**	**3.6**	**6.8**	**14,029.1**	**100.0**	**14,288.0**	**100.0**

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

2 · Breakdown of consolidated sales by geographic zone

	2004		Growth (as %)		2003		2002	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,405.7	50.9	1.3	1.2	7,309.7	52.1	7,044.6	49.3
North America	3,951.5	27.2	–0.8	7.7	3,981.4	28.4	4,438.7	31.1
Rest of the World	3,176.7	21.9	16.0	21.4	2,738.0	19.5	2,804.7	19.6
Group	**14,533.9**	**100.0**	**3.6**	**6.8**	**14,029.1**	**100.0**	**14,288.0**	**100.0**

3 · Breakdown of cosmetics sales by geographic zone

	2004		Growth (as %)		2003		2002	
	€ millions	% of total	Published figures	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,312.4	51.4	1.3	1.1	7,221.7	52.7	6,962.8	49.9
North America	3,772.0	26.5	–0.3	8.1	3,783.7	27.6	4,224.8	30.3
Rest of the World	3,135.4	22.1	16.2	21.6	2,698.9	19.7	2,764.2	19.8
Cosmetics branch	**14,219.8**	**100.0**	**3.8**	**6.9**	**13,704.3**	**100.0**	**13,951.8**	**100.0**

b - Adjusted operating profit

1 · Breakdown of adjusted operating profit by branch

€ millions	2004	2003	2002
Cosmetics	2,099.0	1,900.0	1,767.8
Dermatology	50.6	54.7	65.2
Other	11.9	9.1	7.6
Group	**2,161.5**	**1,963.8**	**1,840.6**

2 · Breakdown of cosmetics adjusted operating profit by geographic zone

€ millions	2004	2003	2002
Western Europe	1,117.2	1,066.0	985.7
North America	508.9	490.0	535.4
Rest of the World	326.6	274.7	261.5
Total for zones	**1,952.7**	**1,830.7**	**1,782.6**
Non allocated	146.3	69.3	–14.8
Cosmetics branch	**2,099.0**	**1,900.0**	**1,767.8**

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 2002 are listed bellow:

€ millions	2002
Western Europe	970.9
North America	535.4
Rest of the World	261.5
Cosmetics branch	**1,767.8**

c - Fixed assets

1 · Breakdown of net fixed assets by branch

€ millions **Net value**	Goodwill	Intangible assets	Tangible assets	Financial and other fixed assets	12.31.2004	12.31.2003	12.31.2002
Cosmetics	817.2	3,536.5	1,871.9	5,010.9	11,236.5	6,255.4	6,288.9
Dermatology	0.0	202.8	56.7	1.1	260.6	300.0	324.7
Other	0,0	0.4	15.1	21.1	36.6	55.3	78.1
Group	**817.2**	**3,739.7**	**1,943.7**	**5,033.1**	**11,533.7**	**6,610.7**	**6,691.7**

2 · Breakdown of cosmetics net fixed assets by geographic zone

€ millions **Net value**	Goodwill	Intangible assets	Tangible assets	Financial and other fixed assets	12.31.2004	12.31.2003	12.31.2002
Western Europe	503.5	2,362.6	1,074.9	4,915.4	8,856.4	3,925.2	3,636.0
North America	205.5	995.9	517.7	59.4	1,778.5	1,896.5	2,217.7
Rest of the World	108.2	178.0	279.3	36.1	601.6	433.7	435.2
Cosmetics branch	**817.2**	**3,536.5**	**1,871.9**	**5,010.9**	**11,236.5**	**6,255.4**	**6,288.9**

NOTE 4 - GOODWILL

€ millions	12.31.2003	Acquisitions Amortisation	Other movements	12.31.2004
Artec	41.7	0.3	–2.8	39.2
Biomedic	11.3	–	–0.3	11.0
Cosmétique Active Hellas	–	13.2	–	13.2
Colorama	12.9	–	0.1	13.0
Jade	18.6	–	–	18.6
Kiehl's	11.9	–	–0.6	11.3
Laboratoires Ylang	6.8	–	–0.5	6.3
Matrix	223.8	–	–9.8	214.0
Maybelline International	48.3	–	–3.1	45.2
Mininurse	–	140.4	–1.8	138.6
Nihon L'Oréal	89.0	–	–	89.0
Parmobel	–	17.8	–	17.8
Sanofi-Synthélabo (equity method)	361.2	–	–361.2	–
Shu Uemura	49.9	74.5	–8.5	115.9
SoftSheen.Carson - Dermablend	140.6	–	–5.9	134.7
Yue-Sai	–	166.0	5.9	171.9
Other companies	25.1	–	–	25.1
Gross value	**1,041.1**	**412.2**	**–388.5**	**1,064.8**
Artec	2.8	1.9	4.5	9.2
Biomedic	1.4	0.6	–	2.0
Cosmétique Active Hellas	–	0.7	–	0.7
Colorama	1.7	0.6	0.1	2.4
Jade	7.7	0.9	–	8.6
Kiehl's	2.2	0.6	–0.2	2.6
Laboratoires Ylang	6.8	–	–0.5	6.3
Matrix	39.7	11.2	–2.1	48.8
Maybelline International	34.8	1.0	–0.8	35.0
Mininurse	–	6.7	–	6.7
Nihon L'Oréal	19.1	4.0	–	23.1
Parmobel	–	0.7	–	0.7
Sanofi-Synthélabo (equity method)	20.5	11.1	–31.6	–
Shu Uemura	7.9	5.3	–0.5	12.7
SoftSheen.Carson - Dermablend	35.5	30.0	–	65.5
Yue-Sai	–	5.2	0.2	5.4
Other companies	17.0	0.8	0.1	17.9
Amortisation	**197.1**	**81.3**	**–30.8**	**247.6**
Net goodwill	**844.0**	**330.9**	**–357.7**	**817.2**

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 could be considered as temporary up to the end of the financial year following the year of the acquisition.

Other movements include the impact of the deconsolidation of Sanofi-Aventis (note 2) (€-329.6 million) in addition to the change in exchange rates on goodwill from foreign subsidiaries (€-12.8 million).

NOTE 5 - INTANGIBLE ASSETS

€ millions	12.31.2003	Acquisitions Amortisation	Disposals Takeovers	Translation differences	Other movements (1)	12.31.2004
Licences, patents, trademarks and market shares	1,024.2	84.8	–61.2	–40.6	53.6	1,060.8
Business goodwill	2,768.1	–	–	–42.8	–	2,725.3
Other intangible assets	161.0	34.2	–13.4	–0.6	3.0	184.2
Gross value	**3,953.3**	**119.0**	**–74.6**	**–84.0**	**56.6**	**3,970.3**
Licences, patents, trademarks and market shares	79.5	18.5	–6.8	–0.5	1.6	92.3
Business goodwill	20.9	10.6	–2.4	–	–1.5	27.6
Other intangible assets	91.2	31.3	–13.1	–0.4	1.7	110.7
Amortisation	**191.6**	**60.4**	**–22.3**	**–0.9**	**1.8**	**230.6**
Intangible assets – net	**3,761.7**	**58.6**	**–52.3**	**–83.1**	**54.8**	**3,739.7**

(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.

At December 31st 2004, trademarks primarily concerned the Matrix (€270.6 million) and Kiehl's (€121.4 million) trademarks, out of a total of €634.6 million for trademarks and €321.0 million for patents and licences, in addition to €105.2 million for market shares.

At December 31st 2004, business goodwill primarily concerned the buyback of our activities in the United States (€949.9 million), Canada (€117.3 million), Spain (€241.7 million) and Switzerland (€106.7 million) as well as the acquisitions of Maybelline (€507.7 million) and Jade in Germany (€160.6 million).

NOTE 6 - TANGIBLE ASSETS

€ millions	12.31.2003	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements (1)	12.31.2004
Land and buildings	1,223.4	56.4	–34.6	–12.1	55.1	1,288.2
Machinery and equipment	1,755.4	144.7	–52.4	–40.5	73.4	1,880.6
Other tangible assets and work-in-progress	877.0	237.7	–43.0	–26.0	–123.9	921.8
Gross value	**3,855.8**	**438.8**	**–130.0**	**–78.6**	**4.6**	**4,090.6**
Land and buildings	547.1	55.5	–21.8	–4.6	4.4	580.6
Machinery and equipment	1,034.9	146.6	–45.2	–23.6	–2.0	1,110.7
Other tangible assets and work-in-progress	429.9	72.0	–38.8	–11.9	4.4	455.6
Depreciation and provisions	**2,011.9**	**274.1**	**–105.8**	**–40.1**	**6.8**	**2,146.9**
Tangible assets – net	**1,843.9**	**164.7**	**–24.2**	**–38.5**	**–2.2**	**1,943.7**

(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	12.31.2004	12.31.2003
Land and buildings	170.5	170.6
Machinery and equipment	6.5	6.8
Other tangible assets and work-in-progress	12.2	12.5
Gross value	**189.2**	**189.9**
Depreciation	92.9	84.4
Net value	**96.3**	**105.5**

NOTE 7 - INVESTMENTS IN NON-CONSOLIDATED COMPANIES

The increase in investments in non-consolidated companies primarily reflects the Sanofi-Aventis operation (note 2). These securities had a net book value of €4,892.8 million at December 31st 2004.
Their stock market value at December 31st 2004 was €8,410.8 million.

Other combined investments in non-consolidated companies are not significant with regard to the balance sheet or profit and loss account.

NOTE 8 - INVESTMENTS IN EQUITY AFFILIATES

The reduction in investments in equity affiliates corresponds to the deconsolidation of Sanofi-Synthélabo shares (note 2).

€ millions	% interest	Contribution at 12.31.2004		Balance sheet value	
		Consolidated reserves	Consolidated profit for year	12.31.2004	12.31.2003
Sanofi-Synthélabo	–	–	–	–	1,524.5
Club des Créateurs de Beauté (Japan)	20.00	1.2	–1.2	–	1.2
Investments in equity affiliates		**1.2**	**–1.2**	**–**	**1,525.7**

NOTE 9 - INVENTORIES

€ millions	12.31.2004	12.31.2003
Raw materials, packaging, consumables	343.2	345.0
Semi-finished and finished products	956.2	925.1
Gross value	**1,299.4**	**1,270.1**
Valuation allowance	173.3	176.8
Inventories – net	**1,126.1**	**1,093.3**

NOTE 10 - TRADE ACCOUNTS RECEIVABLE

€ millions	12.31.2004	12.31.2003
Trade accounts receivable	2,115.4	2,070.3
Gross value	**2,115.4**	**2,070.3**
Valuation allowance	51.8	63.5
Net value	**2,063.6**	**2,006.8**

Trade accounts receivable are due within one year.

NOTE 11 - OTHER RECEIVABLES AND PREPAID EXPENSES

€ millions	12.31.2004	12.31.2003
Fiscal and social receivables	230.2	294.8
Other receivables	157.1	167.2
Deferred expenses	229.5	198.0
Prepaid expenses	138.4	132.6
Point of sales advertising	115.5	111.6
Deferred tax assets	542.2	504.2
Total	**1,412.9**	**1,408.4**

NOTE 12 - MARKETABLE SECURITIES

€ millions	12.31.2004	12.31.2003
L'Oréal shares	1,759.1	1,792.6
Marketable securities and other	255.6	233.1
Gross value	**2,014.7**	**2,025.7**
Provisions for depreciation	435.1	277.1
Net value	**1,579.6**	**1,748.6**

The 25,447,800 L'Oréal shares held for the employee stock option plan have a net value of €1,324.0 million (after a depreciation of €158.7 million for financial year 2004) compared with €1,515.5 million at December 31st 2003.

In 2004, no shares were bought or sold. 1,038,600 share options were exercised.

The total stock market value of treasury stock based on the closing price at December 31st 2004 was €1,421.3 million, compared with €1,721.6 million at December 31st 2003.

The marketable securities comprise mainly, apart from treasury stock, SICAV investment funds and unit trusts (on which the return is based on EONIA) and short-term investments. At December 31st 2004, the market value of the marketable securities was €181.1 million, and their net value was €171.5 million. At December 31st 2003, the market value of the marketable securities was €169.8 million, and their net value was €157.7 million.

NOTE 13 - SHAREHOLDERS' EQUITY

The share capital 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, May 22nd 2003 and April 29th 2004. 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.

In 2004, L'Oréal purchased 12,340,000 shares for €691.8 million. These shares were still held at December 31st 2004.

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 March 24th and December 1st 2004, the Board of Directors authorised a share subscription option plan relating to 2,000,000 and 4,000,000 shares respectively, with an exercise price of €64.69 and €55.54 and an exercise period of five years from March 2009 to March 2014 and from December 2009 to December 2014.

On December 3rd 2003, the Board of Directors 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 €4.2 million and €11.9 million at December 31st 2004 and 2003 respectively.

The variation in this item over the year is due to operations to buy out minority interests as described in note 2 (change in the scope of consolidation) and to the consolidation of Shu Uemura based on the consolidation method.

NOTE 15 - PROVISIONS FOR LIABILITIES AND CHARGES

a - Balances at closing date

€ millions	12.31.2004	12.31.2003
Provisions for employee retirement obligation and related benefits	787.1	906.3
Deferred tax liabilities	659.9	40.5
Other provisions for liabilities and charges(1)	427.7	461.5
Provisions for restructuring	46.9	31.0
Total	**1,921.6**	**1,439.3**

(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 the year

€ millions	12.31.2003	Charges (2)	Reversals (used)(2)	Reversals (not used) (2)	Impact of change in scope of consolidation/ exchange rate/ others (1)	12.31.2004
Other provisions for liabilities and charges	461.5	123.7	–108.7	–42.3	–6.5	427.7
Provisions for restructuring	31.0	33.0	–16.7	–2.4	2.0	46.9

(1) Mainly resulting from translation differences.
(2)These figures may be analysed as follows:

€ millions	Charges	Reversals (used)	Reversals (non used)
• Restructuring costs	33.0	–16.7	–2.4
• Operating provision	123.1	–105.7	–35.4
• Income tax	0.6	–3.0	–6.9

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, provisions have been booked for all obligations relating to pensions still to be paid to retired employees and the vested rights of employees.

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:

	12.31.2004	12.31.2003
• Discount rate	5.1%	5.5%
• Salary increase	4.6%	4.5%
• Long-term return on assets	6.2%	6.4%

The variations during 2004 and 2003 are set out below:

€ millions	Projected pension obligation	Assets	Unrealised gains and losses	Net provision
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**
Net charge for the year:				
- Service cost	91.3			91.3
- Interest cost	94.8			94.8
- Expected return on assets		54.5		–54.5
- Amortisation of unrealised gains and losses			–7.5	7.5
- Reserval of provisions (1)	–34.4		1.2	–35.6
Benefits paid	–81.5	–48.0		–33.5
Contributions paid	5.6	138.5		–132.9
Unrealised gains and losses	187.2	24.3	162.9	–
Translation differences	–34.2	–24.1	–9.1	–1.0
Other movements	–52.6	3.0	–0.3	–55.3
Balance at December 31st 2004	**2,053.6**	**930.6**	**335.9**	**787.1**

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

€ millions	12.31.2004	12.31.2003
Service cost	91.3	89.8
Interest cost	94.8	95.9
Expected return on assets	–54.5	–43.6
Amortisation of unrealised gains and losses	7.5	10.3
Reversal of provisions (1)	–35.6	–
Total	**103.5**	**152.4**

(1) Other movements include €57.2 million in reversals of provisions previously booked against shareholders' equity at adoption of preferential method pursuant to CRC regulation 99-02. The change in this commitment also resulted in a €35.6 million reduction in expenses for 2004.

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

€ millions	12.31.2004	12.31.2003
Short-term paper	1,109.8	695.0
Bank loans	878.5	978.8
Perpetual loan	32.5	43.4
Debts on capital lease contracts	71.2	82.0
Debenture loans	4.7	5.0
Overdrafts	78.0	137.0
Total	**2,174.7**	**1,941.2**

Debt by maturity date

€ millions	12.31.2004	12.31.2003
Under 1 year	1,459.7	1,182.1
1 to 5 years	667.8	646.1
Over 5 years	47.2	113.0
Total	**2,174.7**	**1,941.2**

Debt by currency (after allowing for currency hedging instruments)

€ millions	12.31.2004	12.31.2003
Euro (EUR)	1,334.7	1,054.2
US dollar (USD)	580.8	596.5
Yen (JPY)	24.2	39.7
Others	235.0	250.8
Total	**2,174.7**	**1,941.2**

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

€ millions	12.31.2004	12.31.2003
Floating rate	1,942.7	1,863.3
Fixed rate	232.0	77.9
Total	**2,174.7**	**1,941.2**

Average debt interest rates

The average debt interest rates, after allowing for hedging instruments, were 3.29% in 2003 and 2.36% in 2004 for the euro, and 1.44% in 2003 and 1.85% in 2004 for the US 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 2004, the fair value of the debt amounts to €2,193.4 million. At December 31st 2003, it amounted to €1,961.3 million.

Debts covered by collateral

There were no significant debts covered by collateral as at December 31st 2004 and December 31st 2003.

Confirmed credit lines

At December 31st 2004, L'Oréal and its subsidiaries have €2,268 million of credit lines confirmed but not used (€2,233 million at December 31st 2003).

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.

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. Exchange rate derivatives are negotiated by Régéfi or, in exceptional cases, directly by the group's subsidiaries when the currency is not convertible, with any such operations subject to control by Régéfi.

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.

The following derivatives are held for currency risk hedging purposes:

€ millions	Nominal		Market value	
	12.31.2004	12.31.2003	12.31.2004	12.31.2003
Currency futures				
Purchase EURO/currency	**1,097.6**	**1,011.2**	**38.8**	**44.9**
EUR/USD	387.5	379.5	30.7	32.8
EUR/GBP	151.4	161.5	2.7	3.6
EUR/CHF	91.2	128.4	0.2	1.4
EUR/CAD	76.1	57.9	2.6	2.8
EUR/West European currencies	106.8	75.3	–0.5	0.9
EUR/East European currencies	143.1	95.9	0.6	2.7
EUR/Asian currencies	34.0	50.1	1.9	2.5
EUR/Latin American currencies	18.7	–	0.7	–
EUR/Other currencies	88.8	62.6	–0.1	–1.8
Purchase USD/currencies	**261.8**	**319.7**	**–10.3**	**–11.9**
USD/CAD	7.5	36.4	–0.9	–2.6
USD/Asian currencies	122.7	100.3	–2.1	–0.9
USD/Latin American currencies	68.3	100.6	–3.7	2.1
USD/Other currencies	63.3	82.4	–3.8	–10.5
Sale USD/CHF	**–92.3**	**–101.9**	**1.6**	**9.8**
Other currency pairs	**67.0**	**54.1**	**–0.3**	**–0.9**
Currency futures total	**1,334.1**	**1,283.1**	**29.8**	**41.9**
Currency options				
EUR/USD	438.8	410.8	41.5	38.1
EUR/GBP	130.7	79.5	7.4	0.9
EUR/RUB	65.2	–	4.3	–
EUR/BRL	37.0	–	0.8	–
EUR/MXN	36.9	–	2.4	–
EUR/KRW	29.4	4.5	0.9	0.1
EUR/JPY	21.5	27.0	0.6	0.9
EUR/CAD	15.6	–	0.5	–
EUR/AUD	15.0	–	0.7	–
USD/BRL	6.1	27.7	0.0	1.9
Other currency pairs	54.6	3.2	0.9	–
Currency options total	**850.8**	**552.7**	**60.0**	**41.9**
O/w call options total	**1,062.2**	**888.1**	**71.3**	**66.7**
O/w put options total	**–221.4**	**–335.4**	**–11.3**	**–24.8**
Total	**2,184.9**	**1,835.8**	**89.8**	**83.8**

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 value	
Interest rate derivatives	12.31.2004	12.31.2003	12.31.2004	12.31.2003
Borrowing floating interest-rate swaps				
EUR Euribor/fixed rate	325.5	332.7	22.0	23.1
Borrowing fixed interest-rate swaps				
EUR Euribor/fixed rate	21.7	23.8	–2.0	–1.1
USD Libor/fixed rate	183.6	395.7	–0.4	–3.1
CAD Libcad/fixed rate	5.3	5.4	–0.2	–0.3
Floating/floating interest-rate swaps				
EUR Euribor/Euribor	286.2	354.7	0.6	2.2
Purchases caps				
EUR Euribor	300.0	300.0	–	0.1
Total	**1,122.3**	**1,412.3**	**20.1**	**20.9**

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.

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 €+13.4 million at December 31st 2004, 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 €+5.1 million at December 31st 2004.

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 2004, the group holds 25,447,800 treasury stock with a net value of €1,324.0 million. For these shares, a variation in the share price of plus or minus 10% relative to the average share price for December of €55.06 would have an impact on the group's consolidated net profit of €+112.5 million and €–118.5 million respectively.

NOTE 18 - OFF-BALANCE SHEET COMMITMENTS

a - Operating lease commitments

They amount to €1,326.0 million at December 31st 2004 compared with €1,312.6 million at December 31st 2003, of which:
- €226.9 million is due in under one year at December 31st 2004 compared with €221.0 million at December 31st 2003,
- €668.8 million is due in 1 to 5 years at December 31st 2004 compared with €637.7 million at December 31st 2003,
- and €430.3 million is due in over 5 years at December 31st 2004 compared with €453.9 million at December 31st 2003.

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:

€ millions	12.31.2004	12.31.2003
Commitments given(1)	38.1	49.8
Minorities buyback commitments	23.7	280.5
Documentary credits	5.1	3.4
Commitments received	31.2	25.5
Investment orders	181.3	169.3

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

c - 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.

d - 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 2004, net sales amounts to €14,533.9 million, compared with €14,029.1 million in 2003.

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

	2004		2003	
	€ millions	As %	€ millions	As %
France	2,016.0	13.9	2,059.7	14.7
Rest of the World	12,517.9	86.1	11,969.4	85.3
Group	**14,533.9**	**100.0**	**14,029.1**	**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 52,081 at December 31st 2004, compared with 50,500 at December 31st 2003.

Number of employees(1)	12.31.2004	12.31.2003
Western Europe	24,237	24,737
North America	9,077	9,754
Rest of the World	18,767	16,009
Total	**52,081**	**50,500**

(1) Including companies consolidated by the proportional method.

Remuneration of directors and management

€ millions	2004	2003
Board of Directors	0.9	0.8
Management structures[1]	16.1	15.8

(1) Remuneration paid by all group companies.

Remuneration of senior managers

The gross total remuneration paid to the Chairman and Chief Executive Officer for 2004 amounted to €6,596,383, including benefits and directors' fees, of which the fixed part amounted to €3,552,880. The Chairman and Chief Executive Officer has a company car and chauffeur. For any additional elements linked to his compensation, the Chairman and Chief Executive Officer is considered as equivalent to an employee, and as such, is covered by the same pension and employee benefits systems as senior executives.

NOTE 21 - RESEARCH AND DEVELOPMENT EXPENDITURE

This expenditure amounted to €507 million in 2004, compared with €480 million in 2003.

These figures incorporate all research costs for cosmetics and dermatology (100%).

NOTE 22 - CHARGES TO PROVISIONS

This item amounted to €38.1 million in 2004 compared with €29.7 million in 2003. It mainly concerns current assets for an amount of €20.1 million (€14.6 million in 2003), and liabilities and charges for an amount of €18.0 million (€15.2 million in 2003).

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

€ millions	2004	2003
Net interest expense	–47.4	–52.3
Net gain on disposals of marketable securities	5.2	–2.0
Payment discounts	–53.5	–46.9
Other	–3.3	2.0
Net charges to financial provisions	0.3	5.3
Financial expense - net	**–98.7**	**–93.9**

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

NOTE 24 - INCOME TAX

a - Detailed breakdown of corporate income tax

€ millions	2004	2003
Current tax		
- operating profit	653.3	595.6
- non-operational items	–16.5	–13.0
Deferred tax		
- operating profit	42.7	33.1
- non-operational items	497.7	–49.4
Income tax	**1,177.2**	**566.3**
Of which:		
- tax on restructuring costs	–20.5	–7.6
- tax on capital gains and losses on fixed assets	555.7	–6.0
- tax on treasury stock	–54.0	–48.8

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 2004 may be analysed as follows:

€ millions	2004	2003
Pre-tax income of consolidated companies	**4,513.4**	**1,644.0**
Parent company tax rate	35.43%	35.43%
Theoretical tax on net income	**1,599.1**	**582.5**
Impact of permanent differences	130.6	143.2
Impact of tax rate differences	–86.3	–105.2
Change in non-recorded deferred taxes	1.6	1.3
Impact on capital gains linked to the Sanofi-Aventis dilution(1)	–435.9	–
Other(2)	–31.9	–55.5
Group tax charge	**1,177.2**	**566.3**

(1) Capital gains calculated at 15.72% on the tax base corresponding to the social value of the shares held.
(2) 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:

€ millions	
Balance of deferred tax assets at December 31st 2002	479.2
Balance of deferred tax liabilities at December 31st 2002	–45.0
Profit effect	16.3
Translation differences	–0.1
Other effects	13.3
Balance of deferred tax assets at December 31st 2003	504.2
Balance of deferred tax liabilities at December 31st 2003	–40.5
Profit effect	–540.4
Translation differences	4.4
Other effects	–45.4
Balance of deferred tax assets at December 31st 2004	542.2
Balance of deferred tax liabilities at December 31st 2004	–659.9

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

€ millions	12.31.2004		12.31.2003	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	533.5	102.5	498.8	40.5
Deferred tax liability on capital gains linked to the Sanofi-Aventis dilution		557.4		
Tax credits and tax loss carry-forwards	8.7		5.4	–
Deferred tax total	**542.2**	**659.9**	**504.2**	**40.5**

Deferred tax relative to temporary differences mainly concern provisions for pensions and early retirement (€233.0 million and €255.5 million at the end of 2004 and 2003 respectively), provisions for liabilities and charges (€106.6 million and €115.6 million at the end of 2004 and 2003 respectively), and provisions for the depreciation of treasury stock (€147.9 million and €93.9 million at the end of 2004 and 2003 respectively).

The increase in deferred tax liabilities is primarily due to the deferred tax liability on capital gains linked to the Sanofi-Aventis dilution (15.72%): in this way, CRC regulation 99-02 governing consolidated financial statements stipulates that the tax rate to be retained when determining the deferred tax liability to be booked on unrealised tax capital gains at each close of accounts, should be the rate applicable under current tax regulations as on the date on which such capital gains are expected to be realised.

The amended French finance law (Loi de Finances) of 2004 reduced the tax rate (excluding additional taxes) applicable for long-term capital gains on investments to 15% for 2005, 8% for 2006 and 1.66% thereafter.

Since it was not possible to determine the likely date for the disposal of all or part of its stake in Sanofi-Aventis, L'Oréal retained the highest long-term capital gains tax rate in force at the end of 2004 for the coming financial year, i.e. 15%.

In light of this position, it recorded a deferred tax liability of €557.4 million on the income statement at December 31st 2004.

The maintenance of L'Oréal's stake in Sanofi-Aventis through to January 1st 2007 would lead to a €264 million write-back in connection with the deferred tax liability in 2005 and €232 million in 2006.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amounts to €62.5 million at December 31st 2004, compared with €68.8 million at December 31st 2003.

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" section.

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

This item amounted to €2,182.8 million in 2004, compared with €–8.9 million in 2003.

In 2004, they include €2,239.0 million in net capital gains linked to the dilution of L'Oréal's stake in Sanofi-Aventis (note 2).
This item also includes the disposal or exceptional amortisation of fixed assets.

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 €–27.2 million in 2004, compared with €–14.6 million in 2003.

NOTE 28 - AMORTISATION OF GOODWILL

Amortisation of goodwill amounted to €–81.3 million in 2004, compared with €–49.5 million in 2003, 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 stock 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 "share buyback method".

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

	12.31.2004		
	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	1,655.7	673,547,541	2.46

At December 31st 2004, no other share equivalent having a dilutive effect exists.

	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 per share	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

NOTE 30 - CASH USED FOR WORKING CAPITAL

In 2004 and in 2003, this item amounted to €–213 million and €–21.6 million respectively, and may be analysed as follows:

€ millions	2004	2003
Inventories	–56.0	–30.5
Receivables	–196.4	–341.1
Debts	39.4	350.0

NOTE 31 - CHANGES IN OTHER FINANCIAL ASSETS

This line includes flows relating to treasury stock 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 2004, this item mainly relates to the acquisitions of MININURSE and YUE-SAI in China, as well as the operations carried out over the year to buy out minority interests.

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

NOTE 33 - CASH AND CASH EQUIVALENTS AT END OF YEAR

This item amounted to €577.7 million and €655.3 million at December 31st 2004 and December 31st 2003 respectively, and may be analysed as follows:

€ millions	12.31.2004	12.31.2003
Marketable securities excluding treasury stock	255.6	233.0
Cash and short-term funds excluding accrued interest	398.5	550.9
Overdrafts, etc.	–76.4	–128.6

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	
Beautylux International Cosmetics (Shangai) Co Ltd	China		100.00	
Beautytech International Cosmetics (Yichang) 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 Cosmeticos S.A.	Spain		100.00	
Colainaf	Morocco		100.00	
Compagnie Thermale Hôtelière et Financière	France	552 090 383	99.98	
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	100.00	
Cosmétique Active Hellas	Greece		100.00	
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	
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	
Exclusive Signatures International	France	433 976 255	100.00	
Fapagau & 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	
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	

(1) In accordance with the provisions of Article D. 248-12 of French Trading law, some information provided above is incomplete.
(2) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control[2]
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	99.98	
La Roche-Posay Laboratoire Pharmaceutique	France	306 688 714	99.98	
LaScad	France	319 472 775	100.00	
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 Balkan	Serbia		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	
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 Norge	Norway		100.00	
L'Oréal Luxury Products Sverige AB	Sweden		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	

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

Companies	Head Office	N° Siren	% Interest	% Control[2]
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	
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 Ukraine	Ukraine		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 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	
Parmobel Limited	Cyprus		100.00	
Prestige & Collections International	France	334 171 113	100.00	
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	
Scental	Hong Kong		100.00	
Shu Uemura Cosmetic Corporate	Taiwan		100.00	
Shu Uemura Cosmetics Inc.	Japan		93.57	
Shu Uemura International (Hong Kong)	Hong Kong		93.57	

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

Companies	Head Office	N° Siren	% Interest	% Control[2]
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	99.98	
Sofamo	Monaco	58 S 00670	99.97	
Sofy	France	305 949 034	100.00	
Soprocos	France	586 680 092	100.00	
Soproréal	France	383 069 663	100.00	
Sparlys	France	652 054 065	100.00	
Swan Beauties Pvt Ltd	India		100.00	
Thai Shu Uemura	Thailand		96.84	
Venprobel	Venezuela		100.00	
Viktor & Rolf Parfums	France	451 403 612	100.00	
Yasulor Indonesia	Indonesia		100.00	
Yue-Sai Kan Cosmetics Shenzen Ltd	China		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 Japan 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		50.00[2]	
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]	

(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]
Galderma Singapore	Singapore		50.00[2]	
Galderma UK Ltd	United Kingdom		50.00[2]	
Galderma Uruguay	Uruguay		50.00[2]	
Innéov Belgium	Belgium		50.00[2]	
Innéov Deutschland GmbH	Germany		50.00[2]	
Innéov España S.A.	Spain		50.00[2]	
Innéov France	France		50.00[2]	
Innéov Hellas AE	Greece		50.00[2]	
Innéov Italia Spa	Italy		50.00[2]	
Innéov Österreich GmbH	Austria		50.00[2]	
Innéov Polska Sp	Poland		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 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]	
O.O.O. Innéov	Russia		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.

C - COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Companies	Head Office	N° Siren	% Interest	% Control[1]
Club des Créateurs de Beauté KK	Japan		20.00	

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

Statutory Auditors' report
on the consolidated financial statements

(Year ended December 31st 2004)

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 on financial and accounting information in the Chairman's report on Internal Control, should be read in conjunction with French law and professional auditing standards applicable in France.

In accordance with our appointment as Auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended December 31st 2004.

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 2004 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) relating to the justification of our assessments, we draw your attention to the matters set out below:
- 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 of the consolidated financial statements,
- the accounting treatment of the net capital gain realized on the Sanofi-Aventis dilution mentioned in Notes 24-c and 26 of the consolidated financial statements does not call for any particular comment with respect to the methodology applied and the assumptions made.

These assessments are part of our audit approach to the consolidated financial statements taken as a whole and therefore contribute to the expression of the overall opinion given in the first part of this report.

Specific verifications

In accordance with professional standards applicable in France, we have also verified the information given in the group's Management Report. We have no comment to make as to the fair presentation of this information or its consistency with the consolidated financial statements.

Paris-la-Défense and Neuilly, February 17th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

L'ORÉAL

Incorporated in France as a "Société Anonyme"
with registered capital of €135,212,432
632 012 100 R.C.S. Paris

Headquarters:
41, rue Martre
92117 Clichy - France
Tel.: +33 1 47 56 70 00
Fax: +33 1 47 56 80 02

Registered Office:
14, rue Royale
75008 Paris - France

www.loreal.com
www.loreal-finance.com

2004 Management Report of the Board of Directors

Annual General Meeting of April 26th 2005

Ladies and Gentlemen,

This report reviews the activity of your company and its group in 2004, the main decisions taken by your Board, particularly in connection with the new organisation of the controlling shareholding structure, and the draft proposals it wishes to submit to you for approval at the Annual General Meeting.

Information is also provided on the company's social and environmental management, the Board of Directors and the General Management.

In an attached report, the Chairman reports on the ways in which the Board's work is prepared and organised, and the Internal Control procedures set up by the company.

CONSOLIDATED ECONOMIC DATA

The Board of Directors has reviewed the development and results of the company in 2004. It focused particularly on important aspects of L'Oréal's performance, such as economic and financial data, research, innovation and product initiatives, the conquest of new markets and human resources.

2004 sales

L'Oréal sales in 2004 reflected another year of growth and market share gains, rapid growth in North America, spectacular development in new and emerging markets, and a slowdown in consumer spending in Western Europe.

In 2004 the group achieved sales of €14.53 billion, up by +6.8% excluding exchange rate effects, +6.2% like-for-like and +3.6% based on published figures, compared with 2003. The impact of exchange rate effects amounted to –3.2% in 2004.

The net effect of structural changes (the consolidation of MININURSE and YUE-SAI in China, and the 100% consolidation of SHU UEMURA in Japan) was +0.6% at the end of December 2004.

2004 sales growth, at +6.2% like-for-like compared with 2003, is fully in line with our targets and significantly higher than the growth rate of the cosmetics market. Overall, the strategy of retail channel diversification, and strong presence in the new markets of fast-growing countries has helped maintain a good sales trend in spite of a rather sluggish climate in Europe.

In 2004, with +6.3% growth like-for-like (based on an identical structure and constant exchange rates) compared with 2003, L'Oréal's cosmetics sales once again increased faster than the market.

Professional Products Division
The Professional Products Division, whose products are sold through hair salons, achieved +7.6% like-for-like growth compared with 2003, which was greater than the market. Growth was supported by the launches of the Kérastase Réflection range of haircare products for coloured hair, and of Platinium lightening paste from L'ORÉAL PROFESSIONNEL, together with the continuing global roll-out of MATRIX.

Consumer Products Division
The sales of the Consumer Products Division increased by +5.8% like-for-like compared with 2003. The second part of the year benefited from the excellent reception given to the latest launches from L'ORÉAL PARIS (Elsève anti-dandruff shampoo, the ReFinish facial micro-dermabrasion kit and True Match foundation), GARNIER (Multi-Lights hair colour kit), and MAYBELLINE (XXL mascara and Dream Matte Mousse foundation).

Luxury Products Division
The Luxury Products Division achieved like-for-like growth of +5.2%. Several product successes made important contributions.

Consumer response to Armani Black Code perfume has been very promising. The latest launches – Line Peel cream from BIOTHERM, Hydra Genius cream from HELENA RUBINSTEIN and Hypnôse mascara from LANCÔME – are big successes. Growth trends for KIEHL'S and SHU UEMURA are robust and their global roll-out continues. The opening of boutiques for LANCÔME, BIOTHERM and KIEHL'S has generated considerable interest and very encouraging scores.

Active Cosmetics
Active Cosmetics, number one in the market for dermocosmetic products sold through pharmacies, once again produced strong like-for-like growth with a figure of +15.0% compared with 2003. The successes of the Liposyne slimming line, the Normaderm anti-imperfection facial skincare line from VICHY, and Rosaliac, the anti-redness skincare product from LA ROCHE-POSAY, made a solid contribution to this performance.

In the fast-growing nutricosmetics market, INNÉOV has further improved its position thanks to the success of Innéov Firmness, which is now number one in the anti-ageing segment, and the launch of its second product Innéov Hair Mass in the largest segment of the European market: haircare.

In 2004, Galderma recorded like-for-like sales growth of +1.8% compared with 2003, a modest increase mainly reflecting the sluggishness of the dermatology market in the United States.

North America

In North America, like-for-like sales growth in 2004 was +8.1% compared with 2003, with each of the three Divisions making substantial market share gains. In the Professional Products Division, 2004 was notable for the success of the Redken for Men line, the spectacular rise of KÉRASTASE, the success of Curl.life haircare products from MATRIX and LuoColor from L'ORÉAL PROFESSIONNEL. In the Consumer Products Division, the big news was the breakthrough of Fructis, which, although only launched two years ago, won a substantial share of the shampoo and styling markets. L'ORÉAL PARIS meanwhile made substantial progress in skincare with the launch of ReFinish. MAYBELLINE confirmed its position as number one in mass-market make-up. Lastly, in the Luxury Products Division, KIEHL'S achieved strong growth thanks to the success of the Abyssine cream line and the extension of its boutique network. In make-up, LANCÔME grew strongly, reflecting the success of Juicy Wear lipstick. The new Armani Cosmetics line success story continued. In the perfumes market, the RALPH LAUREN brand continued to move forward, with successful launches for Ralph Cool and Lauren Style.

Western Europe

2004 sales in Western Europe increased by +1.1% like-for-like compared with 2003. Professional Products sales continued to outstrip the market growth rate, thanks largely to successful launches for the Kérastase Réflection haircare line and Platinium lightening paste, and the revamping of the Tecni.art styling line. Consumer Products sales gathered speed sharply in the 4th quarter, with successful new products that were very well received. The Division recorded large market share gains: in value terms, the Division is now number one in the facial skincare market, and has increased its hair colourant market share by more than one percentage point. Luxury Products sales were strong in the UK and in Spain. Sales trends, although good in France and Germany, were held back by stock reduction in the selective retail channel. Once again, Active Cosmetics made rapid progress while winning market share, particularly in Germany.

Rest of the World

The growth rate in the Rest of the World was once again very high in 2004 at +18.1% like-for-like, compared with 2003.

Sales continued to increase quickly in Asia, with like-for-like growth of +17%. Sales in China almost doubled thanks to the effect of growth by existing brands and the MININURSE and YUE-SAI acquisitions. Development prospects are promising with GARNIER and YUE-SAI in China, with SHU UEMURA (now available in all Asian countries), with MATRIX in the Chinese world, and with LA ROCHE-POSAY in Japan and China.

Sales in Latin America, which increased by +16.2% like-for-like, were supported by growth in all the group's Divisions. Consumer Products took advantage of the successes of Nutrisse hair colourant and the Fructis lines from GARNIER, and also of the expansion of MAYBELLINE. The Professional Products Division made progress in haircare and hair colourants with Diacolor Richesse from L'ORÉAL PROFESSIONNEL. The Luxury Products Division turned in an excellent performance in perfumes, particularly in Mexico.

In Eastern Europe, 2004 saw very rapid sales growth of +29.3% like-for-like. This result stemmed largely from the successes scored by GARNIER in skincare and hair colourants. MAYBELLINE, whose sales are advancing strongly, is confirming its status as a major mass-market brand, particularly in the foundation and eye make-up segments. Lastly, L'ORÉAL PARIS was strengthened by the sales expansion of Elsève in the haircare market. In Active Cosmetics, VICHY chalked up another remarkable performance in pharmacy sales. In hair salons, the development of MATRIX, the most affordable of the Division's brands, has broadened the distribution base.

Sales in all the other countries combined grew strongly in 2004 at +13.9% like-for-like compared with 2003. Performance in India, Australia and Turkey was outstanding.

All these successes and results are encouraging for 2005, and the group will continue to capitalise on the business model that has enabled it up to now to respond to an increasingly competitive context.

The spectacular growth in some countries in Asia, Latin America and Eastern Europe and the dynamism of the selective, professional and pharmaceutical retail channels offset the sluggishness of some markets in 2004. L'Oréal has adapted to deal with contrasting situations and constraints, demonstrating its flexibility, its tenacity in coping with complexity, its ability to remain closely tuned in to grass-roots realities, and its capacity to grasp opportunities wherever they arise.

New prospects are opening up for L'Oréal, thanks to a combination of the rapid expansion of the emerging countries, a large number of innovative launches, an increase in the resources earmarked for research and strict cost control.

2004 consolidated financial statements, cash flows and debt situation

Consolidated financial statements

€ millions	12.31.2003	12.31.2004	Growth in %
Sales	**14,029**	**14,534**	**+3.6**
Operating profit	**1,819**	**2,116**	**+16.3**
Exchange gains and losses	144	46	–
Adjusted operating profit(1)	**1,964**	**2,161**	**+10.1**
Pre-tax profit of consolidated companies	**1,870**	**2,063**	**+10.3**
Share in net operational profit of equity affiliates(2)	420	292	–
Net operational profit after minority interests(3)	**1,653**	**1,656**	**+0.1**
Net earnings per share	2.45	2.46	–
Dividend (€)	0.73	0.82(4)	+12.3
Net income after minority interests	**1,491**	**3,626**	**+143**

(1) Operating profit including exchange gains and losses.
(2) Share in profit of Sanofi-Synthélabo, deconsolidated on August 12th 2004.
(3) 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 stock, 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. It has also been adopted by the very great majority of financial observers.
(4) Dividend to be proposed to Annual General Meeting on April 26th 2005.

Operating profit grew sharply by +16.3%, much faster than the increase in sales, which were affected by the negative impact of currency fluctuations:
• continuing industrial rationalisation efforts led to a further improvement in purchases, which increased less strongly than sales,
• control of the headcount in Europe and the United States helped reduce personnel costs as a percentage of sales,
• external charges increased by +1.7%. This modest rise reflects firstly the strict control of operating expenses, and secondly the lower level of activity in the second half in perfume launches, for which very large advertising expenses are necessary.

Finally, the trend in the mix of different activities, which by their nature generate very different levels of external charges, contributed to this low increase.

In all, operating profit reached 14.6% of sales. Exchange gains amounted to €46 million, compared with €144 million at the end of December 2003. Adjusted operating profit thus came out at €2,161 million, up by +10.1%.

The adjusted operating profit of the cosmetics branch came out at €2,099 million, or 14.8% of sales, considerably higher than in 2003 when the figure was 13.9%.

The low increase in the sales of the dermatology branch in two of its main markets (United States and Germany), together with the weakening of the US dollar against the euro, have resulted in a slight decrease in adjusted operating profit as a proportion of sales, which now stands at 17.2%.

Net financial expense, at €99 million, is stable. The financial cost generated by the acquisitions and the share buyback programme has been offset by positive financial flows and favourable interest rates. The pre-tax profit of the consolidated companies thus comes out at €2,063 million, up by +10.3%.

L'Oréal's share in the profit of Sanofi-Synthélabo for 2004 (up to August 12th) amounted to €292 million, compared with €420 million in 2003. Because of the dilution in the stake resulting from the take-over of Aventis by Sanofi-Synthélabo, the net income includes a "dilution profit" of €2.2 billion. In its 2005 financial statements, the group will record its share of Sanofi-Aventis dividends.

In all, the net operational profit after minority interests amounted to €1,656 million, stable compared with 2003, because of the Sanofi-Synthélabo deconsolidation.

Net income after minority interests grew strongly at +143%.

Cash flow

Gross cash flow amounted to €1,763 million.

The working capital requirements increased by €213 million. Inventories and receivables improved very slightly as a percentage of sales. The amounts for the *Trade accounts payable* and *Other liabilities* items were lower.

Investments declined slightly to €517 million.

After allowing for the dividend paid by L'Oréal and the amounts paid out in connection with acquisitions and net share buybacks, the remaining cash flow comes to €–429 million.

The balance sheet structure is robust, and shareholders' equity is equal to 58% of total assets.

Net cash recorded in accordance with French accounting standards represents a net debt of €147 million, giving a gearing of 1.4%.

Debt

Debt, calculated after deducting L'Oréal treasury stock from shareholders' equity, as recommended in the IFRS standard, would indicate a gearing of 15.9%, stable compared with the end of 2003 when the ratio was 16.3%.

During the year, the group continued to apply its traditionally prudent policy regarding financial debt. Between December 31st 2003 and December 31st 2004, the consolidated amount of borrowings and debts increased from €1.94 billion to €2.17 billion: these figures may be compared with the shareholders' equity at the same dates, that is €8.12 billion and €10.56 billion respectively. Note that at the same time L'Oréal was able to carry out various external growth operations, and an ambitious share buyback programme. These results were primarily made possible by the high level of cash flow maintained by the group.

More details about the group's borrowings and debts are provided in the notes to the consolidated financial statements.

As for the parent company, borrowings and debts increased from €1.32 billion to €1.66 billion between December 31st 2003 and December 31st 2004, which may be compared with the shareholders' equity amounts at the same dates, that is €6.46 billion and €7.17 billion respectively.

Diversified, regular and accessible financial information

Determined to steadily improve the quality and accessibility of its financial information, L'Oréal makes every effort to meet the expectations of the international financial community and of all its shareholders, whether they are individual or institutional investors, inside or outside France.

The group issues its financial releases simultaneously and in real time to all readership groups, to ensure equality of access to information.

A financial information calendar, which sets out the dates of publications, meetings and the Annual General Meeting, is set for the financial year and helps to ensure the regular supply of information.

L'Oréal provides its financial information through conference calls and presentations by the group in the world's main financial centres.

The group aims to foster dialogue and responsiveness, particularly at the Annual General Meeting and individual investor fairs and meetings in the major French cities, and also through surveys and consultations.

Lastly, L'Oréal is improving the range of its financial information media, with the establishment of its Annual Report as a Reference Document, regular "Letters to Shareholders" and an interactive website (www.loreal-finance.com) specially dedicated to the financial community and shareholders, including a mobile version for pocket terminals and computers.

Important events and developments in social affairs since the start of 2005

No significant events have occurred since the start of 2005.

PARENT COMPANY FINANCIAL STATEMENTS

Net sales

€ millions	2004	2003	Change in %
Sales			
1st quarter	465.8	441.8	5.43%
2nd quarter	472.5	446.8	5.75%
3rd quarter	405.5	403.5	0.51%
4th quarter	430.3	414.0	3.94%
Total	**1,774.2**	**1,706.1**	**3.99%**

Note: These sales figures include sales of goods and finished products, accessories, sales of waste, services, after deducting reductions on sales. The sales figures include supplies of goods to various subsidiaries which, from a consolidated viewpoint, are recorded as intra-group sales.

2004 parent company financial statements

At December 31st 2004, total assets amounted to €9,543.4 million, compared with €8,659.3 million at December 31st 2003.

The parent company financial statements are presented in accordance with the 1999 General Accounting Plan adopted by the *Comité de réglementation comptable* on April 29th 1999, officially approved by the ministerial order of June 22nd 1999.

At December 31st 2004, the share capital consisted of 676,062,160 shares, each with a par value of €0.2.

The notes to the financial statements form an integral part of the annual financial statements. The figures concerning research are given in section 4 of this report.

The results presented to you include the various types of income received for the concession of patent and brand exploitation rights and for technical assistance.

The royalties received from patents and trademarks are included in the *Other revenue* item and those collected for technical assistance in the *Net sales* item.

A proportion of these amounts is taxed at a reduced rate.

The profit and loss account indicates a net income of €1,230.1 million compared with €939.5 million at December 31st 2003.

The year-on-year change of the profit level mainly represents variations in the following items:
• increase in sales: €68.1 million,
• reduction in tax charge on companies as a result of the change of the tax integration agreement: €145.0 million.

The 2004 net income of €1,230.1 million is calculated:
• after the reversal of the provision for investments set aside in 1999 for the financial year 1998 amounting to €6.8 million, exempt from income tax on expiry of the legally stipulated period of 5 years;
• after raising a provision, by application of the Order of October 21st 1986, to cover employee profit-sharing:
- of a reserve for the benefit of employees of €15.8 million provisioned in 2003 for €15.4 million,
- and of a net charge to employee profit-sharing provisions for 2004 of €17.6 million;
• after raising a provision for investments, including the transfer made by the subsidiaries to the credit of L'Oréal, by application of the derogatory profit-sharing agreement in an amount of €2.8 million, compared with €5.4 million in 2003.

It is stipulated that the overall amount of expenses and charges falling under Article 223-quater of the French General Tax Code and the amount of tax applicable as a result of these expenses and charges are as follows:
• expenses and charges: €0.6 million,
• corresponding tax amount: €0.2 million.

Proposed distribution of income

The Board of Directors recommends that the net dividend be increased from €0.73 per share paid in 2004 for the financial year 2003 to €0.82 per share to be paid in 2005 for the financial year 2004, representing a rise of +12.3%.

The Board of Directors proposes to allocate as follows the income for 2004 amounting to:

€ millions	2004	2003
Income	1,230,100,216.83	939,542,234.00
To the *Special reserve of long-term net capital gains*	0.00	259,229,243.00
5% of the sums corresponding to paid up shares, *i.e.* of the whole share capital, as first dividend	6,760,621.60	6,760,621.60
Giving a balance of	1,223,339,595.23	673,552,369.40
To which is added a deduction from the *Special reserve of long-term net capital gains* item amounting to	0.00	221,808,140.00
Leaving an available balance of	1,223,339,595.23	895,360,509.40
An amount of will be allotted to shareholders as superdividend	547,610,349.60	486,764,755.20
An amount of will be used to pay withholding tax	0.00	39,250,000.00
The balance, that is will be allocated to the *Other reserves* account, in line with standard practice in the group	675,729,245.63	369,345,754.20

The dividends corresponding to the shares held by the company at the time of payment will be allocated to the *Other reserves* account.

In accordance with Article 243 bis of the French General Tax Code, the whole of the proposed dividend is eligible for the 50% deduction in the case of natural persons whose residence for tax purposes is in France, as stipulated by Article 158-3 of the French General Tax Code.

The dividends per share in the last three years are as follows:

€ Year	Net dividend	Tax already paid (tax credit)	Total
2001	0.54	0.27	0.81
2002	0.64	0.32	0.96
2003	0.73	0.37	1.10

The Board of Director recommends that you should authorise it, in application of Article 39 of the Amended Finance Act for 2004:
• to transfer, before December 31st 2005, the sum of €200 million from the *Special reserve of long-term capital gains* account to the *Other reserves* account,
• to deduct the sum of €4,987,500, representing the exceptional tax charge based on the amount thus transferred, from the *Other reserves* account.

The Board of Directors proposes to set the dividend payment date at May 11th 2005.

Subsidiaries and holdings

Sanofi-Aventis
L'Oréal gave its approval for the take-over bid by Sanofi-Synthélabo for Aventis (see release dated January 26th 2004) and approved the capital increase submitted to the Sanofi-Synthélabo shareholders' meeting of June 23rd 2004, and the merger with Aventis submitted to the Sanofi-Aventis shareholders' meeting on December 23rd 2004, as these operations would lead to the creation of a new and significant global player in the pharmaceutical industry.

The results of the Sanofi-Synthélabo bid for Aventis published on August 12th 2004 by the *Autorité des marchés financiers* confirmed the success of the operation which represented 95.47% of the capital of Aventis.

Following this operation, L'Oréal held 10.41% of the capital and 17.23% of voting rights in the new group Sanofi-Aventis. As a result, L'Oréal deconsolidated its stake in Sanofi-Synthélabo on August 12th 2004 and realised a gross dilution capital gain of €2.8 billion. L'Oréal's share in Sanofi-Aventis profit at August 12th 2004 amounted to €294 million.

The shareholders' agreement between L'Oréal and Total concerning their respective holdings in Sanofi-Synthélabo expired on December 2nd 2004, as L'Oréal and Total decided not to renew the agreement (see release of November 28th 2003).

Table of subsidiaries and holdings
The table of subsidiaries and holdings at December 31st 2004 is provided in the notes to the parent company financial statements.

The commentary on the activity of the subsidiaries is given at the start of this report.

TRANSITION TO IFRS STANDARDS

The effects of the transition to IFRS standards on the opening balance sheet at January 1st 2004 and on the 2004 net income of the L'Oréal group have been identified and evaluated.

The accounting principles adopted by L'Oréal, complying with all the standards published by the IASB at March 1st 2004 and in force in the European Union from January 1st 2005 onwards have been applied retroactively to the opening balance sheet at January 1st 2004, except for certain exemptions stipulated in the IFRS 1 standard for the first application of IFRS standards:
- no restatement of business combinations prior to January 1st 2004,
- actuarial gains and losses on pension obligations fully recognised against equity at January 1st 2004,
- cumulative translation adjustments at January 1st 2004 merged with consolidated reserves.

Furthermore, standards IAS 32 and 39 relating to financial instruments are applied at January 1st 2004 for purposes of comparison.

The IFRS standard transition process is today in its final phase. It will be completed by the end of April 2005 with the drawing up and auditing of the IFRS closing balance sheet at December 31st 2004 and the detailed 2004 profit and loss account.

The effects on the opening balance sheet at January 1st 2004 and on 2004 net income are presented below:
a - transition from the opening balance sheet at January 1st 2004 in accordance with French standards to the opening balance sheet at January 1st 2004 in accordance with IFRS standards,
b - transition from the 2004 net income in accordance with French standards to the 2004 net income in accordance with IFRS standards.

In addition to the impact indicated on opening shareholders' equity at January 1st 2004, the closing shareholders' equity at December 31st 2004 will mainly be affected by the variation in the fair value net of tax of L'Oréal's stake in Sanofi-Aventis, which was deconsolidated on August 12th 2004. Furthermore, the presentation of the profit and loss account will include the reclassification of some charges, which will be deducted from sales.

Opening balance sheet at January 1st 2004

Assets

€ millions

Published balance sheet at December 31st 2003 in accordance with French standards		Note	IFRS reclassification and restatement Asset/Asset	Asset/Liability	Opening balance sheet at January 1st 2004 in accordance with IFRS standards	
Fixed assets	**8,136.4**		**660.2**	**–43.1**	**Non-current assets**	**8,753.5**
Goodwill	844.0	*1*	2,378.7	36.6	Goodwill	3,259.3
Intangible assets	3,761.7	*2*	–2,718.5	–6.8	Intangible assets	1,036.4
Tangible assets	1,843.9	*3*	205.0	–	Tangible assets	2,048.9
Financial assets	161.1	*4*	–49.9	–2.1	Financial assets	109.1
Investments in equity affiliates	1,525.7	*5*	340.7	–6.2	Investments in equity affiliates	1,860.2
		6	504.2	–64.6	Deferred tax assets	439.6
Current assets	**6,875.7**		**–660.2**	**–1,409.8**	**Current assets**	**4,805.7**
Inventories	1,093.3		–	–4.3	Inventories	1,089.0
Prepayments to suppliers	64.5		–64.5	–		
Trade accounts receivable	2,006.8		–8.3	–	Trade accounts receivable	1,998.5
Other receivables and prepaid expenses	1,408.4	*6*	–577.5	98.0	Other receivables	928.9
			69.9	–	Current tax assets	69.9
Marketable securities	1,748.6	*7*	–233.1	–1,515.5		
Cash and cash equivalents	554.1	*8*	153.3	12.0	Cash and cash equivalents	719.4
Total	**15,012.1**		**0.0**	**–1,452.9**	**Total**	**13,559.2**

Liabilities

€ millions

Published balance sheet at December 31st 2003 in accordance with French standards		Note	IFRS reclassification and restatement Liability/Liability	Asset/Liability	Opening balance sheet at January 1st 2004 in accordance with IFRS standards	
Shareholders' equity[(1)]	**8,136.2**	*15*	**–558.1**	**–1,426.5**	**Shareholders' equity**	**6,151.6**
Capital stock	135.2		–	–	Capital stock	135.2
Additional paid-in capital	953.4		–	–	Additional paid-in capital	953.4
Reserves	8,279.0		–1,755.4	257.8	Reserves	6,781.4
Cumulative translation adjustments	–1,243.3		1,242.3	1.0	Cumulative translation adjustments	0
			–4.2	70.1	Unrealised holding gains	65.9
				–1,792.6	Treasury stock	–1,792.6
					Shareholders' equity excluding minority interests	**6,143.3**
Minority interests	11.9		–40.8	37.2	Minority interests	8.3
Provisions for liabilities and charges	**1,439.3**		**202.2**	**–25.1**	**Non-current liabilities**	**2,370.6**
Provisions for employee retirement obligation and related benefits	906.3	*9*	223.7	–	Provisions for employee retirement obligation and related benefits	1,130.0
Other provisions for liabilities and charges	492.5	*10*	–293.7	–	Other provisions for liabilities and charges	198.8
Deferred tax liabilities	40.5	*11*	272.2	–25.1	Deferred tax liabilities	287.6
Borrowings and debts	**1,941.2**	*12*	**–1,187.2**	**0.2**	Non-current borrowings and debts	754.2
Current liabilities	**3,495.4**		**1,543.1**	**–1.5**	**Current liabilities**	**5,037.0**
Customers' deposits and advances	0.4		–0.4	–		
Trade accounts payable	2,078.0		–1.0	1.4	Trade accounts payable	2,078.4
		13	1,149.5	–0.6	Current borrowings and debts	1,148.9
Other liabilities	1,417.0	*14*	162.9	–2.3	Other liabilities	1,577.6
			232.1	–	Current tax liabilities	232.1
Total	**15,012.1**		**0.0**	**–1,452.9**	**Total**	**13,559.2**

(1) Including *Minority interests*.

Notes to the reconciliation of the opening balance sheet at January 1st 2004

Assets

Notes 1 and 2
Business value (€2,608.6 million) and market share (€110.8 million) have been reclassified as *Goodwill* as they cannot be recorded as identifiable intangible assets in application of IAS 38.

The goodwill relating to Sanofi-Synthélabo investment has been reclassified in the *Investments in equity affiliates* line in an amount of €340.7 million.

Note 3
Advertising materials which can be depreciated have been transferred from *Other receivables and prepaid expenses* to *Tangible assets* in an amount of €200 million (standard IAS 16).

Note 4
The current portions of loans have been reclassified as *Other receivables*.

Note 5
The goodwill relating to Sanofi-Synthélabo investment has been reclassified to the *Investments in equity affiliates* line in an amount of €340.7 million.

Note 6
Deferred tax assets are reclassified in a separate line in accordance with IFRS standards (€504.2 million), advertising materials which can be depreciated are reclassified as *Tangible assets* (€200 million). Various reclassifications are also carried out for a net amount of €126.7 million concerning: *Prepayments to suppliers*, *Current tax assets*, financial hedging instruments and the current portions of loans.

Note 7
This consists of the reclassification of treasury stock which are deducted from shareholders' equity (gross value: €1,792.6 million, depreciation: €277.1 million), the reclassification of SICAV investment funds and unit trusts without share risk as *Cash and cash equivalents* (€157.2 million) and the reclassification of financial hedging instruments (€75.3 million), in accordance with IAS 32.

Note 8
This consists of the reclassification of SICAV investment funds and unit trusts without share risk from *Marketable securities* to *Cash and cash equivalents*.

Liabilities

Note 9
This consists mainly of the booking of actuarial gains and losses on pension obligations in accordance with the option stipulated in IFRS 1.

Note 10
Provisions for liabilities and charges have been broken down into *Current liabilities* (provisions relating to the operating cycle and/or provisions whose realisation date is less than 12 months away) and *Non-current liabilities*.

Note 11
A deferred tax liability is booked for Sanofi-Synthélabo investment (€272.2 million) on the difference between the fiscal value of the shares and their value in the consolidated financial statements in accordance with IAS 12.

Notes 12 and 13
Borrowings and debts have been broken down into current and non-current portions.

Note 14
This consists of the reclassification of the current tax liabilities on a separate line (€232.1 million) and the reclassification of the current portion of provisions for liabilities and charges (€292.9 million) and various reclassifications for a net amount of €102.1 million.

Note 15
Adjustments of shareholders' equity at January 1st 2004 are as follows:

	IFRS reclassification and restatement		Total
	Liability/Liability	Asset/Liability	
Shareholders' equity			8,124,3
Minority interests			11,9
Published shareholders' equity at December 31st 2003 in accordance with French standards			**8,136,2**
Reserves	**–1,755.4**	**257.8**	**–1,497.6**
Cancellation of depreciation on treasury stock *(note 7)*		277.1	
Attached tax effect		–93.9	
Deferred tax liability on Sanofi-Synthélabo investment *(note 11)*	–272.2		
Booking of actuarial gains and losses on pension obligations and other adjustments *(note 9)*	–221.3		
Attached tax effect		77.1	
Reclassification of cumulative translation adjustments in reserves	–1,242.3		
Fair value hedging net of tax	–19.6	1.2	
Other restatements net of tax		–3.7	
Cumulative translation adjustments	**1,242.3**	**1.0**	**1,243.3**
Reclassification of cumulative translation adjustments in reserves	1,242.3	1.0	
Unrealised holding gains	**–4.2**	**70.1**	**65.9**
Treasury stock	**–**	**–1,792.6**	**–1,792.6**
Reclassification of gross value from marketable securities to shareholders' equity *(note 7)*		–1,792.6	
Minority interests	**–40.8**	**37.2**	**–3.6**
Minority interest buyback commitments	–40.8	36.7	
Effect of cash flows hedging		0.5	
Shareholders' equity at January 1st 2004 in accordance with IFRS standards			**6,151.6**

Transition from 2004 net income after minority interests in accordance with French standards to 2004 net income after minority interests in accordance with IFRS standards

2004 net income after minority interests in accordance with French standards	**3,625.7**
Costs linked to stock option plans granted after November 7th 2002(1)	–20.4
Elimination of depreciation charge for actuarial gains and losses on pension obligations	8.4
Time value effect of exchange risk hedging instruments	–9.1
Other restatements	–0.2
Tax effect of above adjustments	–1.2
Deferred tax liability on Sanofi-Aventis profit	–24.5
Cancellation of provisions for treasury stock net of tax	104.5
Elimination of goodwill depreciation	57.3
Restatement differential on gross Sanofi-Aventis dilution capital gain	61.9
Tax differential on Sanofi-Aventis(2)	167.3
Total adjustments	**344.0**
2004 net income after minority interests in accordance with IFRS standards	**3,969.7**

(1) In accordance with IFRS 2 "share-based payment", the fair value of the stock options has been valued using a Black & Scholes model and has been depreciated over the vesting period.
(2) Including €107.0 million on dilution capital gain and €60.3 million relating to the decline in the tax rate on long-term capital gains from 20.2% to 15.72%.

RESEARCH

Research expenditure represented 3.4% of sales in 2004, after allowing for all expenditure and sales for cosmetics and dermatology (100%).

In fundamental research and in development, each employee is focused on products, brands and the different consumers around the world in their everyday life. This focus generates a genuine ability to anticipate future developments.

Diversity – whether cultural, ethnic, regulatory or scientific – is a key consideration when devising a cosmetic product to be applied to healthy skin and hair, to keep them in good condition, to cleanse them or protect them against the effects of the sun, wrinkles, blemishes, hair loss, etc. It is clearly essential to integrate diversity in all its forms in order to anticipate the future of cosmetics, and this is one of the missions of L'Oréal research.

The recent opening in Chicago of a new research centre to further knowledge of skin and hair of different ethnic origins, in order to formulate specific products or adapt existing international products, is an example of diversity. Demographic statistics reflect a "melting pot" process taking place over the whole planet, and the economic data clearly show how new markets are opening up in Asia, Latin America, Africa, etc.

Early in the 1980s, L'Oréal research took the practical step of investing in the life sciences to gain a better understanding of the ageing of skin, and the greying, growth and loss of hair. The availability of *in vitro* methods to reconstitute skin and to grow hair has led not only to a greater understanding of these two human organs, but also to the development of precisely targeted tests to evaluate the harmlessness and efficacy of both ingredients and finished products.

Another example is investing in physical methods to explore skin and hair. Increasingly powerful microscopes, microelectronic sensors, nanosensors, image analysis and modelling can all be used to explore structure, understand the resulting properties, analyse the mode of action of a product and devise tools for the objective evaluation of product efficacy.

L'Oréal research is constantly moving forward because, in addition to its technical expertise and its quest for discovery, it remains responsive to its markets and to the people for whom it innovates and invents new products with improved performance that are increasingly relevant to contemporary needs.

SUSTAINABLE DEVELOPMENT

The L'Oréal values and principles for action in ethical matters, set out in a code of good conduct, and a genuine awareness of the responsibility of each individual to the wider community, are shared by all employees. In its Annual Report (volume 1 of the Reference Document), the company devotes a chapter entirely to sustainable development.

The L'Oréal sustainable development report

An Internet version of this report has been available online since 2003 on the Web site www.loreal.com; it is updated every year. In 2004 L'Oréal published a brochure on sustainable development. Looking beyond the economic realities of the company, set out in detail in the Annual Report, L'Oréal was eager to present its values and rules of conduct in a document available on the Internet at any time. In it the group describes the most significant advances made over the last few years, and sets itself targets for the future. It means to advance with determination, step by step, with the help of concrete and measurable initiatives, as part of a broader effort to achieve sustainable and responsible growth.

True to its corporate culture, L'Oréal is fully convinced that to be genuinely sustainable, growth must transcend a purely economic business model. This is why economic performance is linked to strong ethical principles and a genuine awareness of the company's responsibilities to all the groups who have dealings with the company, to the environment and to the wider community.

L'Oréal parent company environmental information

In accordance with Article L.225-102-1 of the French Commercial Code, L'Oréal includes in the Management Report information about the way the company monitors the environmental consequences of its activity. As the L'Oréal parent company forms part of the L'Oréal group, it applies the group's rules and standards. The L'Oréal parent company is made up of administrative offices, laboratories and distribution centres. The environmental impact of the activities of the L'Oréal parent company is very limited. In 2004 it consisted of the following items (annual data):

Transportable waste (tonnes)	2,441
Recycled waste (tonnes)	2,423
Recycling ratio (%)	99.26
CO_2 (tonnes)	6,247
SO_2 (tonnes)	7
Discharge into ground	0
Water consumption (m^3)	168,521
Electricity consumption (MWh)	46,030
Gas consumption (MWh)	37,687
Fuel oil consumption (MWh)	627
Energy consumption (MWh)	84,344

The group data are provided in the "Sustainable Development" chapter in volume 1 of the Reference Document. Complementary information is provided at the end of volume 3, in the chapter on "Industrial and environmental risks".

HUMAN RESOURCES

Identifying and encouraging talented individuals

In 2004, L'Oréal confirmed its fundamental strategic priorities in the field of human resources while maintaining the same objectives: to attract talent, to develop the leadership qualities of its employees, and to strengthen their expertise.

One of the priorities in this area is its readiness to promote talented young people to operational positions and give them responsibilities early in their careers, while providing a tailor-made training programme.

In 2004 all the group's executives took part in an individual development and assessment interview. Specific programmes for developing leadership qualities have been developed. An international general management programme brought together 100 high-potential executives who attended crossed sessions in New York, Singapore and Fontainebleau. The main training and development programmes have been improved, and their relevance to the professional context has been strengthened.

Human Resources Development Committee meetings are held in all the countries to stake out career paths which promote open-mindedness and the gathering of new experience. Employees' career development is based on the transmission of know-how, training and complementary work experience.

Share purchase and subscription options at L'Oréal

In the common interest of employees and shareholders
The General Management and the Board of Directors wish to stress the importance of stock options in bringing together the interests of the beneficiaries and those of the shareholders themselves. The beneficiary employees and the shareholders share the same confidence in the strong and steady development of the company.

Authorisation granted to the Board of Directors to allocate options on L'Oréal shares
On May 22nd 2003 the Annual General Meeting authorised the Board of Directors to grant, to executives of the company and of its French and foreign affiliates as defined by Article L.225-180 of the French Commercial Code, options that give entitlement to the purchase of existing shares of the company or to the subscription of new shares. The authorisations were granted for a period of 38 months, and in 2004 the Board made new allocations.

The intention was to give the Board of Directors as much flexibility as possible in order to strengthen the motivation of beneficiaries, whatever the context, it being stipulated that the total number of options may not give entitlement to the purchase or subscription of a number of shares greater than 6% of the share capital on the day the option is allocated by the Board of Directors.

Furthermore, the total number of subscription options may not give entitlement to subscribe over 2% of the number of shares forming the share capital at the time the options are allocated by the Board of Directors.

The options are granted with no discount.

Non-exercisable period of five years
Stock options are subject to a contractual non-exercisable period of five years.The validity of a stock option is ten years. This ensures that the stock option plan is a durable driving force for the group's long-term development. The stock options are intended to involve, motivate and boost the loyalty of employees in particular, who, by their abilities and their commitment, contribute most to the performance of the group. They also express the determination of L'Oréal to encourage and attract new talents.

Number of employees concerned
In 2004, on the proposal made by its Chairman and the "Management and Remuneration" Committee, the Board of Directors expressed its intention of again giving employees the possibility of closer involvement in the development of the company.

In March 2004, the Board allocated a total of 2,000,000 share subscription options to 257 beneficiaries. In December 2004, the Board allocated a total of 4,000,000 share subscription options to 274 beneficiaries. This means that, at December 31st 2004, the number of beneficiaries of stock option plans since their inception is 2,976.

Compliance with the insider trading rules
The beneficiaries of stock options are required to comply with rules governing insider trading which are brought to their attention when they receive the regulations of the plan concerned. If they wish to sell shares after exercising their options, they must ensure they are not doing so during a sensitive period, or in a situation in which, due to their access to privileged information, decisions taken on the basis of such information could have an impact on the L'Oréal share price.

Under the same conditions, the General Management carries out share purchase programmes only at periods that are considered non-sensitive. The Board of Directors allocates no options within ten trading days before and after the consolidated financial statements are made public, and in cases in which management structures are in possession of sensitive information from the viewpoint of insider trading.

L'Oréal SA active share purchase and subscription option plans[1]

The situation of L'Oréal's active stock options plans, including share purchase or subscription plans, as at December 31st 2004, is as follows:

Date of allocation	12.14.1995	10.17.1997	10.15.1998	12.08.1998	10.14.1999	12.07.1999	04.05.2000	09.28.2000
Total number of options allocated	2,750,000	2,500,000	1,400,000	1,100,000	2,250,000	1,500,000	1,200,000	3,800,000
of which to Management Committee members[2]	*649,000*	*995,000*	*150,000*	–	*550,000*	*525,000*	–	*310,000*
Number of senior managers/ total number of beneficiaries	6/88	8/102	2/70	0/110	8/133	6/200	0/234	7/707
Initital exercise date	12.15.2000	10.18.2002	10.16.2003	12.09.2003	10.14.2004	12.08.2004	04.06.2005	09.29.2005
Number of options still to be exercised at 12.31.2004	652,100	1,622,250	768,700	878,500	2,030,000	1,452,500	1,157,000	3,737,000
of which by Management Committee members[2]	*249,400*	*942,000*	*150,000*	–	*550,000*	*525,000*	–	*310,000*
Date of expiry	12.14.2005	10.17.2007	10.15.2008	12.08.2008	10.15.2009	12.07.2009	04.05.2010	09.28.2010
Acquisition price per share (€)	16.41	34.01	39.41	48.46	57.60	61.00	65.90	83.00

Date of allocation	12.07.2000	03.28.2001	09.18.2001	10.08.2001	03.26.2002	09.04.2002	12.03.2003[3]	03.24.2004	12.01.2004
Total number of options allocated	450,000	2,500,000	2,500,000	225,000	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000
of which to Management Committee members[2]	–	*360,000*	*655,000*	–	*360,000*	*280,000*	*1,000,000*	*435,000*	*1,555,000*
Number of senior managers/ total number of beneficiaries	0/109	4/521	7/441	0/109	8/410	6/394	1/693	6/257	10/274
Initital exercise date	12.08.2005	03.29.2006	09.19.2006	10.09.2006	03.27.2007	09.05.2007	12.04.2008	04.25.2009	12.02.2009
Number of options still to be exercised at 12.31.2004	437,500	2,500,000	2,493,500	218,750	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000
of which by Management Committee members[2]	–	*360,000*	*655,000*	–	*360,000*	*280,000*	*1,000,000*	*435,000*	*1,555,000*
Date of expiry	12.07.2010	03.28.2011	09.18.2011	10.08.2011	03.26.2012	09.04.2012	12.03.2013	03.24.2014	12.01.2014
Acquisition price per share (P) or subscription price per share (S) (€)	89.90 (P)	79.60 (P)	77.60 (P)	76.50 (P)	81.65 (P)	76.88 (P)	63.02 (S) 71.90 (P)	64.69 (S)	55.54 (S)

(1) There are no share purchase or subscription plans in subsidiaries of L'Oréal.
(2) Management Committee in office on the date of allocation.
(3) The stock option plan of December 3rd 2003 is divided into halves: a subscription option offer at a price of €63.02 (S) per share, and a share purchase option offer at a price of €71.90 (P) per share. Each beneficiary has received an offer comprising a share purchase offer and a subscription offer of equal amounts.

NB: the numbers of options and the acquisition prices indicated take into account the adjustments relating to the financial operations carried out on the share capital, such as the exchange of investment certificates for shares in 1993, the free grant of one new share for ten old shares in 1996 and the ten-for-one share split in 2000.

Authorisation to be given to the Board of Directors for the purpose of the free grant of existing shares or shares to be issued

Since January 1st 2005, it has been possible to grant the Board of Directors the authorisation to carry out free grants of existing shares or shares to be issued, for the benefit of employees of the company or of certain categories of such employees, or of corporate officers.

The Board of Directors proposes that you grant it the possibility from 2005 onwards of using this new scheme. The aim once again is to give the Board of Directors the greatest possible flexibility in order to motivate the beneficiaries.

The free grants of existing shares or shares to be issued would be deducted from the ceiling authorised for share purchase and subscription options by the Annual General Meeting of May 22nd 2003.

The total number of free grant shares allocated and the total number of share purchase and subscription options granted and not yet exercised may not represent a number of shares greater than 6% of the number of shares forming the share capital on the day of the free grant of shares by the Board of Directors.

Furthermore, the total number of free grant shares allocated and to be issued, and the total number of share subscription options granted and not yet exercised may not represent a number of shares greater than 2% of the number of shares forming the share capital on the day of the free grant of shares by the Board of Directors.

The vesting period for the entitlements by the beneficiaries, set by the Board of Directors, would be at least 2 years. Once this vesting period has elapsed, the beneficiaries would be required to hold the shares obtained for a period set by the Board of Directors, of a minimum of 2 years.

This authorisation would be granted for a period of 15 months from the date of the decision of the Annual General Meeting, so that its expiry date coincides with that of the authorisations to allocate share purchase and subscription options granted by the Annual General Meeting of May 22nd 2003, for a period of 38 months, and in view of the fact that a common ceiling is planned for the three authorisations.

L'Oréal parent company social information

L'Oréal SA compiles a social report which is presented to the Central Works Council at a special meeting. The views of CWC members are gathered at the meeting. The report is then sent to all members of personnel and made available to shareholders in the same way as the other documents and information to which they are entitled.

In application of Article L.225-102-1 of the French Commercial Code, L'Oréal includes in the Management Report information about the way the company monitors the social consequences of its activity.

Number of employees and number of persons hired

Total number of employees at December 31st 2004
The total number of L'Oréal employees at December 31st 2004 was 5,704. L'Oréal hired 282 persons on permanent contracts and 472 persons on fixed-term contracts. In addition, 403 persons were hired for the holiday period or for a single season.

Analysis of recruitment difficulties
L'Oréal does not encounter any difficulties in recruiting either executives or other categories of employee.

In 2004, L'Oréal further strengthened its image as an employer in the eyes of young business school graduates and of other young graduates (science, research, technology), by continuing to apply its policy of active partnership with educational establishments (universities and *grandes écoles*).

According to the Universum Europe 2004 survey of students, carried out in the 100 best schools and universities in 19 European countries, L'Oréal ranked number one as the ideal employer.

The strategy games organised each year by L'Oréal ("L'Oréal Marketing Award", "L'Oréal e-Strat Challenge") are increasingly popular and their educational excellence is widely acknowledged. They enhance the reputation of L'Oréal amongst students.

L'Oréal also considers apprenticeship as an excellent way of recruiting high quality staff in certain professions, primarily for candidates having studied for 2 years after passing examinations equivalent to UK A-levels (one-third of apprentices are recruited).

Redundancies
In 2004, there were no redundancies for economic reasons. The number of employees made redundant for reasons specific to the person was 73, out of a total number of 5,704 persons.

Overtime
L'Oréal makes little use of overtime in any professional category. The total number of paid overtime hours in 2004 was 13,871 hours corresponding to gross pay of €269 thousand, representing the equivalent of 8.7 persons, that is 0.15% of the total number of employees.

Temporary workers
L'Oréal makes little use of temporary workers, who represent 3.3% of the total number of employees, with an average monthly total of 189 temporary workers and an average contract length of 12 days.

Information relating to employee reduction plans and employment preservation plans, reclassification efforts, rehiring and support measures
There was no employee reduction plan at L'Oréal in 2004.

Work organisation

L'Oréal applies the National Chemical Industries Collective Agreement and various company agreements, of which the most recent, dated June 30th 2000, was concluded in application of the Law on Working Week Adaptation and Reduction.

Working week
The average working week for all full-time employees is 35 hours, except for executives receiving a flat rate salary for a given number of days per year.

Working week of part-time employees
Some employees in each category have chosen to work part-time. Out of the total of 413 part-time employees, the great majority work for 4/5 of the working week, on the basis either of parental leave or absence on Wednesday.

Reasons for absenteeism

Reason	Total
Sick leave	2.49%
Travelling accidents	0.18%
Maternity	1.21%
Family events	0.50%
Other absences	0.01%
Total	**4.39%**

Remuneration: trends and professional equality

Average monthly remuneration

Average monthly remuneration of ever-presents
It concerns employees (excluding senior managers) on permanent contracts, present for two consecutive years.

Employees having changed category are included in the category to which they belonged in the second year.

€	2003			2004			
	Men	Women	All	Men	Women	All	Change
Executives	5,273	4,372	4,809	5,447	4,515	4,967	+3.29%
Supervisors and technical staff	2,602	2,577	2,583	2,679	2,641	2,650	+2.61%
Administrative staff	1,971	1,906	1,928	2,015	1,944	1,968	+2.08%
Manual workers	2,072	2,003	2,046	2,134	2,065	2,107	+3.00%
Sales representatives	3,911	3,317	3,733	3,918	3,369	3,753	+0.55%

Employer contributions

2004 annual total employer contribution: €119,629 thousand

Application of Item IV of Book IV of the French Labour Code: incentives and employee profit-sharing

Incentives and employee profit-sharing - parent company
L'Oréal has entered into agreements at group level. The amounts indicated below are those paid to employees of the L'Oréal parent company.

€ thousands	Amounts for 2003 paid in 2004 (excluding General Social Contribution and Social Debt Repayment Contribution)
Employee profit-sharing	15,791
Incentives (excluding employer contribution)	41,085

Incentives in France
The incentive system is governed by French law but is non-compulsory. It was set up as part of a group agreement in France in 1988. The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items, after weighting by means of the salary/value added ratio.

Trend in incentives in France for all companies covered by the L'Oréal group agreement

€ thousands	2001	2002	2003
	65,117	73,741	79,427
Of which the L'Oréal parent company	32,730	37,767	41,085

From 2001 onwards, L'Oréal began developing in stages, in almost all the countries in which it has subsidiaries, an incentive system based on the trend in sales and/or earnings.

In 2004 L'Oréal thus paid out €41,963 thousand for 2003 under the worldwide incentive system outside France.

Employee profit-sharing in France
Profit-sharing is a system that is compulsory under French law, instituted in 1968 for all profit-making companies with over 50 employees.

The L'Oréal group has carried out modifications to the legal formula that are more favourable for employees. The agreement is made at group level: all the employees of companies having signed this agreement, whatever their sector of activity or earnings, receive the same profit-sharing payment. It is planning to add to the taxable profit royalties for patents, inventions and technical processes developed in France, which creates a direct relationship with the group's international development.

Profit-sharing payments are compulsorily blocked for 5 years. In exchange, they are not subject to welfare contributions (except for the General Social Contribution and the Social Debt Repayment Contribution) or to income tax.

The law allows for unblocking before 5 years have elapsed in certain specified cases (marriage, birth of a third child, acquisition of a property as one's main residence, etc.).

Trend in profit-sharing in France for all companies covered by the L'Oréal group agreement

€ thousands	2001	2002	2003
	31,472	33,625	29,536
Of which the L'Oréal parent company	16,414	17,881	15,791

Company savings plan and L'Oréal fund
L'Oréal offers its employees a wide range of funds and thus great freedom of choice. It is possible for employees:
• to invest profit-sharing amounts in a blocked current account on which L'Oréal will pay interest at the average rate of yield of bonds in private companies (TMOP) in accordance with Article R442-12 of the French Labour Code,
• since 2004, to invest profit-sharing amounts in a collective retirement benefit savings plan (PERCO) and receive an employer contribution of +50%,
• to invest profit-sharing and incentive amounts in a company savings plan consisting of seven unit trusts offering a wide range of possibilities and great flexibility of use. Four of the funds are diversified (shares, bonds, French and international securities, etc.) and three are funds consisting entirely of L'Oréal shares. One of the funds may only receive incentive payments, and an employer contribution of +25% is added. Under the terms of the 35-hour working week agreement, another fund can receive the voluntary payment of the equivalent amount for days worked, and an employer contribution of +100% is added.

Company savings plan and blocked current account for all companies covered by the L'Oréal group agreement

€ thousands	2001	2002	2003
CSP and blocked current account	304,405	305,614	359,256

Professional equality

Professional equality is dealt with in a report reviewed each year as part of the compulsory annual negotiation.

This report, drawn up in accordance with the requirements of Article L.432-3-1 of the French Labour Code, considers the respective positions of men and women with regard to hiring, training, promotion, qualification and classification, effective remuneration and working conditions for each professional category (executives, supervisors, manual workers and sales representatives).

Professional relations and list of collective agreements

Professional relations

The high quality of labour relations at L'Oréal is the result of ongoing dialogue and efforts to achieve consensus between the management, employees and their representatives.

Composition of Central Works Council by category

Number of representatives appointed by category	2004
Executives	5
Supervisors and technical staff	5
Administrative staff/Manual workers	2
Sales representatives	1

Number of meetings of CWC and its commissions in 2004: 11

List of collective agreements

Dates of signing and objects of agreements signed in the company

04.28.2004	Additional clause no.1 to employee profit-sharing agreement 2003-2005
04.28.2004	Additional clause no.1 to PERCOI agreement
04.28.2004	2004 additional clause to annex 2 to the provident scheme and health care expense scheme
04.28.2004	Additional clause to the agreement of December 19th 2003 concerning the defined-contribution pension scheme, specifying the conditions of its setting up
06.14.2004	Additional clause no.2 to the employee profit-sharing agreement 2003-2005
06.14.2004	Additional clause no.2 to the group savings plan
12.10.2004	Additional clause of December 6th 2004 to the provident scheme and health care expense scheme and its annexes
12.10.2004	Agreement relating to the provident scheme of January 1st 2005 applicable to L'Oréal executives and assimilated personnel, under Articles 4 and 4 bis of the National Agreement on Executives' Pension and Provident Schemes

Occupational health and safety

In application of the decree of November 5th 2001 relating to occupational risks, L'Oréal has prepared a single document for the evaluation of occupational risks in the company. The total number of occupational accidents resulting in sick leave was 49 in 2004.

Training

Percentage of total salaries allocated to continuing education in 2004

€ thousands	
Amount allocated for training	11,279
% of total salaries	4%

Number of persons receiving training in 2004: 3,931

(68.9% of total number of employees at 12.31.2004)

L'Oréal employees with a minimum length of service of one year at December 31st 2004 will have an Individual Training Entitlement (DIF) from January 1st 2005, in accordance with the Act of May 4th 2004 on professional training throughout the career, and with the chemicals industry branch agreement signed on November 15th 2004.

Employment and job opportunities for workers with disabilities

Number of disabled persons and assimilated categories: 105 persons, 1.8% of total number of employees

The integration of disabled people forms part of L'Oréal's policy to promote training and job opportunities for people facing employment difficulties. L'Oréal hires disabled people and makes the necessary alterations, particularly for reasons of accessibility, to work stations and premises.

L'Oréal works in collaboration with special workshops and occupational therapy centres for a range of tasks (such as mailing, product packaging, and letters in reply to job applications).

Since 1995 L'Oréal has been developing close partnerships with professionals in the field of job opportunities. For example a partnership has been set up between L'Oréal and Valentin Haüy for the integration and training of blind and partially blind people to operate telephone switchboards (4 trainees per year). Since 2003, this partnership has been strengthened with the creation of employment workshops designed to help people with sight deficiencies find a job. In 2004, 10 trainees were able to benefit from personalised advice and help from human resources professionals.

Job opportunities

For more than ten years L'Oréal has been establishing a large number of partnerships with placement companies, associations and local missions, whose expertise and know-how enhance the quality of the actions carried out and support their long-term viability.

The car wash service at Clichy (France), set up with "Dialogue Partenaire Service", a placement company which adopts an economic approach to finding job opportunities, provided work opportunities for six people in 2004, raising the number of people employed since 1995 to 50. Of the six people who worked at the car wash service in 2004, three found a job on completion of this work experience.

The partnership with "Objectif Emploi", a temporary staff company that specialises in job opportunity initiatives, led to the employment of 20 temporary staff in 2004. Two of the twenty staff were hired on completion of their mission.

Since 1997, L'Oréal has made awards to the most innovative and exemplary job opportunity programmes implemented in the company, and has thus enabled the exchange of experience between different entities. The L'Oréal "Job Opportunity Initiatives Trophy" now has an international dimension thanks to the participation of Germany, the United Kingdom, Finland, Brazil and the United States.

Welfare

Breakdown of company expenses

€ thousands	2004
Accommodation	
Payment to the "Housing 1%" fund	1,235
Transport	
Shuttles	158
Catering	
Company restaurant	6,466
Miscellaneous	
Social events for personnel	1,260
Total	**9,119**

Payment to Central Works Council and the three L'Oréal works councils: €1,340 thousand

Importance of subcontracting

€ thousands	2004
Subcontracted work purchased	5,423
Special order work	226,964

How the company promotes the fundamental conventions of the International Labour Organisation (ILO) in relation to its subcontractors and ensures that its subsidiaries comply with them
L'Oréal attaches great importance to respect for the law of states in which its subsidiaries carry out their activities. L'Oréal's corporate culture is based on strong ethical principles that have been applied throughout its development. These principles have been set out in an ethical charter stating the fundamental values and principles that underpin L'Oréal's activities. The ethical charter was issued to each of the group's 50,000 employees in 2000 and each new employee receives a personal copy immediately on joining L'Oréal.

The group prohibits the use of forced labour, and work by young people aged under 16, and is careful to ensure that these principles are complied with by its subcontractors and suppliers, as specified in the group's General Purchasing Conditions.

In this respect, it is stipulated that "the supplier must comply with all laws and regulations in force and meet the requirements of the fundamental conventions of the International Labour Organisation: C87 and C98 on trade union freedom, C29 and C105 on the abolition of forced labour, C111 and C100 on equality, and C138 and C182 on the abolition of work by children."

Territorial impact on employment and regional development
L'Oréal's establishments are situated in the Paris region: Paris, Clichy-la-Garenne, Roissy Charles-de-Gaulle, Saint-Ouen, Asnières, Aulnay-sous-Bois, Chevilly-Larue, Marly-la-Ville and Tremblay-en-France.

In 2004 L'Oréal paid €13,916 thousand in professional tax.

Over the past three years on all these sites, L'Oréal has hired 2,255 people on permanent contracts and fixed-term contracts, and has thus contributed to regional development.

Relations with educational establishments and associations

Educational establishments
For over 30 years L'Oréal has been building up close partnerships with universities, and with university-level management, engineering and research establishments.

L'Oréal thus offers students the possibility of discovering the company during their courses by offering them some 500 internships in all professions each year. L'Oréal also offers conferences, factory visits, and L'Oréal case studies.

As part of L'Oréal's apprenticeship scheme, special relations have been built up with establishments providing training in our different professions: participation in juries, meetings with apprentice masters in apprentice training centres, and organisation of company visits.

In March 2004 the first "Chemistry Village" forum, focusing on professions in the chemicals sector, was organised in partnership with chemicals companies and the AFI 24 apprentice training centre. It enabled 3,000 young people to find out more about working in research at L'Oréal.

Environmental protection associations
L'Oréal is continuing to demonstrate its commitment to the environment by applying a strict Safety, Hygiene and Environment (SHE) policy.

This policy reflects the company's awareness of its citizenship. On all its sites (industrial sites, research laboratories and administrative offices), procedures and tools have been put in place to measure environmental protection results.

Ecological criteria are tracked by means of monthly charts. On each site an environment manager is responsible for setting up practical programmes to improve environmental performance, training and information.

An internal SHE award scheme is used to lead, stimulate and reward the efforts made at the various sites.

To increase employees' environmental awareness and knowledge, L'Oréal developed in 2004 a programme for the self-training of employees concerning the environment in their workplace. This awareness raising programme, which draws on real-life examples, will go online at the start of February 2005.

L'Oréal is also a member of environmental protection associations at national level (e.g. Eco-Emballages), European level (e.g. Europen) and international level (e.g. World Business Council for Sustainable Development).

L'Oréal is involved in a large number of working groups, which play a crucial role in the exchange of expertise and advice.

Consumer associations
L'Oréal is committed to ensuring the quality and sustainability of its relations with all those who play a part in the social and economic environment. Respect for the consumer is thus specifically referred to in the ethical charter, which states L'Oréal's commitments to innovate with genuine technical advances based on ongoing investment in research, and to market products of proven efficacy whose safety is ensured by rigorous testing for harmlessness and tolerance, without the use of animal testing. Manufacturing is carried out in accordance with rigorous standards of hygiene, and strict quality controls are carried out at each stage of the production process.

Regional development and local populations
As a general rule, L'Oréal and its subsidiaries build good relations with the communities of the areas in which they operate, and make every effort to limit the impact of their activities on the environment and to provide exemplary working conditions for their employees.

For example, at the Barbière production centre at Aulnay-Chanteloup (France), the Company Visit Service regularly invites representatives of local authorities, schoolchildren and local residents to find out more about the group's activities. The importance of safety and environmental protection is stressed.

The internal Safety Hygiene Environment competition has been extended to include a Good Citizenship Initiative Award. This prize is awarded in recognition of the efforts made by a site (factory, distribution centre or administrative centre) which demonstrates its commitment to the community in which it operates. Awards are made to the best initiatives conducted in 2004 in partnership with local authorities, residents and schools in the fields of solidarity, education or the environment.

CHANGE IN THE SHAREHOLDING STRUCTURE WITH THE MERGER AND ABSORPTION OF GESPARAL BY L'ORÉAL

An agreement was signed on February 3rd 2004 between, on the one hand Mrs Liliane Bettencourt and her family, and on the other hand Nestlé, concerning the merger and absorption of Gesparal by L'Oréal. The terms of the agreement, as published after its signing, are contained in this Management Report, in the chapter *General information concerning the share capital*.

The Board of Directors of your company, at its meeting on February 3rd 2004, reviewed the provisions of the new agreement and the plan to merge L'Oréal and Gesparal, and decided to propose to L'Oréal shareholders, at their Annual General Meeting in April 2004, that this operation should be carried out, and that the double voting rights should be eliminated.

The extraordinary development of L'Oréal over the 30 years during which Gesparal was its majority shareholder enabled it to become the world leader in its field. Now that this stage has been completed, it is possible and desirable to simplify the capital structure. In addition, the greater transparency and the further development of corporate governance, both of which are provided for in this agreement, will encourage the continuing development of L'Oréal. Under the terms of the new agreement, the Board of Directors of L'Oréal has decided to create a Committee for Strategy and Implementation, chaired by the Chairman and Chief Executive Officer of L'Oréal. The Committee's members comprise two directors representing the Bettencourt family, two directors representing Nestlé and one independent director. It meets six times a year. Like the Board's other Committees, this Committee's remit is one of reviewing and making recommendations, and the L'Oréal Board of Directors retains all its prerogatives.

This is a balanced agreement, concluded in the interest of all those concerned, which forms part of a modern approach to corporate governance. The agreement above all and indisputably enables L'Oréal to continue to pursue its long-term strategy of profitable growth. One key factor in the success that L'Oréal has consistently achieved on the world stage is the extraordinary stability and the excellent relations between its majority shareholders, Mrs Bettencourt and Nestlé, throughout the last 30 years. It is thanks to this continuity that L'Oréal has been able to continue to implement its strategic choices over such a long period of time, and move forward with a long-term perspective.

At the same time, the *modus operandi* of the Board of Directors has been improved, and in particular has been made more transparent. The debate between the main shareholders now takes place in this framework, that is in the presence of directors who are independent of the main shareholders.

After deliberations, the Board of Directors unanimously approved the principle and the terms of the merger on February 19th 2004. The merger agreement was submitted to the Extraordinary General Meeting on April 29th 2004 and was approved.

ORGANISATION OF THE BOARD OF DIRECTORS

In the report attached to this Management Report, the Chairman of the Board of Directors sets out the ways in which the work of the Board is prepared and organised.

Your Board here sets out the measures taken concerning the organisation of the Board, further to the presentation of the Board provided in volume 1 of this Reference Document.

The Board of Directors approved its Internal Rules at its meeting on September 2nd 2003 and amended them on December 1st 2004. The Rules are attached to this Report.

The Board of Directors comprises thirteen members at December 31st 2004: three represent the family of Mrs Bettencourt, three represent Nestlé, the Chairman is also the Chief Executive Officer of L'Oréal, two are former employees whose status as employees ended more than 12 years ago, and four are external personalities.

The list of offices and directorships held in all companies, during 2004, by each of the corporate officers is included in the notes to the Management Report.

Non-renewal of the tenure of a director in 2004

Mr Olivier Lecerf decided to step down as a director of L'Oréal in 2004. Mr Owen-Jones informed the directors of this decision with regret. Since 1990 Mr Lecerf had been actively involved in the work of the L'Oréal Board, particularly in the "Management and Remuneration" Committee and the Audit Committee, of which he was chairman from its creation in 1999 until 2003.

Appointment of a new director in 2004

Mr Owen-Jones proposed that the Board should in 2004 agree to appoint a new director, subject to the approval of the shareholders at the Annual General Meeting.

Mr Bernard Kasriel joined Lafarge in 1977, and has been its Chief Executive Officer since May 2003. He is a director of Lafarge and of Sonoco Products Company, whose head office is at Hartsville (South Carolina, United States), and Vice-President of Lafarge North America.

The Board unanimously approved the proposal to appoint a new director. On Thursday April 29th 2004, the Annual General Meeting appointed Mr Kasriel as a director of L'Oréal for a period of 4 years, up to the end of the Annual General Meeting of 2008 called to review the 2007 financial statements.

Renewal of the tenure of a director in 2004

The tenure as director of Mr Rainer E. Gut was renewed by the Annual General Meeting on Thursday April 29th 2004 for a period of 4 years, up to the end of the Annual General Meeting of 2008 called to review the 2007 financial statements.

Appointment of two new Statutory Auditors and their substitutes in 2004

The tenure of the Statutory Auditors expires at the end of the Annual General Meeting of April 29th 2004. The companies PricewaterhouseCoopers and Deloitte Touche Tohmatsu-Audit (renamed Deloitte & Associés in October 2004) have been appointed as Statutory Auditors for a period of 6 years, expiring at the Annual General Meeting to be held in 2010 to review the financial statements for 2009. The Substitute Auditors are Mr Yves Nicolas and Mr Jean-Paul Picard respectively.

Tenure of directors in 2005

The Annual General Meeting of 2005 will be called on to approve decisions concerning the tenure of directors.

At the Annual General Meeting, the Board of Directors will propose that the tenure as director of Mrs Françoise Bettencourt Meyers, Mr Peter Brabeck-Letmathe and Mr Jean-Pierre Meyers should be renewed.

Mr François Dalle, Chairman and Chief Executive Officer of L'Oréal from 1957 to 1984 and a director of the group since 1950, has decided not to request the renewal of his tenure as director. Mr Owen-Jones, in his own name and on behalf of the Board of Directors, paid a special tribute to Mr Dalle, emphasising the remarkable contribution he has made in the construction of the group, its growth and its international expansion. Mr Owen-Jones said: "A major part of L'Oréal's history is the work of François Dalle."

Mr Rainer E. Gut, a director of L'Oréal since 2000, has decided to step down as director at the end of the Annual General Meeting of April 26th 2005. The Board thanked him warmly in recognition of the high quality of his work, particularly as a member of the Review Committees.

The Board will propose to the Annual General Meeting the election of two new directors: Mr Louis Schweitzer, Chairman and Chief Executive Officer of Renault, and Mr Werner Bauer, Executive Vice-President, Research and Production, Nestlé SA.

As the length of tenure is 4 years, it will expire at the 2009 Annual General Meeting called to review the 2008 financial statements.

Regulated agreements

No new regulated agreement was concluded and no regulated agreement continued in 2004.

REMUNERATION OF SENIOR MANAGERS AND CORPORATE OFFICERS

The "Management and Remuneration" Committee, the Review Committee of the Board of Directors to which the Chairman refers in his report on "the way the Board's work is organised and prepared", is primarily instructed by the Board of Directors to examine the conditions in which the remuneration of the corporate officers is established, and to report on this matter to the Board. The remit of the Committee also includes preparing for the Board of Directors, for each corporate officer, remuneration proposals that include a fixed part and a variable part, and stock option allocation proposals.

Each year the Committee prepares its corporate officer remuneration proposals in two stages:

• at the start of each fiscal year, the "Management and Remuneration" Committee submits to the Board, which then takes its decision, the fixed part of the remuneration of each of the corporate officers, by first establishing an annual remuneration target for each corporate officer and by applying a principle whereby the fixed part may represent around one-half of this remuneration target. At the same time, the "Management and Remuneration" Committee submits to the Board of Directors the rules and criteria for establishing the variable part of the remuneration of each corporate officer for the next fiscal year; these rules and criteria are thus reviewed each year and are adopted on the basis of their relevance and consistency with the general targets for the company's development assigned by the Board,
• at the end of the fiscal year, the "Management and Remuneration" Committee submits to the Board a proposal for the variable part of the remuneration of each corporate officer for the past fiscal year, established in accordance with the rules and criteria adopted at the start of the fiscal year by the Board.

The Board has laid down a principle, whereby the variable part is determined as follows:
• half is based on an analysis of the company's performance by reference to important economic indicators, reflecting in particular the trend in sales, earnings, profitability, productivity or market share,
• half is based on a qualitative assessment of management aspects, such as the appropriateness of strategic choices, prospects for products and markets, research projects, structural renewal, the ability to generate team spirit, the image of the company projected, or the quality of communication.

The Committee notes the extent of the progress made in these fields, and on this basis proposes to the Board a definitive amount for the variable part of the remuneration of each corporate officer, for the past fiscal year.

At the same time, the "Management and Remuneration" Committee formulates proposals for the allocation of options to the corporate officers.

To ensure that the corporate officers are offered remunerations and options that will attract them, motivate them, and increase their loyalty, the Committee is guided in its reflections by two clear principles:
• cash remuneration must be modulated in accordance with responsibilities actually exercised, and must be competitive with the remunerations offered for similar levels of responsibility by large international consumer goods companies operating in similar markets. It must also depend, for the determination of the variable part, on the company's performance, and on the role played in this performance by each of the corporate officers,
• stock options must be allocated to corporate officers, in order to give them an interest in the long-term development of the value of the company and of its share price, in a way that reflects their contribution to this increase in value.

Based on this approach, the "Management and Remuneration" Committee thus makes its proposals to the Board on completion of two independent analyses:
• one of the performance of the company and of the performance of each of the corporate officers, which form the basis of its remuneration proposals,
• one of the prospects for an increase in the share price, which guides it in its option allocation proposals.

The Committee is careful to formulate its remuneration and option allocation proposals without taking the share price into account, and without referring to the immediate short-term performance of the company.

At its final meeting in 2004, the "Management and Remuneration" Committee made the following proposals to the Board, which accepted them.

Remuneration of the General Management

The gross total remuneration paid to the Chairman and Chief Executive Officer for 2004 amounted to €6,596,383, including benefits and directors' fees, of which the fixed part amounted to €3,552,880. The Chairman and Chief Executive Officer has a company car and chauffeur. For any additional elements linked to his compensation, the Chairman and Chief Executive Officer is considered as equivalent to an employee, and as such, is covered by the same pension and employee benefits systems as senior executives.

Options allocated to the General Management

The Board of Directors granted to the Chairman and Chief Executive Officer, on December 1st 2004, an allocation of 1,000,000 share subscription options, at a price of €55.54, which can be exercised from December 2nd 2009 onwards.

The Chairman and Chief Executive Officer did not exercise any options during 2004.

The options allocated to him by the Board of Directors in 2004 and in previous years that can still be exercised are as follows:

Date of allocation by the Board	Number of options allocated	Possible initial exercice date	Date of expiry	Acquisition price (P) or subscription price (S) (€)
12.14.1995	–			
10.17.1997	500,000	10.18.2002	10.17.2007	34.01
10.15.1998	100,000	10.14.2003	10.15.2008	39.41
12.08.1998	–			
10.14.1999	200,000	10.15.2004	10.14.2009	57.60
12.07.1999	300,000	12.08.2004	12.07.2009	61.00
04.05.2000	–			
09.28.2000	150,000	09.29.2005	09.28.2010	83.00
12.07.2000	–			
03.28.2001	200,000	03.29.2006	03.28.2011	79.60
09.18.2001	300,000	09.19.2006	09.18.2011	77.60
10.08.2001	–			
03.26.2002	–			
09.04.2002	–			
12.03.2003	500,000 500,000	12.04.2008	12.03.2013	63.02 (S) 71.90 (P)
12.01.2004	1,000,000	12.02.2009	12.01.2014	55.54 (S)

Attendance fees and other benefits

Each L'Oréal director received €30,000 in fixed attendance fees for 2004 (or €15,000 for one half-year's presence on the Board), to which was added €4,000 for each Board meeting attended. Directors who are members of the Review Committees of the Board of Directors received an additional €15,000.

Thus, the amounts paid for 2004 to the directors, making a total of €925,000, bearing in mind that the Board met nine times and that the Committee for Strategy and Implementation counts for one half-year:

Mrs Liliane Bettencourt	€88,500
Mrs Françoise Bettencourt Meyers	€66,000
Mr Peter Brabeck-Letmathe	€46,000
Mr Francisco Castañer Basco	€88,500
Mr François Dalle	€62,000
Mr Jean-Louis Dumas	€73,000
Mr Xavier Fontanet	€77,000
Mr Rainer E. Gut	€80,500
Mr Bernard Kasriel	€34,500
Mr Marc Ladreit de Lacharrière	€54,000
Mr Olivier Lecerf	€35,000
Mr Jean-Pierre Meyers	€88,500
Mr Lindsay Owen-Jones	€73,500
Mr Franck Riboud	€58,000

A secretary, a car and a chauffeur are made available to the former Chairman of L'Oréal, representing an annual total amount of €204,833.

Main allocations of options to employees who are not corporate officers and exercise of these options

The total number of options allocated in 2004 to the ten employees who are not corporate officers who received the largest number of options was 1,265,000 share subscription options at an average price of €59.05 per share, of which 870,000 were granted to six members of the Management Committee, at an average price of €60.12 per share.

The total number of options exercised in 2004 by the ten employees who are not corporate officers who exercised the largest number of options was 427,000 share purchase options at an average price of €25.84 per share, of which 63,000 were exercised by two members of the Management Committee at an average price of €31.22 per share.

GENERAL INFORMATION CONCERNING THE SHARE CAPITAL

Statutory requirements governing changes in the share capital and shareholding rights

None.

Issued share capital and authorised capital which is not issued

The share capital amounts to €135,212,432.00. It is divided into 676,062,160 shares with a par value of €0.20, all of the same category, *pari passu*.

The recapitulative table below indicates the currently valid delegations granted to the Board of Directors by the Annual General Meeting concerning capital increases, in application of Articles L.225-129-1 and L.225-129-2 of the French Commercial Code, and the use made of these delegations during the year.

Nature of the authorisation	Date of authorisation by the AGM	Length of authorisation	Ceiling authorised	Use made of authorisation in 2004
Capital increase by the issue of shares with the maintenance of preferential subscription right or by incorporation of premiums, reserves, income or other sums	May 30th 2000 (11th resolution)	5 years	Authorisation to increase the share capital to a maximum amount of €250,000,000	None
Increase in share capital for the benefit of employees	May 22th 2003 (11th resolution)	5 years	1 % of share capital at the date of the AGM having granted the authorisation (or a maximum of 6,760,621 shares)	None

Furthermore, the Board of Directors has been granted an authorisation to allocate to executives of the company and of its subsidiaries inside and outside France options for the subscription of shares to be issued by the company. The total number of options allocated under this authorisation may not represent a number of shares greater than 2% of the share capital, and all the options allocated, both for purchase and subscription, may not represent a number of shares greater than 6% of the share capital. This authorisation was granted to the Board of Directors by the Annual General Meeting of May 22nd 2003. It will expire on July 21st 2006.

Making use of this authorisation, the Board of Directors allocated:
• on December 3rd 2003, 2,500,000 share subscription options, which can be exercised at any time from December 4th 2008 to December 3rd 2013, and can give rise to the issue of the same number of new shares in the company,
• on March 24th 2004, 2,000,000 share subscription options, which can be exercised at any time from March 25th 2009 and March 24th 2014, and can give rise to the issue of the same number of new shares in the company,
• on December 1st 2004, 4,000,000 share subscription options, which can be exercised at any time from December 2nd 2009 to December 1st 2014, and can give rise to the issue of the same number of new shares in the company.

In view of these allocations, the potential share capital of the company amounts to €136,912,432.00 consisting of 684,562,160 shares, each with a par value of €0.20. The company has issued no bonds that are redeemable in shares or exchangeable for shares.

Changes in the share capital over the last five years

€ Date	Nature of the transaction	Amount of change	Additional paid-in capital	Share capital on completion of the transaction	Number of shares created	Number of shares on completion of the transaction
12.31.2000	–	–	–	135,212,432	–	676,062,160
04.29.2004	Merger and absorption of Gesparal	72,808,580	907,375,804	208,021,012	364,042,900	1,040,105,060
	Cancellation of shares previously held by Gesparal	–72,808,580	–907,312,807	135,212,432	–364,042,900	676,062,160

Corporate entities and physical persons exercising control over the company to the company's knowledge

Acting in concert, the Bettencourt family, on the one hand, and Nestlé S.A., on the other hand, held at December 31st 2004, 53.85% of the capital and 57.04% of voting rights in the company (see below: "Shareholders' agreements relating to the company's share capital").

Changes in shareholding structure and voting rights over the last three years

Over the last three years, the shareholding structure has changed as follows:

	12.31.2002		12.31.2003		12.31.2004	
	Number of shares	% of capital	Number of shares	% of capital	Number of shares	% of capital
Gesparal(1)	364,042,900	53.85%	364,042,900	53.85%	–	–
Bettencourt family(2)	–	–	–	–	185,661,879	27.46%
Nestlé S.A.(2)	–	–	–	–	178,381,021	26.39%
Public	285,395,210	42.21%	285,532,860	42.23%	274,231,460	40.56%
Treasury stock	26,624,050	3.94%	26,486,400	3.92%	37,787,800	5.59%
Total	**676,062,160**	**100.00%**	**676,062,160**	**100.00%**	**676,062,160**	**100.00%**

(1) Gesparal was a company incorporated under French law as a *Société Anonyme*, 51%-held by the Bettencourt family and 49%-held by Nestlé S.A. It was absorbed by L'Oréal, with effect from January 1st 2004, by a decision of the Extraordinary General Meeting on April 29th 2004. Gesparal shareholders thus became direct shareholders of L'Oréal.
(2) The Bettencourt family and Nestlé S.A. act in concert (see below: "Shareholders' agreements relating to the company's share capital").

During the period, the breakdown of voting rights has changed as shown below (note that the law requires that treasury stock do not carry voting rights, and that, until the Extraordinary General Meeting on April 29th 2004, registered shares having remained in the same name for at least two years were granted a double voting right):

	12.31.2002		12.31.2003		12.31.2004	
	Number of voting rights	% of voting rights	Number of voting rights	% of voting rights	Number of voting rights	% of voting rights
Gesparal	727,120,800	71.67%	727,120,800	71.66%	–	–
Bettencourt family	–	–	–	–	185,661,879	29.09%
Nestlé S.A.	–	–	–	–	178,381,021	27.95%
Public	287,446,789	28.33%	287,554,426	28.34%	274,231,460	42.96%
Total	**1,014,567,589**	**100.00%**	**1,014,675,226**	**100.00%**	**638,274,360**	**100.00%**

To the company's knowledge, at December 31st 2004, the members of the Board of Directors and the Management Committee held 27.76% of the share capital and 29.41% of the voting rights.

The company is authorised to trade in its own shares on or off the Stock Market in accordance with Articles L.225-208 and L.225-209 of the French Commercial Code, within the restrictions and in accordance with the purposes stipulated in the authorisations granted to it by its Annual General Meeting. At December 31st 2004, the company thus held 37,787,800 treasury stock, of which:
- 25,447,800 are allocated to the coverage of existing share purchase option plans allocated to group employees,
- 12,340,000 are to be cancelled, except for those which may be allocated to future share purchase option plans for group employees.

Employee share ownership

The employees of the company and of its affiliates held 2,615,659 shares at December 31st 2004, that is 0.39% of the share capital, through the unit trusts of the company savings plan.

Threshold passings declared to the company

During 2004, following the merger and absorption of Gesparal by L'Oréal, the company was notified of the following passings of legal thresholds of share capital or voting rights:
- by Téthys SAS, incorporated in France formerly as a *Société en commandite par actions* and subsequently as a *Société par actions simplifiée*, controlled by Mrs Liliane Bettencourt: 5% and 10% of the share capital and voting rights, the company declaring that it held 109,214,292 shares representing 16.15% of the share capital and 16.81% of the voting rights (at the declaration date),
- by Mrs Liliane Bettencourt in her individual capacity: 5% and 10% of voting rights, Mrs Bettencourt declaring that she held 5,633 shares in absolute ownership and 76,440,541 shares under usufructuary rights and 11.77% of the voting rights (at the declaration date),
- by Mrs Françoise Bettencourt Meyers in her individual capacity: 5% and 10% of the share capital, Mrs Bettencourt Meyers declaring that she held 76,440,824 shares in bare ownership and 283 shares in absolute ownership, representing 11.31% of the share capital,
- by the Bettencourt family (its members and Téthys SAS declaring that they were acting in concert): 5%, 10% and 20% of the share capital and voting rights, the concert party thus formed declaring that it held 185,661,879 shares representing 27.46% of the share capital and 28.57% of voting rights (at the declaration date),

• Nestlé S.A.: 5%, 10% and 20% of the share capital and voting rights, the company declaring that it held 178,381,021 shares representing 26.39% of the share capital and 27.45% of voting rights (at the declaration date),
• the concert party formed by the Bettencourt family and Nestlé S.A.: 5%, 10%, 20%, 33% and 50% of the share capital and voting rights, the said concert party declaring that it held 364,042,900 shares, representing 53.85% of the share capital and 56.03% of voting rights (at the declaration date).

Moreover, the passings of the following statutory thresholds were declared to the company:

Declaration date	Date threshold passed	Declared by	Threshold passed	Passing direction	Holding after passing of threshold
April 26th 2004	March 31st 2004	Ecureuil Gestion FCP on behalf of its unit trusts	1% of capital	Not stipulated	1.61% of capital
May 26th 2004	May 17th 2004	Caisse des dépôts et consignations	1% of capital	Upwards	1.49% of capital and 1.55% of voting rights

Shareholders' agreements relating to the company's share capital

The company is not aware of any agreements or shareholders' agreements relating to its share capital other than the agreement described below.

A memorandum of agreement was signed on February 3rd 2004 between Mrs Liliane Bettencourt and her family, and Nestlé, providing for the merger and absorption of Gesparal by L'Oréal. It contains the following clauses:

Provisions relating to the management of the L'Oréal shares held

Ceiling provision
The parties have undertaken not to increase their holdings of L'Oréal share capital or voting rights, directly or indirectly, by any means whatsoever, for a minimum period of three years from April 29th 2004, and in any case not until six months have elapsed after the death of Mrs Bettencourt.

Lock-up provision
The parties have undertaken not to transfer any or all of their L'Oréal shares directly or indirectly for a period of five years from April 29th 2004.

Exceptions to the ceiling and lock-up undertakings
a - The ceiling undertaking does not apply if the increase in the stake results from a reduction in the number of L'Oréal shares or voting rights, the acquisition of its own shares by the company, or the suspension or deletion of the voting rights of a shareholder.

b - The ceiling and lock-up undertakings are no longer applicable in the event of a take-over bid for L'Oréal shares as from the publication of the clearance decision (*avis de recevabilité*) until the day after the publication of the result notice (*avis de résultat*).

c - In the event of an increase in the share capital of L'Oréal, the parties may, provided that the other party has voted in favour of the capital increase, acquire shares or subscribe new shares, in order to maintain their holding at the quantum existing prior to the said transaction.

d - The parties are free to carry out transfers of L'Oréal shares, in the case of natural persons, in favour of an ascendant, descendant or spouse in the form of a donation, and in the case of natural persons or corporate entities, in favour of any company in which the person carrying out the transfer holds over 90% of the share capital or voting rights.

Pre-emption clause
The parties reciprocally grant each other a pre-emption right concerning the L'Oréal shares they hold since the day of the merger and those they will hold after this date.

The pre-emption right will come into force on expiry of the lock-up provision for a period of five years; as an exception, it will come into force before the expiry of the lock-up period in the event of a take-over bid for L'Oréal shares for a period beginning on the day of the clearance decision and ending the day after the publication of the result notice.

"No concert party" provision
The parties have undertaken that for a period of ten years from the date of completion of the merger they will not conclude with any third party an agreement or form a concert party relating to the shares forming the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right on the shareholding of the party having committed such breach, for a price per share equal to the average of the share price on the last 30 days of trading prior to the notification of the exercise of the pre-emption right.

Board of Directors
The Agreement did not provide for any change to the composition of the Board of Directors at the date of signing, but did stipulate an undertaking by the parties to vote in favour of the appointment as directors of three members proposed by the other party.

The Bettencourt family and Nestlé have also undertaken to vote in favour of the appointment of two Vice-Chairmen to the Board of Directors, one proposed by the Bettencourt family, and the other by Nestlé.

The parties have stipulated the creation of a Committee for Strategy and Implementation within the Board of Directors of L'Oréal, which will have six members, and will be chaired by the Chairman of the Board of Directors of L'Oréal and composed of two members proposed by the Bettencourt family, two members proposed by Nestlé and one independent member. The committee will meet six times a year.

Duration
Unless otherwise stipulated, the Agreement will remain in force for five years from April 29th 2004, and in all cases until a period of six months has elapsed after the death of Mrs Bettencourt.

Concerted action between the parties
The parties have declared that they will act in concert for a period of five years from April 29th 2004 onwards.

Delegation of powers to be granted to the Board of Directors for the purposes of increasing the capital either by the issue of ordinary shares with preferential subscription right, or by the incorporation of premiums, reserves, income or other sums

The authorisation granted to the Board of Directors for the purposes of increasing the capital either by the issue of shares for cash with a preferential subscription right, or by the incorporation of reserves, is shortly to expire. Although the authorisation has not been used, it is nonetheless proposed that you renew it. In application of the new regulations which are applicable in this matter, the length of the new authorisation will be reduced to 26 months.

In view of this reduction of the authorisation period, it is proposed that the maximum nominal amount beyond which the capital may not be raised be set at €200,000,000 (instead of €250,000,000 in the previous authorisation), thus enabling a nominal capital increase of a maximum of €64.8 million.

This delegation could be used on one or more occasions. It would supersede the authorisation granted by the Annual General Meeting of June 1st 2000.

Delegation of powers to be granted to the Board of Directors for the purpose of carrying out a capital increase reserved for employees

The Ordinary and Extraordinary Annual General Meeting of April 26th 2005 must, in application of Article L.225-129-6 of the French Commercial Code, be called on to decide on a draft resolution for a capital increase reserved for employees, in that it is also called on to delegate to the Board of Directors the powers to increase the capital of the company if necessary.

It is therefore proposed that a decision be taken concerning a resolution authorising the Board of Directors to carry out an increase in share capital for cash, in accordance with the provisions of Article L.225-129-2 of the French Commercial Code, which authorisation may be used on one or more occasions, in accordance with the conditions stipulated in Article L.225-138 of the French Commercial Code and Article L.443-5 of the French Labour Code.

This authorisation would be granted for a period of 26 months from the date of the decision of the Annual General Meeting.

The total number of shares that could be subscribed by employees may not exceed 1% of the share capital on the day of the decision of the Board of Directors. The subscription price would be set in accordance with the provisions of Article L.443-5 of the French Labour Code.

BUYBACK OF ITS OWN SHARES BY THE COMPANY

In 2004

During its meeting on June 15th 2004, the Board of Directors, in application of the 10th resolution approved by the Annual General Meeting on April 29th 2004, decided to carry out in the following 12 months buybacks of L'Oréal shares in a maximum amount of one billion euros. Accordingly, the company bought back 12,340,000 of its own shares during 2004, as follows:

Period	Number of shares bought	Average purchase price per share	Amount (€ millions)	Aggregate number of shares purchased	Aggregate amount (€ millions)
June 2004	180,000	€66.73	12.01	180,000	12.01
July 2004	1,500,000	€61.13	91.69	1,680,000	103.71
August 2004	770,000	€57.22	44.06	2,450,000	147.77
September 2004	2,120,000	€55.37	117.39	4,570,000	265.16
October 2004	1,250,000	€53.09	66.36	5,820,000	331.52
November 2004	3,160,000	€55.49	175.33	8,980,000	506.86
December 2004	3,360,000	€55.05	184.97	12,340,000(1)	691.83

(1) 12,340,000 shares represent 1.8% of the share capital.

The purchases were all made directly by the company, with no delegation to an investment service provider, and with no use of derivatives. None of these shares were sold on during the year.

The shares thus purchased are to be cancelled, except for those which may be allocated to stock option plans.

Furthermore, 1,038,600 shares previously purchased have been allocated following the exercise of share purchase options by their beneficiaries.

At December 31st 2004, the company held 37,787,800 of its own shares, or 5.59% of the share capital, whose value calculated at the purchase price was €2,450.9 million. The purchase value of the 12,340,000 shares acquired in 2004 was deducted from consolidated shareholders' equity; these shares are entered on the company's balance sheet under *Other long-term investments*. The balance of 25,447,800 shares, all of which are allocated to stock option plans, are entered on the consolidated balance sheet, as on the company balance sheet, under *Marketable securities*.

Renewal of the authorisation given to the Board of Directors to trade in the company's shares on the Stock Exchange or otherwise

The Board of Directors proposes to the Annual General Meeting that the authorisation given to the Board of Directors to trade in the company's shares on the Stock Exchange or otherwise should be renewed, in accordance with Articles L.225-209 et seq. of the French Commercial Code for a period of 18 months, expiring in any case at the Annual General Meeting called in 2006 to review the financial statements for 2005.

This authorisation would enable the company to use its own shares for the following purposes:
- cancellation of shares for purposes of optimising shareholders' equity and net earnings per share by a capital reduction within the limits set by the law, in accordance with the authorisation granted by the Extraordinary General Meeting on May 22nd 2003 for a period of five years, expiring on May 22nd 2008,
- purchases in order to deliver shares to the beneficiaries of share purchase options granted by the Board of Directors, when the said options are exercised,
- purchases for purposes of the free grant of shares decided on by the Board of Directors,
- purchases and sales to ensure the liquidity and increase the volume of transactions in connection with a liquidity contract concluded with an investment service provider,
- purchases for the holding and subsequent exchange of the shares acquired as payment in connection with external growth operations.

Purchases must comply with the following conditions:
- the purchase price per share may not be greater than €95,
- the number of shares to be bought by the company may not exceed 10% of the number of shares forming the share capital, that is 67,606,216 shares for a maximum amount of €6.4 billion, it being stipulated that the company may at no time hold more than 10% of its own share capital.

In the event of any operation affecting the company's share capital, the amounts indicated above will be arithmetically adjusted in the proportion required by the variation in the total number of shares determined by the operation.

The operations carried out within the scope of this authorisation may be carried out by any means, on the Stock Exchange or otherwise.

Purchase, sale, exchange or transfer operations may also take place during public offering periods within the limits authorised by the laws and regulations in force.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

Amendment of the Articles of Association to facilitate the admission of bearer shareholders to Annual General Meetings

Following the facilitation of admission to the Annual General Meetings for registered shareholders in 2004, it is this year proposed that Article 12 of the Articles of Association of L'Oréal should be amended to facilitate admission to the Annual General Meetings for bearer shareholders, by reducing the period of time during which bearer shares must be placed in a blocked account to three days before the meeting (compared with five days previously).

Your Board of Directors has presented in particular in this report various resolutions to be submitted to the Ordinary and Extraordinary Annual General Meeting, and, in accordance with the regulations relating to capital increases, has reported to you on the state of the parent company activities since the start of this year.

If you approve of the financial statements presented to you, and the proposals made to you, we invite you to ratify by your vote the resolutions which will be submitted to you after the reading of the Reports of the Statutory Auditors.

The Board of Directors

Notes to the Management Report

2004 REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF L'ORÉAL

Under the terms of Article L.225-37 of the French Commercial Code, paragraph 7, the Chairman is required to present a supplementary report, attached to the Management Report:

"The Chairman of the Board of Directors gives an account, in a report attached to the Report mentioned in Articles L.225-100, L.225-102, L.225-102-1 and L.233-26, of the ways in which the Board's work is prepared and organised, and on the Internal Control procedures put in place by the company. Without prejudice to the provisions of Article L.225-56, the report also indicates any limitations that the Board of Directors exercises on the powers of the Chief Executive Officer."

The ways in which the Board's work is prepared and organised

The *modus operandi* of the Board of Directors, the ways in which its structure changes, and its good practices, are described in the Reference Document, initially in a chapter on this subject in Volume 1, and subsequently in this Management Report of the Board of Directors.

The ways in which the Board's work is prepared and organised can be summed up as follows:

Good practices
The Internal Rules of the Board of Directors were approved by the Board in its meeting on September 2nd 2003 and revised on December 1st 2004. These Rules, like the present report, are attached to the Management Report for information purpose.

The L'Oréal Board of Directors carries out its work on a collective basis, in accordance with ethical principles and codes of good conduct, instructs Review Committees to carry out preparatory assignments, and periodically reviews its *modus operandi*.

In 2004 the Board met nine times, with an average Board member attendance figure of 85%.

The work of the Board of Directors is carried out in accordance with legal requirements, regulations and recommendations
The directors make every effort to attend the Board of Directors' meetings. The Board constantly strives to apply a *modus operandi* which strictly complies with legal requirements and is conducive to good corporate governance.

Appointed by the shareholders, the directors control the economic and financial management of the group and participate in determining its strategy. They review and approve the main lines of action adopted by the General Management, which implements them.

Codes of good conduct to ensure ethical behaviour
The Board, with the General Management, has contributed to the setting up and regular updating of the Insider Trading Rules. These Rules, which refer to the legal texts, regulations and recommendations to be respected, point out that privileged information must only be passed on and used for professional purposes. The Rules recommend that all those holding privileged information should show the greatest caution when trading in or enabling trading in L'Oréal shares on the Stock Exchange, and stress that any misconduct in this field may result in criminal proceedings.

The Board's Internal Rules point out specifically that the director is requested to refrain from trading in L'Oréal shares at certain periods if he has access, as a result of his particular functions, to privileged information which, if made public, could affect the share price. Lastly, the directors inform the company of each transaction carried out relating to the L'Oréal shares.

A Board that periodically assesses its *modus operandi*
The Board of Directors has adopted a method for assessing its work that is closely related to the concerns of directors arising from their management responsibilities. In December it reviewed its *modus operandi* through individual interviews between the Secretary of the Board and each director. The interviews were conducted in accordance with generally accepted practice, and with reference to the regulations and recommendations in force. They led to an overview of the main observations and proposals made by each director, both as regards form and substance.

The review shows that the quality of Board meetings is improving from year to year, that progress is both continuous and substantial, and that considerable efforts have been made to provide more detailed information to the Board and to ensure more thorough reflection on strategic issues. The directors carry out their duties conscientiously and actively participate in the debates. The Board members have expressed their satisfaction with the presentations made by senior managers in certain Board meetings, and wish this practice to continue. The Audit Committee seems to be particularly performing well. Its auditing work, carried out in close conjunction with the Statutory Auditors, is of good quality, and is being adapted in a way that is compatible with the efficient management of the company and the spirit of the law.

Aware of the changing nature of the challenges, the Board has, over recent years, changed the way it operates by instructing Review Committees to carry out preparatory work for its debates, thus enabling it to take decisions with greater security. Each of the Committees meets at least three times a year.

The Committee for Strategy and Implementation
The brief of the Committee for Strategy and Implementation is to throw light, through its analyses and debates, on the group's strategic orientations as submitted to the Board of Directors, and to monitor the implementation and advancement of significant operations in progress.

In particular, the Committee examines the main strategic lines of development, options and projects presented by the General Management and their economic and financial consequences, acquisition opportunities, and financial transactions liable to significantly change the balance sheet structure. More generally, the Committee debates all questions considered essential for the future strategy of the group and for preserving its main financial balances.

The Committee is composed of six L'Oréal directors, of whom two represent the Bettencourt family and two represent Nestlé. It is chaired by the Chairman of the Board of Directors and another independent director is also a member. Created in April 2004, the Committee met three times in 2004.

The Audit Committee

The Audit Committee must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the group inside and outside France in carrying out its normal and exceptional operations. This is in order to avoid the possibility of any impairment of the value of the company's assets.

The Audit Committee can be consulted for all questions relating to procedures for controlling risks of an unusual nature, particularly when the Board or the General Management considers it appropriate to submit such question to it. Furthermore, if during its work the Committee detects a substantial risk which in its view is not adequately taken into account, it warns the Chairman of the Board accordingly. The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its mission, particularly executives with economic and financial responsibilities, or those in charge of processing information.

In 2004 the Committee met four times, in the presence of all its members and in complete independence. It reported to the Board following the presentations made to it and on completion of its debates. It expressed its approval concerning all the procedures in place, particularly those relating to the compilation of the financial statements. The work carried out by L'Oréal and the Statutory Auditors enables the satisfactory establishment of the financial statements while ensuring a high degree of security. The new regulations concerning the Internal Control, together with the Chairman's report, are considered to be an opportunity for progress rather than a difficulty.

The Committee has furthermore examined provisions, insurance, legal disputes and legal risks, and the Internal Audit missions. Lastly, a presentation was made to the Committee concerning the introduction of the new accounting standards in 2005. The Committee has been informed of the progress made on IFRS and the impact of these accounting standards on the presentation of the financial statements, with an estimate of the impact on items in the balance sheet and net profit.

The "Management and Remuneration" Committee

The main missions of the "Management and Remuneration" Committee are to make proposals to the Board concerning the remuneration of corporate officers and the allocation of stock options (see in the Management Report the chapter dedicated to this matter), to enquire about the general remuneration policies applied in the company, to assist the Chairman and the Board in their reflections on succession plans for the group's senior management positions, and to reflect on the composition of the Board of Directors and any possible changes.

The "Management and Remuneration" Committee reports on its work to the Board; it may meet at any time it considers to be appropriate, for example to assess the performance of the company's senior managers.

The "Management and Remuneration" Committee met four times in 2004, in the presence of all its members and in complete independence.

The Board carries out its work thoroughly

In 2004, in addition to closing the annual financial statements and examining the half-year financial statements with the Statutory Auditors, and all the other compulsory aspects of its missions (such as the remuneration of corporate officers, share buybacks and the allocation of stock options, in most cases with the help of the Review Committees), the Board of Directors specifically considered the following matters:

- the simplification of the shareholding structure, including, for example, a detailed examination of the terms of the agreement relating to the merger and absorption of Gesparal by L'Oréal,
- the merger of Sanofi-Synthélabo and Aventis with the deconsolidation of L'Oréal's share in Sanofi-Synthélabo profits,
- the examination of the social report and the Fillon Act of August 21st 2003 with its reform of the retirement pension system in France,
- the creation of the Committee for Strategy and Implementation,
- strategy and competition, with particular reference to L'Oréal situation in China and in the United States.

Some senior L'Oréal managers were invited by the Board to make presentations about, and debate the development situation of the geographic zones and brands for which they are responsible.

Internal Control

Definition, objectives and organisation of Internal Control

At L'Oréal, Internal Control is a process whose purpose is:

- the creation and maintenance of an organisational structure which enables the prevention and management of risks, particularly of an economic, financial and legal nature, to which the company and its subsidiaries are exposed inside and outside France,
- ensuring that economic and financial targets are achieved in compliance with the laws and regulations in force,
- making sure that the financial and accounting information of the group is reliable and drawn up truly and fairly, that the value of the group's assets is strengthened and that its assets are protected.

The objective of the Internal Control system is to enable the group's industrial and economic development to be carried out in a steady and sustainable manner, even though no absolute guarantee of total absence of risk can be given, in a control environment appropriate for the group's businesses.

Since the creation of its Audit Committee, the Board of Directors has repeatedly stressed the importance it attaches, with the General Management, to the Internal Control and its main areas of application.

Actively involved parties

The main parties actively involved in Internal Control are:

- the General Management,
- all managers, whether involved in the financial field, or in commercial, administrative, research, marketing and production activities,
- the Internal Audit Division,
- the Audit Committee.

The General Management and management in the group

The mission of the General Management is to define the general principles of Internal Control and ensure that they are correctly implemented. For this purpose, it relies on the various managers according to their respective fields of competence, in the context of an organisational structure based on business units, countries, geographic zones and Divisions.

The presence at each of these levels of a financial controller reporting both to the operational and functional management structures helps to strengthen the Internal Control system.

The system of monthly reporting of the various economic indicators also enables the continuous and regular monitoring of the performance levels of each of the business units, to ensure that they are in line with the objectives set for them.

Internal Audit

The internal auditors check that the Internal Control system is being correctly applied.

The missions of the Internal Audit are scheduled in agreement with the General Management and the Audit Committee. They give rise to the drawing up of an annual audit plan. The missions are chosen in particular on the basis of an assessment of the most important risks identified by the heads of Divisions and geographic zones.

Other parameters taken into account are the relative size, contribution to the main economic indicators, previous history of the entities and their rate of development.

The audit missions result in the drawing up of a report setting out findings and risks and formulating recommendations where appropriate, and the drawing up of an action plan to be implemented by the entity audited.

The follow-up of this action plan, whose formal definition has been made more specific in 2004, is carried out by the Internal Audit and the senior managers of the Divisions and zones concerned.

The Internal Audit draws up and presents each year to the Audit Committee an overview report on the implementation of its audit plan and its results. The Committee then reports its own views on this matter to the Board of Directors. The Internal Audit communicates the results of its audits to the Statutory Auditors at least twice a year.

A programme of audits of industrial sites is in place. It is intended to measure the performance and the progress of sites in the areas of quality, safety, health and the environment.

Audits are also carried out by insurers in the company's factories and distribution centres.

The Audit Committee

The Audit Committee analyses in particular the procedures that enable:

- compliance with accounting regulations and the correct application of the principles governing the establishment of the company's financial statements,
- the feedback of information and its processing,
- the application of the internal auditing standards that apply to financial information,
- compliance with stock market regulations, and more particularly the correct application of the Insider Trading Rules in force in the company.

The Audit Committee met four times in 2004 in the presence of the Statutory Auditors.

The main specific topics examined over the year were provisions, legal disputes, insurance, information system access security and the introduction of new accounting standards. In each case these topics were examined in the presence of the senior managers in charge of the relevant fields in the company. The Internal Audit Division was also asked to give its views on two occasions.

The Statutory Auditors have certified that the consolidated financial statements and parent company financial statements present a true, consistant and fair picture. They are kept informed from the early stages of the process of drawing up the financial statements and present an overview of their work to the group's accounting and finance managers and to the Audit Committee on the closing of the half-year and annual financial statements.

Reference texts, charters, standards and procedures

Internal Control is based on reference texts, charters, standards, procedures and good practices:

- an ethical charter has been issued to all L'Oréal staff and is issued to each new employee. The charter sets out the values and principles for action that each individual must comply with on ethical matters. With regard to the principles of loyalty and integrity, the charter states that:
"… Each individual acts in the interest of the group, and is constantly aware of the need to protect its assets, to preserve its image and reputation, and to ensure the confidentiality of the information and expertise he holds, of whatever kind …"
"… Integrity in the management of businesses and in behaviour is a duty that must be carried out on an everyday basis, and is of central importance in L'Oréal's values.",
- the legal and fiscal charters set out the internal signature principles, the general and specific rules relating to contracts, and stress that compliance with local legislation is compulsory,
- the financial charter and the exchange risk management standard specify in particular the principles to be applied by group entities to ensure that management of exchange risk is both prudent and centralised. To manage the uncertainties arising from currency fluctuations, the group requires its entities to systematically hedge in full all exchange risks identified in the budget. The Treasury Division mon-

itors risks and the related hedges by collecting specific items of information in order to centralise and measure the group's obligations,
• the Expense Commitment Request procedure, whose purpose is to facilitate and strengthen control of the spending of group entities,
• the General Conditions of Purchase and Payment,
• the Insider Trading Rules,
• the procedures relating to the protection of goods, data and persons, particularly including the internal rules issued by the group's Production and Technology Division setting out the principles for dealing with industrial and logistical risks relating to organisation and safety,
• the information technology safety charter, which includes confidentiality precautions and standby plan management procedures,
• production quality standards,
• the insurance charter states that the group mainly makes use of integrated global programmes to cover risks of a catastrophic nature including the third party liability of all its entities, together with damage to goods and operating losses resulting from an insured risk. It also confirms the group's policy of only using initial insurers and insuring its customer risk.

The group has also drawn up a set of accounting and management rules and methods whose application is compulsory, to ensure the supply of reliable financial information:
• the accounting standards set out the principles necessary to ensure that transactions are always processed in the same way inside the group. They stipulate the methods used to list and value off-balance sheet commitments. These standards comply with the accounting standards in force in France,
• the accounting plan sets out the definitions and reporting methods necessary for drawing up the group's financial statements,
• the management standards also set out the rules applied to value certain significant items in the balance sheet and profit and loss account.

A plan for the global deployment of the integrated software package already used in the great majority of subsidiaries also tends to strengthen the reliability and security of the process of producing accounting, financial and other information.

A specific action plan was drawn up in 2004 to re-examine user profiles and establish a formal procedure for access rights. The aim is to ensure that the functions are satisfactorily separated depending on the user concerned.

Compiling of financial information
In compiling the data that constitutes the basis of our financial information, the Internal Control system aims to ensure:
• compliance with accounting regulations and the correct application of the principles on which the financial statements are established,
• the quality of information transmission and the centralised processing of information for the group,
• checks on the production of financial, accounting and management data.

For the drawing up of the consolidated financial statements, validation procedures are applied at each stage of information transmission and processing. The procedures are specifically designed to check, at half-yearly intervals, the following:
• correct adjustment and elimination of intercompany transactions,
• consolidation operations,
• and the correct application of group standards.

In application of the general instructions, all the accounting and financial data sent by the consolidated entities for the closing of the half-year and annual financial statements are subject to a prior audit by the external auditors, to which is added a pre-closing review on November 30th each year.

To ensure the reliable introduction of the IFRS standards whose application is compulsory from January 1st 2005, the group has set up a specific project team which has carried out in-depth studies to identify the various standards that could have an impact on the group's financial statements and their presentation.

The group's main standards have been brought into compliance with the new reference, and widely distributed inside the group. A considerable number of training programmes have been carried out in connection with this process.

Conclusion
The group is continuing its constant efforts to improve its Internal Control system. In 2004 it carried out an inventory, a review and an overview of the standards, charters, procedures and good practices that exist in the financial, industrial and human resources management fields and are related to the topics covered in this report, in the context of the processes in place. The conclusions of these works will help strengthen Internal Control, and enable better appropriation of Internal Control by the various structures.

Limitations of the powers of the General Management

In Article 1 of the Internal Rules of the Board of Directors, the Board has introduced the following specific limitation of the powers of the Chief Executive Officer:
"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 €150,000,000, and all new operations outside the scope of the company's normal activities, are submitted to the Board.

When a transaction is concluded and implemented, the Board of Directors is notified in each case."

Lindsay Owen-Jones
Chairman of the Board of Directors

DRAFT RESOLUTIONS SUBMITTED FOR APPROVAL TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING ON APRIL 26TH 2005

Draft resolutions within the authority of the Ordinary General Meeting

1st resolution
Approval of the 2004 parent company financial statements
The Annual General Meeting, having reviewed the reports of the Board of Directors and of the Statutory Auditors, approves the report of the Board of Directors and the 2004 parent company financial statements indicating a net income of €1,230,100,216.83 compared with €939,542,234 for 2003.

Furthermore, in accordance with Article 223 quater of the French General Taxation Code (*Code général des impôts*), the Annual General Meeting approves the amount of charges which are non-deductible from the taxable income mentioned in the Management Report of the Board of Directors, and the amount of the tax charge borne by the company as a result of this non-deductibility.

2nd resolution
Approval of the 2004 consolidated financial statements
The Annual General Meeting, having reviewed the reports of the Board of Directors and of the Statutory Auditors, approves the 2004 consolidated financial statements.

3rd resolution
Allocation of the company's net income for 2004 and declaration of the dividend
The Annual General Meeting, on the proposal of the Board of Directors, decides to allocate the 2004 net income, amounting to €1,230,100,216.83, as follows:

€	
No allocation to the legal reserve, which already represents one-tenth of the share capital	–
5% of the fully paid up capital, *i.e.* the entire capital, as first dividend	6,760,621.60
An amount of will be allocated to shareholders as superdividend	547,610,349.60
The balance, that is will be allocated to the *Other reserves* account	675,729,245.63

The Annual General Meeting therefore declares the net dividend to be paid for this year to be €0.82 per share.

The Annual General Meeting decides that the dividend will be paid on May 11th 2005:
• for registered shares recorded on the company's share register directly by BNP Paribas Securities Services in its capacity as authorised agent, in accordance with the method of payment specified by the holders,
• for registered shares held in an administered account, and for bearer shares, by the authorised custodians to whom the management of these shares has been entrusted.

The income corresponding to the dividends not paid because of the treasury stock held by the company will be allocated to the *Ordinary reserve* account.

In accordance with Article 243 bis of the French General Taxation Code, it is pointed out that a 50% tax deduction applies to the whole amount of the proposed dividend in the case of natural persons whose fiscal domicile is situated in France, as stipulated by Article 158-3 of the French General Taxation Code.

The Annual General Meeting notes that the net dividends (in euros) paid for the last three years, and the corresponding tax credits, were as follows:

€ Year	Net dividend	Tax already paid (tax credit)	Total
2001	0.54	0.27	0.81
2002	0.64	0.32	0.96
2003	0.73	0.37	1.10

The Annual General Meeting authorises the Board of Directors, in application of Article 39 of the Amended Finance Act (*Loi de Finances Rectificative*) for 2004:
• to transfer, before December 31st 2005, the sum of €200 million from the *Special reserve of long-term net capital gains* item to the *Other reserves* item;
• to deduct the sum of €4,987,500 representing the exceptional tax based on the amount thus transferred to the *Other reserves* item.

4th resolution
Approval for regulated agreements
The Annual General Meeting, after hearing the special report of the Statutory Auditors on agreements provided for in Article L.225-38 of the French Commercial Code (*Code de commerce*), approves the said report and notes that there are no agreements to be submitted for approval.

5th resolution
Renewal of the tenure as director of Mrs Françoise Bettencourt Meyers
The Annual General Meeting, acting in accordance with the provisions of Article 8 of the Articles of Association, renews the tenure as director of Mrs Françoise Bettencourt Meyers for a statutory period of four years.

The tenure as director of Mrs Françoise Bettencourt Meyers will expire at the end of the Ordinary General Meeting to be held in 2009 to review the financial statements of the year ending December 31st 2008.

6th resolution
Renewal of the tenure as director of Mr Peter Brabeck-Letmathe
The Annual General Meeting, acting in accordance with the provisions of Article 8 of the Articles of Association, renews the tenure as director of Mr Peter Brabeck-Letmathe for a statutory period of four years.

The tenure as director of Mr Peter Brabeck-Letmathe will expire at the end of the Ordinary General Meeting to be held in 2009 to review the financial statements of the year ending December 31st 2008.

7th resolution
Renewal of the tenure as director of Mr Jean-Pierre Meyers

The Annual General Meeting, acting in accordance with the provisions of Article 8 of the Articles of Association, renews the tenure as director of Mr Jean-Pierre Meyers for a statutory period of four years.

The tenure as director of Mr Jean-Pierre Meyers will expire at the end of the Ordinary General Meeting to be held in 2009 to review the financial statements of the year ending December 31st 2008.

8th resolution
Appointment as director of Mr Werner Bauer

The Annual General Meeting decides to appoint Mr Werner Bauer as director for a period of four years that will expire at the end of the Ordinary General Meeting to be held in 2009 to review the financial statements of the year ending December 31st 2008.

9th resolution
Appointment as director Mr Louis Schweitzer

The Annual General Meeting decides to appoint Mr Louis Schweitzer as director for a period of four years that will expire at the end of the Ordinary General Meeting to be held in 2009 to review the financial statements of the year ending December 31st 2008.

10th resolution
Declaration of the amount of attendance fees

The Annual General Meeting:
• allocates to the Board of Directors as annual attendance fees a maximum total sum of €1,100,000 which shall apply until it takes a further decision,
• allows the Board of Directors to determine the allocation and payment date of the said attendance fees.

11th resolution
Authorisation for the buying back by the company of its own shares

The Annual General Meeting, having reviewed the report of the Board of Directors and the information note registered by the *Autorité des marchés financiers*, authorises the Board of Directors, with the possibility to further delegate, to trade in the company's shares on the Stock Exchange or otherwise, in accordance with the requirements of Articles L.225-209 et seq. of the French Commercial Code, and subject to the following conditions:
• the purchase price per share may not be greater than €95,
• the number of shares to be bought by the company may not exceed 10% of the number of shares forming the capital as of today, that is 67,606,216 shares for a maximum amount of €6.4 billion, it being stipulated that the company may at no time hold over 10% of its own capital.

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

The operations carried out within the scope of this authorisation may be carried out by any means, on the Stock Exchange or otherwise, and in particular by transactions relating to blocks of shares or by the use of derivatives, in accordance with the regulations in force. All the buybacks may take the form of transactions relating to blocks of shares.

Purchase, sale, exchange and transfer operations may also take place during public offering periods within the limits authorised by the laws and regulations in force.

This authorisation is intended to enable the company to use these shares for the following purposes:
• cancellation of shares for purposes of optimising shareholders' equity and net earnings per share by capital reduction within the limits set by the law, in accordance with the authorisation granted by the Extraordinary General Meeting of May 22nd 2003 for a period of five years expiring on May 22nd 2008,
• purchases in order to deliver shares to the beneficiaries of stock options granted by the Board of Directors, when the said options are exercised,
• purchases for purposes of the free grant of shares to be decided on by the Board of Directors,
• purchases and sales to ensure the liquidity and increase the volume of transactions in connection with a liquidity contract concluded with an investment service provider,
• purchases for the holding and subsequent exchange of the shares acquired as payment in connection with external growth operations.

This authorisation is granted for a maximum period of eighteen months, and in any case expires on the date of the Ordinary General Meeting called to review the financial statements of the year ending December 31st 2005.

The Annual General Meeting grants to the Board of Directors full powers, with the possibility to further delegate, to issue all stock market orders, conclude all agreements, establish all documents, particularly for information purposes, carry out all formalities and make all declarations to all organisations and in general to take all actions that are necessary for the implementation of this resolution.

Draft resolutions within the authority of the Extraordinary General Meeting

12th resolution
Delegation of powers granted to the Board of Directors for the purposes of increasing the capital either by issue of ordinary shares with preferential subscription right, or by incorporation of premiums, reserves, income or other sums

The Annual General Meeting, having reviewed the report of the Board of Directors and in accordance with the provisions of Article L.225-129-2 of the French Commercial Code:
1. delegates to the Board of Directors the power to decide on one or more capital increases:
a - by the issue of company's ordinary shares,

b - and/or by the incorporation in the capital of premiums, reserves, income or other sums whose capitalisation is possible under legal and statutory provisions, in the form of the allocation of bonus shares or the raising of the par value of existing shares.

The delegation thus granted to the Board of Directors is valid for a period of twenty-six months from the date of this Annual General Meeting;

2. decides that the total amount of capital increases that may be carried out immediately and/or subsequently may not result in raising the share capital, which is currently €135,212,432, to an amount greater than €200,000,000;

3. in the event that the Board of Directors uses this delegation in connection with the issues stipulated in 1.a, decides that:

a - shareholders have, proportionally to the amount of their shares, a preferential subscription right for the shares issued under this resolution,

b - the number of shares to be issued may be increased within thirty days of the closing of the subscription up to a limit of 15% of the initial issue and at the same price as that set for the initial issue, if the Board of Directors notes that demand exceeds supply,

c - if the irreducible subscriptions and, where applicable, the reducible subscriptions have not absorbed the whole of the issue of shares or marketable securities as defined above, the Board of Directors may offer to the public all or some of the shares unsubscribed;

4. in the event that the Board of Directors uses this delegation in connection with the incorporation of premiums, reserves, income or other sums stipulated in 1.b, decides, where appropriate, in accordance with the provisions of Article L.225-130 of the French Commercial Code, that the rights forming odd lots will not be negotiable and that the corresponding shares will be sold; the sums generated from the sale will be allocated to the holders of rights no later than thirty days after the entry on their account of the whole number of shares allocated;

5. notes that the present delegation invalidates any previous delegation with the same purpose.

13th resolution
Delegation of powers to the Board of Directors for the purpose of carrying out a capital increase reserved for employees

The Annual General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors, and acting in accordance with Articles L.225-129-2, L.225-129-6 and L.225-138 of the French Commercial Code and Articles L.443-1 et seq. of the French Labour Code (*Code du travail*):

• delegates to the Board of Directors the authority to decide to carry out, on one or more occasions, on its own resolutions, in the proportions and at the times it may consider appropriate, the issue of shares reserved for employees (or former employees) of the company or of its affiliates as defined by Article L.225-180 of the French Commercial Code who are members of a company savings scheme and of any unit trust through which the shares thus issued are subscribed by them;

• decides to cancel the preferential right of shareholders to subscribe to the shares issued in accordance with this authorisation, for the benefit of employees (or former employees) of the company or of its affiliates as defined by Article L.225-180 of the French Commercial Code who are members of a company savings scheme and of any unit trust through which the shares thus issued are subscribed by them;

• sets the period of validity of this delegation at 26 months from the date of this Annual General Meeting, and notes that this delegation invalidates any previous delegation with the same purpose;

• decides to set at 1% of the existing share capital at the date of this Annual General Meeting the increase in capital that could thus be completed, that is an increase of share capital of a maximum nominal amount of €1,352,124 by the issue of 6,760,621 new shares;

• decides that the price of the shares subscribed by the beneficiaries mentioned above, in accordance with this delegation, will be set in accordance with Article L.443-5 of the French Labour Code;

• decides that the Board of Directors will have full powers to implement this delegation within the limits and under the conditions stated above, particularly in order to:

- set the conditions to be fulfilled by the employees (or former employees) in order to be allowed to subscribe, individually or through a unit trust, to the shares issued in accordance with this delegation,
- set the conditions of the issue,
- draw up the list of companies whose employees may benefit from the issue,
- decide on the amount to be issued, the issue price, and the dates, terms and conditions of each issue,
- set the period of time allowed to those joining the scheme to pay up their shares,
- set the date, which may be retroactive, from which the beneficiary is entitled to receive dividends,
- record or have recorded the completion of the capital increase up to the amount of the shares that will in fact be subscribed for, or decide to heighten the amount of the said increase so that all subscription requests can be complied with,
- allocate, where necessary, the expenses, charges and fees generated by such issues on the issue premium amount, and deduct, where appropriate, from the issue premium amounts the sums necessary to allocate them to the legal reserve up to the level required by laws and regulations in force,
- more generally to carry out all actions and formalities, to take all decisions and conclude all agreements that are useful or necessary to ensure the successful completion of the issues carried out in accordance with this delegation and, in particular, for the issue, subscription, delivery, ranking, listing, negotiability and financial service of the new shares and the exercise of the associated rights, and to record the final completion of the capital increase(s) carried out in accordance with this delegation and amend the Articles of Association accordingly.

14th resolution
Authorisation given to the Board of Directors for the purpose of the free grant of existing shares or shares to be issued

The Extraordinary General Meeting, having reviewed the report of the Board of Directors and the special report of the Statutory Auditors, in accordance with Articles L.225-197-1 et seq. of the French Commercial Code:

• authorises the Board of Directors to carry out, on one or more occasions, for the benefit of employees of the company or of its affiliates as defined by Article L.225-197-2 of the French Commercial Code or of certain categories of such employees, and of corporate officers as defined by the law, free grants of existing L'Oréal shares or L'Oréal shares to be issued;

• decides that the Board of Directors will determine the identity of the beneficiaries of the allocations, as well as the conditions and, where appropriate, the criteria for the allocation of the shares;

• decides that the total number of free grant shares thus allocated may not be such that:

- the total number of free grant shares allocated under this resolution and the total number of share purchase and subscription options granted and not yet exercised represent a number of shares greater than 6% of the number of shares forming the share capital on the day of the free grant of shares by the Board of Directors,
- the total number of free grant shares allocated and to be issued under this resolution and the total number of share subscription options granted and not yet exercised represent a number of shares greater than 2% of the number of shares forming the share capital on the day of the free grant of shares by the Board of Directors;

• decides that the allocation of the shares to the beneficiaries shall be definitive at the end of a minimum vesting period of 2 years, the minimum compulsory period for holding the shares by the beneficiaries being set at 2 years;

• authorises the Board of Directors to carry out, where appropriate, during the vesting period, adjustments of the number of shares involved in any operations on the capital of the company so as to preserve the rights of beneficiaries;

• notes that this decision implies the renunciation as of right by the shareholders of the part of the reserves which, where appropriate, is used in the event of the issue of new shares;

• delegates full powers to the Board of Directors, with possibility to further delegate within the limits defined by law, to implement this authorisation.

This authorisation is granted for a period of 15 months, so that its expiry date coincides with that of the authorisations to allocate share purchase and subscription options granted by the Annual General Meeting on May 22nd 2003, in its eighth and ninth resolutions.

15th resolution
Amendment of Articles of Association to facilitate the admission of bearer shareholders to Annual General Meetings

The Annual General Meeting, having reviewed the report of the Board of Directors, decides that holders of bearer shares may take part in the company's Annual General Meetings provided that they submit, at least three days prior to the meeting, at the places indicated in the notice to attend, a certificate issued by an authorised custodian stipulating that the bearer shares will remain in a blocked account up to the date of the meeting, and decides therefore to amend Article 12 of the Articles of Association.

As a result, paragraph 10 of Article 12 of the Articles of Association, which currently reads as follows:

"The right to take part in the Meetings is conditional on holders of registered shares being shareholders of record at the latest the day of the Meeting, and on holders of bearer shares submitting at least five days before the Meeting, at the places indicated in the notice to attend, a certificate from an authorised custodian, stipulating that the bearer shares will remain in a blocked account up to the date of the Meeting."

will be superseded by a new paragraph, which reads as follows:

"The right to take part in the Meetings is conditional on holders of registered shares being shareholders of record at the latest the day of the Meeting, and on holders of bearer shares submitting at least three days before the Meeting, at the places indicated in the notice to attend, a certificate from an authorised custodian, stipulating that the bearer shares will remain in a blocked account up to the date of the Meeting."

16th resolution
Powers for formalities

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to carry out all legal and administrative formalities, and to carry out all filings and announcements prescribed by law.

LIST OF OFFICES AND DIRECTORSHIPS HELD BY CORPORATE OFFICERS IN 2004 (Article L.225-102-1 of French Commercial Code)

Lindsay Owen-Jones
Chairman and Chief Executive Officer
Chairman of the Committee for Strategy and Implementation

Other corporate offices and directorships held

France

L'Air Liquide SA	Vice-Chairman of the Supervisory Board
BNP Paribas SA	Director
Gesparal SA (merged into L'Oréal)	Director (until April 29th 2004)
Sanofi Aventis SA (formerly Sanofi-Synthélabo)	Director

Outside France

L'Oréal USA Inc. (United States)	Chairman & Director
L'Oréal U.K. Ltd (United Kingdom)	Chairman & Director
Galderma Pharma SA (Switzerland)	Director Chairman of the Board (until May 24th 2004)

Jean-Pierre Meyers
Director
Vice-Chairman of the Board
Member of the Audit Committee
Member of the Committee for Strategy and Implementation

Other corporate offices and directorships held

France

Gesparal SA (merged into L'Oréal)	Director (until April 29th 2004)
Gespral SA	Director
Téthys SAS (formerly SCA)	Member of the Supervisory Board

Outside France

Nestlé SA	Director

Other offices and directorships held

Fondation Bettencourt Schueller	Vice-Chairman of the Board
Fondation Ophtalmologique Adolphe de Rothschild	Director

Rainer E. Gut
Director
Vice-Chairman of the Board
Member of the "Management and Remuneration" Committee
Member of the Committee for Strategy and Implementation

Main corporate office held outside L'Oréal

Nestlé SA (Switzerland)	Chairman of the Board Board Committee Member

Other corporate offices and directorships held

France

Gesparal SA (merged into L'Oréal)	Vice-Chairman of the Board (until April 29th 2004)

Outside France

Uprona (Canada) Ltd (Canada)	Chairman of the Board
Crédit Suisse Group (Switzerland)	Honorary Chairman

Liliane Bettencourt
Director
Chairwoman of the "Management and Remuneration" Committee
Member of the Committee for Strategy and Implementation

Other corporate offices and directorships held

France

Clymène SAS	Chairwoman
Compagnie Nouvelle d'Investissement SA	Director
Eugène Schueller SARL	Managing Director
Gesparal SA (merged into L'Oréal)	Vice-Chairwoman of the Board (until April 29th 2004)
Gespral SA	Chairwoman of the Board
Téthys SAS (formerly SCA)	Chairwoman

Other offices and directorships held

Fondation Bettencourt Schueller	Chairwoman

Françoise Bettencourt Meyers
Director

Other corporate offices and directorships held

France

Gesparal SA (merged into L'Oréal)	Director (until April 29th 2004)
Gespral SA	Director
Société Immobilière Sebor SAS (formerly SA)	Chairwoman of the Board
Téthys SAS (formerly SCA)	Member of the Supervisory Board

Other offices and directorships held

Fondation Bettencourt Schueller	Director

Peter Brabeck-Letmathe
Director

Main corporate office held outside L'Oréal

Nestlé SA (Switzerland)	Vice-Chairman of the Board Chief Executive Officer

Other corporate offices and directorships held

France

Gesparal SA (merged into L'Oréal)	Director (until April 29th 2004)

Outside France

Uprona (Canada) Ltd (Canada)	Director
Dreyer's Grand Ice Cream Holdings Inc. (United States)	Vice-Chairman and Director
Alcon Inc. (Switzerland)	Vice-Chairman of the Board
Crédit Suisse (Switzerland)	Vice-Chairman of the Board
Crédit Suisse First Boston (Switzerland)	Vice-Chairman of the Board
Crédit Suisse Group (Switzerland)	Vice-Chairman of the Board
Roche Holding SA (Switzerland)	Director
Winterthur Insurance Company (Switzerland)	Vice-Chairman of the Board
Winterthur Life (Switzerland)	Vice-Chairman of the Board

Francisco Castañer Basco
Director
Member of the Audit Committee
Member of the Committee for Strategy and Implementation

Main corporate office held outside L'Oréal

Nestlé SA (Switzerland)	Executive Vice-President

Other corporate offices and directorships held

France

Gesparal SA (merged into L'Oréal)	Director (until April 29th 2004)

Outside France

Uprona (Canada) Ltd (Canada)	Director
Alcon Inc. (Switzerland)	Director
Galderma Pharma SA (Switzerland)	Director Chairman of the Board (since May 24th 2004)

François Dalle
Director

Other corporate offices and directorships held

France

Gesparal SA (merged into L'Oréal)	Vice-Chairman of the Board (until April 29th 2004)

Outside France

L'Oréal USA Inc. (United States)	Director

Other offices and directorships held

Association Entreprise et Progrès	Chairman & Founder
Fondation Bettencourt Schueller	Director (until February 25th 2004)
Institut de l'entreprise	Chairman & Founder
Revue Humanisme et Entreprise	Chairman

Jean-Louis Dumas
Director
Member of the "Management and Remuneration" Committee

Main corporate office held outside L'Oréal

Hermès International SCA	Acting Partner

Other corporate offices and directorships held

France

Berfa SC	Managing Director
Compagnie des Cristalleries de Saint Louis SA	Director
Compagnie Hermès de Participations SAS	Permanent representative of Hermès International, Chairman of Executive Committee
Emile Hermès SARL	Managing Director
Hermès Interactif SAS	Permanent representative of Hermès International, Chairman
Hermès Sellier SA	Director, Artistic Director
Gaulme SA	Vice-Chairman and Member of the Supervisory Board
Immauger SCI	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
Isamyol 8 SAS	Permanent representative of Hermès International, Chairman
Isamyol 9 SAS	Permanent representative of Hermès International, Chairman
Isamyol 10 SAS	Permanent representative of Hermès International, Chairman
Isamyol 11 SAS	Permanent representative of Hermès International, Chairman
Isamyol 12 SAS	Permanent representative of Hermès International, Chairman
Motosch George V SAS (formerly Isamyol 7)	Permanent representative of Hermès International, Chairman
Peugeot SA	Member of the Supervisory Board
SCI Auger-Hoche	Managing Director (until November 8^{th} 2004)
SCI Boissy Belley	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
SCI Boissy Bogny	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
SCI Boissy les Muriers	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
SCI Boissy Nontron	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
SCI Boissy Saint Honoré	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
SCI «Briand Villiers I»	Managing Director
SCI «Briand Villiers II»	Managing Director
SCI Edouard VII	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
SCI du Faubourg Saint Honoré «SIFAH»	Managing Director
SCI Les Jonquilles Soleil	Permanent representative of Hermès International, Managing Director (until November 8^{th} 2004)
Sport Soie SA	Chairman of the Board

Outside France

Hermès Canada (Canada)	Chairman of the Board (until February 27^{th} 2004)
Saint Honoré Chile (Chile)	Permanent Director (until June 30^{th} 2004)
Hermès Korea (South Korea)	Director and legal representative (until February 2^{nd} 2004)
Hermès Korea Travel Retail (South Korea)	Director and legal representative (until February 2^{nd} 2004)
Hermès Ibérica (Spain)	Director (until January 13^{th} 2004)
Hermès of Hawaii (Unites States)	Chairman of the Board (until January 2^{nd} 2004)
Hermès of Paris (Unites States)	Chairman of the Board (until January 2^{nd} 2004)
Hermtex (Unites States)	Chairman of the Board (until January 2^{nd} 2004)
Hermès Greater China (Hong Kong)	Chairman of the Board
Hermès Italie (Italy)	Director (until May 12^{th} 2004)
Hermès Japon (Japan)	Chairman of the Board
John Lobb Japan (Japan)	Director (until March 31^{st} 2004)
Financière Saint Eloi (Luxembourg)	Permanent representative of Hermès International, Director
Hermès Retail (Malaysia)	Chairman of the Board
Boissy Mexico (Mexico)	Permanent Director (until February 13^{th} 2004) Alternate Director (since February 13^{th} 2004)
Hermès de Paris (Mexico)	Chairman of the Board (until February 13^{th} 2004) Permanent Director (since February 13^{th} 2004)
J.L. & Co. (United Kingdom)	Director (until January 5^{th} 2004)
Hermès Suisse (Switzerland)	Chairman of the Board (until March 15^{th} 2004)
La Montre Hermès (Switzerland)	Chairman of the Board

Xavier Fontanet
Director
Chairman of the Audit Committee

Main corporate office held outside L'Oréal

Essilor International SA	Chairman and Chief Executive Officer

Other corporate offices and directorships held

France

Chantiers Beneteau SA	Director
Crédit Agricole SA	Director

Outside France

Shangai Essilor Optical Company Ltd (China)	Director
EOA Holding Co. Inc. (United States)	Director
Essilor of America Inc. (United States)	Director
Essilor Laboratories of America Holding Co. Inc. (United States)	Director (until March 4th 2004)
Transitions Optical Inc. (United States)	Director
Transition Optical Ltd (Ireland)	Director
Nikon Essilor Co. Ltd (Japan)	Director
Transitions Optical Holding B.V. (Netherlands)	Director

Other offices and directorships held

IMS – Entreprendre pour la Cité	Director

Bernard Kasriel
Director
Member of the Committee for Strategy and Implementation

Main corporate office held outside L'Oréal

Lafarge SA	Director & Chief Executive Officer

Other corporate offices and directorships held

Outside France

Lafarge North America (United States)	Vice-Chairman & Director
Sonoco Products Company (United States)	Director

Marc Ladreit de Lacharrière
Director

Main corporate office held outside L'Oréal

Fimalac SA	Chairman and Chief Executive Officer

Other corporate offices and directorships held

France

Casino Guichard Perrachon SA	Director
Fimalac Participations SC	Managing Director
Groupe Euris SAS	Member and Chairman of the Supervisory Board (since August 2nd 2004)
Groupe Marc de Lacharrière SCA	Acting partner
Renault SA	Director
Renault SAS	Director
Sibmar SC	Managing Director (until February 9th 2004)

Outside France

Cassina (Italy)	Director
Fimalac Inc. (United States)	Chairman
Fitch Ratings Inc. (United States)	Chairman, Vice-Chairman of the International Advisory Board

Other offices and directorships held

Banque de France	Member of Consultative Council
Comité National des Conseillers du Commerce Extérieur de la France	Honorary Chairman
Conseil Artistique des Musées Nationaux	Member
Conseil Stratégique pour l'Attractivité de la France	Member (since February 2004)
Etablissement Public du Musée du Louvre	Director
Fondation Bettencourt Schueller	Director & Treasurer
Fondation Nationale des Sciences Politiques	Board Member
IERSE	Chairman (until January 8th 2004) Honorary Chairman (since January 8th 2004)
Le Siècle	Director
Sté des Amis du Musée du Quai Branly	Director

Olivier Lecerf
Director (until March 31st 2004)

Main corporate office held outside L'Oréal

Lafarge SA	Honorary Chairman

Franck Riboud
Director

Main corporate office held outside L'Oréal

Groupe Danone SA	Chairman & Chief Executive Officer, Chairman of the Executive Committee

Other corporate offices and directorships held

France

Accor SA	Member of the Supervisory Board
Compagnie Gervais Danone SA	Chairman of the Board
Danone Finance SA	Director
Eurazeo SA	Member of the Supervisory Board
Finalim III SAS	Representative of Compagnie Gervais Danone, Chairman
Finalim IV SAS	Representative of Compagnie Gervais Danone, Chairman
Générale Agro-Alimentaire de Participations SAS	Representative of Compagnie Gervais Danone, Chairman
Générale Biscuit SA	Chairman of the Board
Lu France SAS	Representative of Danone group, Director (until August 30th 2004)
Renault SA	Director and Chairman of the Appointment and Remuneration Committee
Renault SAS	Director
Sageb SAS	Representative of Compagnie Gervais Danone, Chairman

Outside France

Sofina SA (Belgium)	Director
Danone SA (Spain)	Director
Quiksilver (United States)	Director
ABI Holdings Ltd (United Kingdom)	Director (until December 6th 2004)
Associated Biscuits International Ltd (United Kingdom)	Director (until December 6th 2004)
Wadia BSN India Ltd (India)	Director
PT Tirta Investama (Indonesia)	Commissioner
ONA (Morocco)	Director
Danone Asia Pte Ltd (Singapore)	Chairman & Director

Other offices and directorships held

ANSA	Director
Association Nationale des Industries Agroalimentaires	Director
Banque de France	Member of the Consultative Council (until May 26th 2004)
Conseil National du Développement Durable	Member, Representative of Danone group

INTERNAL RULES OF THE BOARD OF DIRECTORS

Preamble

These Rules are applicable to all present and future directors, and are intended to complement the legal, regulatory and statutory rules in order to state accurately the *modus operandi* of the Board of Directors and its Review Committees, in the best interest of the company and of its shareholders.

1 - Powers of the Board of Directors

The directors of the company:
- contribute their expertise and their professional experience,
- are required to act with due care and attention, and have complete freedom of judgement.

This freedom of judgement enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its Review Committees.

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 €150,000,000, and all new operations outside the scope of the company's normal activities, are submitted to the Board.

When a transaction is concluded and implemented, the Board of Directors is notified in each case.

2 - Modus operandi of the Board of Directors

2.1 Convening the Board
The Board is convened by any appropriate means, and may even be convened verbally. Notices convening a meeting may be transmitted by the Board Secretary. Except in special circumstances, notices convening a meeting are sent in writing at least eight days before each meeting. The notices specify the venue of the meeting, which may be the registered office or any other venue.

2.2 Informing directors
All the documents that are necessary to inform the directors about the agenda and about any questions submitted to the Board for review are enclosed with the notice convening the meeting or are sent or remitted to them within a reasonable period of time, prior to the meeting.

With regard to the decisions to be taken, the director must ensure that he has at his disposal the information he considers essential for the Board or the Review Committees to carry out their work satisfactorily. If this is not the case, or if he considers it is not the case, he must request that the situation is rectified. His requests should be made to Chairman of the Board, who is required to ensure that the directors are in a position to fulfil their mission.

2.3 Board meetings
The Board meets as often as required in the best interest of the company, and at least five times per year.

The dates of the Board meetings of the following year are set no later than the beginning of the summer, except in the case of extraordinary meetings.

2.4 Participation by videoconference
In accordance with the legal and regulatory provisions and with Article 9 §2 of the Articles of Association, directors who take part in Board meetings by means of videoconference facilities are deemed to be present for the purpose of calculating the quorum and the majority.

However, this mode of participation is not allowed when the Board is deliberating on any of the following points:
- the appointment and dismissal of the Chairman, the Chief Executive Officer, and the Executive Vice-Presidents, and the determination of their remuneration,
- the closing of the parent company financial statements and the consolidated financial statements,
- the establishment of the Management Report, including the group Management Report.

The technical characteristics of the videoconference facilities must enable the uninterrupted broadcasting of the debates.

Before the deliberations begin, a check must be carried out to ensure the absence of all third parties, microphones and all other items that could compromise the confidential nature of the deliberations.

2.5 Minutes
The draft minutes of the previous Board meeting are sent or remitted to all directors at the latest on the day on which the following meeting is convened.

The minutes of the meeting also mention the participation of directors by means of videoconference facilities. The minutes also indicate whether any technical incidents occurred during a videoconference, if such incidents disrupted the course of the meeting.

In the case of each site other than the venue of the meeting, the director participating in the Board meeting by means of videoconference facilities will initial an attendance sheet on his own behalf and, where applicable, on behalf of the director that he represents. The Board Secretary will attach the attendance sheet to the attendance register, and will gather wherever possible any items constituting material evidence of the videoconference.

3 - Review Committees

The Board, on the proposal of its Chairman, can create Review Committees whose composition and remits it determines. The Committees act within the brief granted to them by the Board and thus have no decision-making power.

3.1 Audit Committee

3.1.1 Brief

The Audit Committee must make sure that the General Management has at its disposal the means to enable it to identify and manage the economic, financial and legal risks facing the group inside and outside France in carrying out its normal and exceptional operations. This is in order to avoid the possibility of any impairment of the value of the company's assets.

In this context, the Committee analyses the procedures put in place inside the group with a view to ensuring:
• compliance with accounting regulations and the correct application of the principles governing the establishment of the company's financial statements,
• the feedback of information and the processing of information at all levels,
• the identification, evaluation, anticipation and management of the economic, financial and legal risks to which the company and its subsidiaries are exposed inside and outside France,
• the application of the internal auditing standards that apply to financial information in force at all levels of the organisation,
• compliance with stock market regulations, and more particularly the correct application of the Insider Trading Rules in force in the company.

This audit enables the Committee to issue recommendations, if necessary, concerning the improvement of existing procedures, and the possible setting up of new procedures.

The Audit Committee can be consulted for all questions relating to procedures for controlling risks of an unusual nature, particularly when the Board or the General Management considers it appropriate to submit such questions to it.

3.1.2 Work organisation

The Audit Committee is composed of at least three members, who are non-executive directors of L'Oréal.

The Chairman of the Audit Committee issues guidelines for the Committee's work each year, based on his judgement concerning the importance of the specific types of risk faced, in agreement with the General Management and the Board.

The Committee meets when convened by its Chairman, whenever he or the Board considers this appropriate, and at least three times per year.

The agenda for the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting. The agenda is sent to the Committee members before the meeting, together with the information which is useful for their debates.

The secretarial work of the Committee is performed by the Board Secretary.

To carry out its mission, the Audit Committee consults the Statutory Auditors and the senior managers of the company, in particular those responsible for establishing the financial statements and for the Internal Audit. It reviews the principles and methods, the programme and the objectives and the general conclusions of the operational control missions of the Internal Audit.

The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its mission, particularly executives with economic and financial responsibilities, and those in charge of processing information.

3.1.3 Activity report

The Audit Committee reports to the Board on its work whenever necessary and in all cases before the definitive closing of the annual financial statements, and takes note of the Board's observations.

In its report, the Audit Committee makes the recommendations it considers appropriate with regard to:
• the suitability of the various procedures and of the system as a whole in terms of achieving the objective of managing information and risk,
• on the effective application of the procedures in place, and where appropriate the means implemented to achieve this aim.

It also formulates in its report all recommendations and proposals aimed at improving the effectiveness of the various procedures and the overall system, or at adapting them to a new situation.

If during its work the Committee detects a substantial risk which in its view is not adequately taken into account, it warns the Chairman of the Board accordingly.

Each year the Audit Committee carries out a review of its *modus operandi* and, taking into account any remarks made to it by the Board and the General Management, formulates within the framework of its remit all proposals aimed at improving the quality of its work.

3.2 "Management and Remuneration" Committee

3.2.1 Brief

The main missions of the "Management and Remuneration" Committee, within the context of the work of the Board of Directors, are to:
• make proposals concerning the remuneration of the General Management,
• make proposals concerning the allocation of stock options,
• enquire about the general remuneration policies applied in the company,
• assist the Chairman and the Board in their reflections on succession plans for the group's senior management positions,
• reflect on the composition of the Board of Directors and any possible changes.

3.2.2 Work organisation

The "Management and Remuneration" Committee is composed of at least three members, who are non-executive directors of L'Oréal.

The Committee meets when convened by its Chairman, each time the Chairman or Board considers this appropriate, and at least three times per year.

The agenda of the meetings is set by the Chairman of the Committee, in relation with the Board if the latter initiated the convening of the meeting.

The Committee may meet at any time it considers to be appropriate, for example to assess the performance of the company's senior managers.

3.2.3 Activity report

The Committee must regularly report on its work to the Board, and makes proposals to the Board.

3.3 Committee for Strategy and Implementation

3.3.1 Brief

The brief of the Committee for Strategy and Implementation is to throw light, through its analyses and debates, on the group's strategic orientations as submitted to the Board of Directors and to monitor the implementation and advancement of significant operations in progress.

The Committee examines:

• the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences,

• opportunities for acquisitions of investments which involve significant amounts or which represent a departure from the group's usual business operations, and the conditions relating to their implementation,

• financial transactions liable to significantly change the balance sheet structure.

More generally, the Committee debates all questions considered essential for the future strategy of the group and for preserving its main financial balances.

3.3.2 Work organisation

The Committee for Strategy and Implementation is composed of six L'Oréal directors. It is chaired by the Chairman of the Board of Directors.

It meets when convened by the Chairman of the Committee whenever he or the Board considers this appropriate, and no less than six times annually.

The agenda of the meetings is set by the Chairman of the Committee, in conjunction with the Board of Directors if the Board initiates the meeting.

3.3.3 Activity report

The Committee for Strategy and Implementation reports on its work to the Board whenever necessary, and at least once a year.

4 - Rights and obligations of directors

The directors must demonstrate total moral integrity.

4.1 Awareness of and compliance with regulatory texts

Each of the members of the Board declares that he is aware of:

• the company's Articles of Association;

• the legal and regulatory texts that govern *Sociétés Anonymes* with a Board of Directors under French law, especially:

- the rules on limiting the number of directorships held,
- the rules relating to agreements and transactions concluded between the director and the company,
- the definition of the powers of the Board of Directors;

• and the rules relating to the holding and use of privileged information, which are set out below in 5.5.

4.2 Respect for the interests of the company

The directors are required to act in all circumstances in the interest of the company and all its shareholders.

The directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations.

4.3 Obligation of diligence

The director must devote the necessary time and attention to his duties.

He must limit the number of offices held so as to ensure his availability.

Each Board member undertakes to be diligent:

• by attending, where necessary by means of videoconference facilities, all the Board meetings, except in the case of a major impediment,

• by attending, wherever possible, all the General Meetings,

• by attending the meetings of the Review Committees of which he is a member.

4.4 Training of directors

Each director may benefit, on his appointment or throughout his term of directorship, from the training programmes which he deems necessary for the exercise of his office.

The training programmes are organised and provided by the company, and are at its expense.

4.5 Obligation of reserve and confidentiality

The directors undertake not to express themselves individually other than in the internal deliberations of the Board on questions raised at Board meetings. Outside the company, only collegial expression is possible, particularly in the form of releases intended to provide the markets with information.

With regard to information not in the public domain to which the director has access as a result of his duties, the director must consider himself to be bound by strict professional confidentiality, which is more demanding than the mere obligation of discretion stipulated in Article L.225-37, paragraph 4, of the French Commercial Code.

It should be noted that the obligation of discretion applies to all persons called on to attend Board meetings, and covers all information of a confidential nature and all information presented as confidential by the Chairman of the Board.

4.6 Rules governing insider trading

4.6.1 Principles

Privileged information must only be used by the director in the exercise of his office. Such information must in no case be communicated to a third party other than in the exercise of the director's duties, and for any other purpose or any other activity than those for which it is held.

It is the duty of all directors to refrain from trading in, having others trade in, and enabling others to trade in the securities of the company on the basis of this information until such time as the information has been made public.

It is the personal responsibility of each director to determine whether the information he holds is privileged or not, and accordingly whether he may or may not use or transmit any of the information, and whether he may or may not trade or enable trading in L'Oréal securities.

4.6.2 Periods of abstention
In addition to the period preceding the publication of any privileged information to which directors have access, during which insiders must by law refrain from all trading in L'Oréal securities, it is recommended that directors refrain from all trading in the company's securities for the 30 days preceding:
• the release concerning the annual results,
• the release concerning the first-half results.

4.6.3 Insider trading
The director has been informed of the provisions in force relating to the holding of privileged information and insider trading: Article L.465-1 of the French Monetary and Financial Code and Regulation no.90-09 of the *Commission des opérations de Bourse*.

4.6.4 Obligation of declaring trading in the securities of the company(1)
In accordance with recommendation no.2002-01 of the *Commission des opérations de Bourse*, each Board member, director or permanent representative, undertakes to declare to the company all trading in the company's securities performed directly by him or by another person acting on his behalf, on his own account or on the account of a third party under the terms of a power of attorney, unless the power of attorney is exercised in the context of the third party account management service.

Pursuant to this undertaking, trading performed on the accounts of the director or of the permanent representative by his spouse or by any person holding power of attorney must also be declared.

The trading to be declared consists of the subscription, purchase or sale of:
• shares in the company, except for the exercise of subscription or purchase options,
• securities that can be converted into shares in the company,
• futures contracts for such shares or securities,
• and of forward deals for securities of the company.

(1) This section will be amended when France has completed the transposition of the "Market abuse" directive.

The declaration must be made in writing and reach the company within one month of the expiry of each quarter of the calendar year, that is before April 30th, July 31st, October 31st and January 31st.

A director having made no declaration within the periods indicated will be deemed to have carried out no trading in the course of the last quarter. The company, which passes on to the *Commission des opérations de Bourse* the recapitulatory declaration required for the purpose of its publication will therefore only take account of declarations it has actually received.

4.7 Holding of a minimum number of shares
Each director owns at least 1,000 shares in the company.

The decision as to whether or not all or some of the shares held by the director should be registered is the responsibility of the director.

5 - Remuneration of directors

The director receives attendance fees in the amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board.

The attendance fees are divided between the directors as follows:
• an equal share allocated to each director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings,
• an additional share for Review Committee members.

6 - Annual review of the Board's *modus operandi*

Once a year the Board carries out a formal review of its *modus operandi*, and where appropriate takes all steps considered appropriate to improve it. The Board informs the shareholders accordingly in the Annual Report.

7 - Amendments to the Internal Rules

These Rules may be amended by a decision of the Board.

TABLE OF INVESTMENTS

Main changes including shareholding threshold changes

€ thousands	Situation at 12.31.2003		Acquisitions		Subscriptions		Sales		Situation at 12.31.2004	
Headings	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Club Créateurs de Beauté Korea	18.0	50.00			114.1	50.00			132.1	50.00
Cosmétique Active Hellas	477.4	51.00	13,990.5	48.97					14,467.9	99.97
Cospar	45.7	100.00					45.7	100.00	(2)	
Beauté Créateurs	2,025.2	50.00			1,400.0	50.00			3,425.3	50.00
Beautycos International	41,242.8	89.36			3,070.3	100.00			44,313.1	90.00
Beautytech International Cosmetics			135,185.2	100.00					135,185.2	100.00
Lancôme Institut	15.2	99.90					15.2	99.90	0	
L'Oréal Balkan					85.0	100.00			85.0	100.00
L'Oréal Luxury Products Sverige AB			107.8	100.00					107.8	100.00
L'Oréal Ukraine					3.6	100.00			3.6	100.00
Laboratoires Innéov	2,150.0	50.00			1,350.0	50.00			3,500.0	50.00
Parfums et Beauté Malaysia	1,842.9	51.00					1,842.9	51.00	(1)	
Parlanvin	1.5	100.00					1.5	100.00	(2)	
Parmobel	15,846.3	75.00	18,930.0	25.00					34,776.3	100.00
Procosa	144,324.9	100.00			10,859.1	100.00			155,184.0	100.00
Selective Beauté International	4.6	100.00					4.6	100.00	(2)	
Viktor & Rolf Parfums					1.5	99.00			1.5	99.00
Yue-Sai Shen Zhen			168,707.6	100.00					168,707.6	100.00
Beautylux International Cosmetics			16,870.7	100.00					16,870.7	100.00
Total	**207,994.6**		**353,791.8**		**16,883.5**		**1,909.9**		**576,760.0**	

(1) Liquidation.
(2) Wound-up without liquidation.

5-YEAR FINANCIAL SUMMARY

L'Oréal parent company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2000	2001	2002	2003	2004
I. Financial position at end of financial year					
Share capital	135.2	135.2	135.2	135.2	135.2
Number of shares and investment certificates issued	676,062,160 (1)	676,062,160	676,062,160	676,062,160	676,062,160
Number of convertible bonds	0	0	0	0	0
II. Overall result of operations					
Net sales	1,269.7	1,481.8	1,609.3	1,706.1	1,774.2
Pre-tax profit before depreciation,provisions and reversals of provisions (including provisions for investment and profit-sharing provision)	808.3	1,064.5	1,330.4	1,261.5	1,341.1
Income tax	59.2	81.1	57.3	124.2	–20.8
Net income	602.8	875.3	1,014.3	939.5	1,230.1
Amount of profits distributed	297.5	365.1	432.7	493.5	544.4
III. Result of operations per share or investment certificate					
Profit after tax and profit-sharing, but before depreciation and provisions	1.09	1.44	1.87	1.66	1.99
Net income	0.89	1.29	1.50	1.39	1.82
Dividend paid on each share and investment certificate (not including tax credit)	0.44	0.54	0.64	0.73	0.82
IV. Personnel					
Number of employees	5,135	5,397	5,627	5,731	5,746
Total salaries	251.3	282.1	311.2	325.7	331.8
Amount paid for welfare benefits (social security, provident schemes, etc.)	100.0	110.1	121.2	134.4	133.9

(1) The share capital comprises 676,062,160 shares with a par value of €0.2, following the ten-for-one share split decided on by the Extraordinary General Meeting of May 30th 2000.

Parent company financial statements

COMPARED BALANCE SHEETS

€ millions

Assets (net values)	12.31.2004	12.31.2003	12.31.2002
Intangible assets *(note 1)*	389.9	350.2	351.0
Tangible assets *(note 2)*	226.0	204.3	192.0
Financial assets *(note 4)*	6,779.1	5,897.5	5,668.6
Fixed assets	**7,395.0**	**6,452.0**	**6,211.6**
Inventories	42.8	42.3	46.6
Prepayments to suppliers	7.0	8.1	5.2
Trade accounts receivable *(note 8)*	272.1	292.5	262.1
Other current assets *(note 8)*	142.3	115.6	258.1
Marketable securities *(note 6)*	1,339.0	1,528.3	1,518.4
Cash and cash equivalents	322.2	192.2	84.9
Current assets	**2,125.4**	**2,179.0**	**2,175.3**
Prepaid expenses *(note 7)*	**19.2**	**16.1**	**21.7**
Unrealised exchange losses *(note 12)*	**3.8**	**12.2**	**7.6**
TOTAL ASSETS	**9,543.4**	**8,659.3**	**8,416.2**

€ millions

Liabilities	12.31.2004	12.31.2003	12.31.2002
Capital stock	135.2	135.2	135.2
Additional paid-in capital	953.5	953.4	953.4
Reserves and retained earnings	4,807.1	4,386.4	3,832.1
Net income	1,230.1	939.5	1,014.3
Regulatory provisions	48.2	49.0	47.8
Shareholders' equity	**7,174.1**	**6,463.5**	**5,982.8**
Provisions for liabilities and charges *(note 9)*	**185.0**	**279.1**	**291.4**
Borrowings and debts *(note 10)*	1,662.7	1,320.1	1,603.4
Trade accounts payable *(note 11)*	281.8	273.8	253.8
Other current liabilities *(note 11)*	235.0	313.0	281.9
Other liabilities	**2,179.5**	**1,906.9**	**2,139.1**
Unrealised exchange gains *(note 12)*	**4.8**	**9.8**	**2.9**
TOTAL LIABILITIES	**9,543.4**	**8,659.3**	**8,416.2**

COMPARATIVE TABLES OF PROFIT AND LOSS ACCOUNTS

€ millions

	12.31.2004	12.31.2003	12.31.2002
Revenue	**1,902.1**	**1,818.9**	**1,734.3**
Net sales *(note 15)*	1,774.2	1,706.1	1,609.3
Reversals of provisions and transfers of charges	48.7	36.1	28.9
Other revenue *(note 16)*	79.2	76.7	96.1
Expenses	**–1,764.1**	**–1,781.6**	**–1,668.6**
Purchases and variation in inventories	–243.8	–243.1	–245.7
Other purchases and external charges	–877.2	–905.9	–821.3
Taxes and similar payments	–40.3	–35.0	–40.5
Personnel costs *(note 17)*	–465.7	–460.1	–432.4
Depreciation and charges to provisions *(note 18)*	–74.3	–72.5	–74.7
Other charges	–62.8	–65.0	–54.0
Operating profit	**138.0**	**37.3**	**65.7**
Share in results from joint operations			**2.4**
Net interest income	1,167.7	1,139.7	1,216.3
Net charges to/(reversals of) provisions and transfers of charges	–152.7	–150.5	–163.0
Exchange gains and losses	19.8	36.1	7.4
Net financial income *(note 19)*	**1,034.8**	**1,025.3**	**1,060.7**
Pre-tax profit	**1,172.8**	**1,062.6**	**1,128.8**
Exceptional income/(loss) *(note 20)*	**54.5**	**16.3**	**–49.1**
Employee profit-sharing	–18.0	–15.2	–8.1
Income tax *(note 21)*	20.8	–124.2	–57.3
Net income	**1,230.1**	**939.5**	**1,014.3**

CHANGES IN SHAREHOLDERS' EQUITY

The share capital of €135,212,432 comprises 676,062,160 shares with a par value of €0.2.

The changes in shareholders' equity are as follows:

€ millions

	Share capital	Additional paid-in capital	1976 fair value adjustment	Reserves and retained earnings	Net income for the year	Regulatory provisions	Total
Balance at December 31st 2002 before allocation of net income	**135.2**	**953.4**	**46.0**	**3,786.1**	**1,014.3**	**47.8**	**5,982.8**
Allocation of 2002 net income				805.0	–805.0		0.0
Dividends paid for 2002				–206.2	–209.3		–415.5
Withholding tax				–44.5			–44.5
2003 net income					939.5		939.5
Other movements during period						1.2	1.2
Balance at December 31st 2003 before allocation of net income	**135.2**	**953.4**	**46.0**	**4,340.4**	**939.5**	**49.0**	**6,463.5**
Allocation of 2003 net income				647.5	–647.5		0.0
Dividends paid for 2003				–182.5	–292.0		–474.5
Withholding tax				–39.2			–39.2
2004 net income					1,230.1		1,230.1
Absorption of Gesparal at January 1st 2004		0.1					0.1
Exit Tax				–5.0			–5.0
Other movements during period						–0.8	–0.8
Balance at December 31st 2004 before allocation of net income	**135.2**	**953.5**	**46.0**	**4,761.2**	**1,230.1**	**48.2**	**7,174.2**

The reserves include an amount of €18 million in 2004 corresponding to dividends not paid, as a consequence of L'Oréal's retaining some of its own shares, compared with €17.2 million in 2003.

The regulatory provisions consist mainly of the provision for investment that amounted to €30 million at December 31st 2004, compared with €34.1 million at December 31st 2003. In 2004, a charge of €2.8 million was made to the provision for investment as employee profit-sharing for 2003 (compared with €5.4 million in 2003). This provision includes the transfer to the company of some of the provisions set aside by our subsidiaries under a group agreement. There was a corresponding reversal in 2004 of a provision of €6.8 million set aside in 1999 (compared with €6.0 million in 2003).

Accelerated capital allowances at December 31st 2004 amounted to €18.1 million, compared with €14.7 million at December 31st 2003.

In accordance with the recommendation of the CNC Emergency Committee dated February 2nd 2005, the amount corresponding to the tax debt arising from the compulsory exit tax instituted by the Amended French Finance Act for 2004 has been recorded as a carry-forward charge to be allocated in 2005.

STATEMENTS OF CASH FLOWS

€ millions

	12.31.2004	12.31.2003	12.31.2002
Operating activities			
Net income	**1,230.1**	**939.5**	**1,014.3**
Depreciation	53.8	53.3	51.6
Charges to provisions (net of reversals)	60.2	135.4	199.1
Gains and losses on disposals of fixed assets	15.1	3.1	9.0
Cash flow	**1,359.2**	**1,131.3**	**1,274.0**
Cash used for working capital *(note 23)*	–83.7	156.2	8.7
Net cash provided by operating activities	**1,275.5**	**1,287.5**	**1,282.7**
Investing activities			
Investments in fixed assets	–1,167.6	–333.4	–94.3
Changes in other financial assets *(note 24)*	196.8	–117.6	–475.6
Disposals of fixed assets	0.8	2.7	26.5
Net cash used by investing activities	**–970.0**	**–448.3**	**–543.4**
Financing activities			
Capital increase	0.1	0.0	0.0
Dividends paid	–513.8	–460.0	–391.7
Changes in financial debt	343.7	–264.9	–402.4
Net cash used by financing activities	**–170.0**	**–724.9**	**–794.1**
Change in cash and cash equivalents	135.5	114.3	–54.8
Cash and cash equivalents at beginning of year	182.0	67.7	122.5
Cash and cash equivalents at end of year *(note 25)*	**317.5**	**182.0**	**67.7**

NOTES

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

Significant event during year

The Extraordinary General Meeting of L'Oréal on April 29th 2004 approved the merger and absorption of Gesparal by L'Oréal, effective retroactively from January 1st 2004. This operation has had no significant effect on the structure and profit of L'Oréal as Gesparal mainly held L'Oréal shares and had no debt at the time of the merger.

Accounting principles

The financial statements are presented in millions of euros; the figures in the tables of subsidiaries and holdings are expressed in thousands of euros.

The annual financial statements have been prepared in accordance with the accounting principles specified by the applicable regulations in France. Since January 1st 2002, L'Oréal has applied CRC regulation no.00.06 on liabilities. The application of this regulation has had no effect on shareholders' equity at the start of the year.

In accordance with CNC recommendation no.2004-05 of March 25th 2004, L'Oréal has recorded for the first time in 2004 its obligation for long-service medal awards. The impact at the start of the year of this change in accounting methods is €5 million, which has been recorded as charges to exceptional provisions in order to make this charge tax-deductible.

The items recorded in the financial statements are valued at historical cost except for fixed assets revalued in accordance with legal requirements.

Intangible assets
Intangible assets are recorded on the balance sheet at purchase cost.

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

Trademarks and business goodwill are not amortised; their value is assessed annually by reference to criteria such as the evolution of net sales and profitability.

Patents are amortised over 5 years. Initial trademark registration costs are amortised over a period of 10 years.

Software whose value is material is amortised by the straight-line method over 5 years and gives rise to an accelerated capital allowance using the declining balance method over 12 months.

Other intangible assets are usually amortised over periods not exceeding 20 years.

Tangible assets
Tangible assets are recorded on the balance sheet at purchase cost. The depreciation periods are as follows:

	Period
Buildings	20/50 years
Installations, fittings	10 years
Industrial machinery and materials	10 years
Other tangible assets	3/10 years

Depreciation, whether calculated using the straight-line or declining balance method, is equivalent to economic depreciation. Industrial machinery and materials however constitute an exception, and are depreciated by the straight-line method over 10 years, with the rest being considered as an accelerated capital allowance.

Financial assets

Investments and advances
These items are recorded on the balance sheet at purchase cost excluding incidental expenses. Their value is assessed annually with reference to their value in use, which is based in particular on the actual and forecasted profitability of the subsidiary concerned, and the proportion of shareholders' equity that is held. If the value in use falls below the acquisition cost, a provision is made.

Other financial assets
Long-term loans and other debtors are valued at their nominal value. Long-term loans and other debtors denominated in foreign currencies are converted at the exchange rate ruling at the end of the financial year. If necessary, provisions are made for these items to reduce them to their value in use at the end of the financial year.

Treasury stock acquired as part of the general buyback programme are recorded under *Other long-term investments*.

At the end of the financial year, the other long-term investments are compared with their probable trading value, and depreciated if necessary.

Inventories
Inventories are valued using the average method.

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

Trade accounts receivable
Trade accounts receivable are recorded at their nominal value. Where appropriate, a provision is made based on an assessment of the risk of non-recovery.

Marketable securities
Securities are stated at cost, and valued at the end of the financial year at their probable trading value.

Treasury stock held that are specifically allocated to employee stock option plans, are recorded as *Marketable securities*.

In the case of stock option plans 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 allocation 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.

Provisions for liabilities and charges
Provisions of this type are set up to cover potential outflows for the benefit of third parties, without a return for the company. They relate mainly to industrial and commercial risks (legal action, product returns) and fiscal and personnel risks.

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

Accounting for foreign currency transactions and exchange rate risk hedging
In accordance with group financial management policies, the company conducts no money market transactions for speculative reasons.

All debtor and creditor balances denominated in foreign currencies are converted using exchange rates ruling at the end of the financial year.

Exchange rate hedging instruments are negotiated to cover commercial transactions recorded on the balance sheet or future transactions considered to be highly probable. The losses and gains generated by these instruments are recorded symmetrically with the items that they covers.

Exchange variations in operating transactions and variations in the market value of hedging instruments are recorded in the balance sheet under *Translation differences*. Provision is made if the sum of the translation differences shows a potential exchange loss based on the overall exchange position for all currencies.

Operating transactions planned for the next financial year are already covered by hedges, whose impact will be recorded during the same accounting period as the transactions covered.

Accounting for interest rate instruments
With regard to interest rate risk, the profits generated by interest rate swaps covering financial liabilities are recorded symmetrically with the profits on the debts covered, *prorata temporis*.

Employee retirement obligation and related benefits
L'Oréal adheres to pensions, early retirement and other benefit schemes for employees and retired employees depending on legislation and regulations. Corporate officers are regarded as employees for all additional benefits relating to their remuneration, and are therefore covered by the same employee benefits.

Partial external financial hedging has been set up in order to gradually build up a fund through the premiums paid. The premiums are included in the charges for the financial year under *Other purchases and external charges*.

The related obligations are calculated using an actuarial valuation method based on the final salary.

These unfunded commitments are recorded as an off-balance sheet contingent liability, and thus remain outside the balance sheet.

For the first time in 2004, the obligation for long-service medals is not recorded as an off-balance sheet commitment; instead a provision has been made whose amount is based on an actuarial assessment.

Net sales
This amount consists of sales of goods and services. It is stated net of rebates and discounts.

Advertising and public relations expenses
Expenses relating to the advertisement and promotion of products to customers and consumers are recorded as charges in the year during which the advertisement or promotion takes place.

Research and development expenditure
Research and development expenditure is recorded as *Other purchases and external charges* as it is incurred.

Income tax
The company has opted to carry out a tax grouping. From 2004 onwards, the French subsidiaries included in the scope of the tax grouping record a tax charge in their financial statements based on their own taxable income.

L'Oréal, as the parent company, records as tax integration revenue the difference between the sum of the tax of the subsidiaries and the tax due on the total profit.

Notes to the balance sheet and off-balance sheet items

Note 1 - Intangible assets

€ millions	12.31.2003	Increase Acquisition	Decrease Sale	12.31.2004
Patents and trademarks	308.3	44.3	7.4	345.2
Business goodwill	2.4	–	–	2.4
Other intangible assets	113.9	18.6	2.0	130.4
Customer prepayments	n/s	n/s	–	0.1
Gross value	**424.6**	**62.9**	**9.4**	**478.1**
Patents and trademarks	29.9	2.2		32.1
Business goodwill	0.3	–	–	0.3
Other intangible assets	44.2	12.3	0.7	55.8
Amortisation	**74.4**	**14.5**	**0.7**	**88.2**
Net book value	**350.2**	**48.4**	**8.7**	**389.9**

Note 2 - Tangible assets

€ millions	12.31.2003	Increase Acquisition	Decrease Sale	12.31.2004
Land	22.4	25.9	–	48.3
Buildings	317.5	12.1	1.4	328.2
Industrial machinery and materials	123.5	13.7	1.7	135.5
Other tangible assets	86.5	9.7	7.2	89.0
Work-in-progress	13.3	4.2	4.9	12.6
Supplier prepayments	2.1	0.1	1.1	1.1
Gross value	**565.3**	**65.7**	**16.3**	**614.7**
Buildings	200.1	18.5	1.1	217.5
Industrial machinery and materials	96.9	9.9	1.5	105.3
Other tangible assets	64.0	8.9	7.0	65.9
Amortisation	**361.0**	**37.3**	**9.6**	**388.7**
Net book value	**204.3**	**28.4**	**6.7**	**226.0**

The annual straight-line depreciation amounted to €22.3 million.

The annual declining balance depreciation amounted to €14.7 million.

An exceptional depreciation amount of €0.3 million has been recorded.

Note 3 - Leased fixed assets

€ millions	Leased fixed assets at 12.31.2004				Balance sheet including leased fixed assets		
Balance sheet items	Historical cost(1)	Depreciation(2) For the year	Depreciation(2) Aggregate	Net value	Gross value	Depreciation	Net value
Buildings and land	95.7	4.2	49.5	46.2	472.2	267.0	205.2
Industrial machinery and materials	n/s	n/s	n/s		135.5	105.3	30.2
Total	**95.7**	**4.2**	**49.5**	**46.2**	**607.7**	**372.3**	**235.4**

(1) Value of items at the time the contracts were signed.
(2) Charge to depreciation and aggregate charges to depreciation which would have been recorded had these goods been purchased.
(3) Depreciation method used: 5% to 2% straight-line.

€ millions	Financial lease commitments at 12.31.2004						
Balance sheet items	Instalments paid		Instalments not yet paid				Residual
	For the year	Aggregate	Less than 1 year	1 year to 5 years	Over 5 years	Total to be paid	purchase price[1]
Buildings and land	11.9	120.7	11.8	22.3	22.8	56.9	1.4
Industrial machinery and materials	n/s	n/s	n/s			n/s	n/s
Total	**11.9**	**120.7**	**11.8**	**22.3**	**22.8**	**56.9**	**1.4**

(1) In accordance with contract.

Note 4 - Financial assets

€ millions	12.31.2003	Increase Acquisition Subscription	Decrease Sale	12.31.2004
Investments in non-consolidated companies	5,750.3	370.6	1.9	6,119.0
Long-term loans and other debtors	367.3	1,115.9	1,292.7	190.5
Treasury stock	–	691.8	–	691.8
Other	13.8	0.9	5.6	9.1
Gross value	**6,131.4**	**2,179.2**	**1,300.2**	**7,010.4**
Investments in non-consolidated companies	223.5	3.9	13.5	213.9
Long-term loans and other debtors	–	–	–	–
Treasury stock	–	12.4	–	12.4
Other	10.4	–	5.4	5.0
Depreciation	**233.9**	**16.3**	**18.9**	**231.3**
Net book value	**5,897.5**	**2,162.9**	**1,281.3**	**6,779.1**

In 2004, L'Oréal bought 12,340,000 of its own shares under the general share buyback programme. The total market value amounted to €679.4 million at the average price for the month of December, corresponding to the net value of the shares purchased, and €689.2 million at the closing price on December 31st.

The table of subsidiaries and holdings is presented at the end of the notes to the financial statements.

Note 5 - Transactions with related companies

€ millions	12.31.2004	12.31.2003
Financial assets	6,070.6	5,855.6
Trade accounts receivable	142.5	138.2
Other receivables	19.8	4.0
Borrowings	172.7	104.5
Trade accounts payable	52.7	58.0
Other payables	n/s	86.2
Financial charges	13.0	9.0
Financial income	1,218.3	1,194.9

Note 6 - Marketable securities

This item comprises:

€ millions	12.31.2004	12.31.2003
L'Oréal shares	1,759.1	1,792.6
Financial instruments	3.2	1.5
Stock option premiums	11.8	11.3
Gross value	**1,774.1**	**1,805.4**
L'Oréal shares	435.1	277.1
Financial instruments	–	–
Stock option premiums	–	–
Provisions for depreciation	**435.1**	**277.1**
Net book value	**1,339.0**	**1,528.3**

The 25,447,800 L'Oréal shares held for the employee stock option plans have a net value of €1,324 million (after a depreciation of €158 million) compared with €1,515.5 million at December 31st 2003.

During 2004, the only stock options exercised related to 1,038,600 shares.

For 2004, the total market value of treasury stock amounted to €1,401.2 million based on the average price in December and to €1,421.3 million at the closing price at December 31st.

For 2003, the total market value of treasury stock amounted to €1,670.8 million based on the average price in December and to €1,721.6 million at the closing price at December 31st.

Note 7 - Prepaid expenses

€ millions	12.31.2004	12.31.2003
Prepaid expenses	18.5	13.4
Deferred charges	0.7	2.7
Total	**19.2**	**16.1**

The deferred charges consist mainly of:
- compensation paid under the license contract, which is spread over the contract period (€0.3 million),
- perpetual loan issue costs (€0.4 million).

Note 8 - Statement of receivables

€ millions	Due within 1 year	Due beyond 1 year	Gross	Depreciation	Net
Fixed assets					
Long-term loans and other debtors	91.1	99.4	190.4	–	190.4
Other financial assets	–	–	8.7	4.7	4.0
Current assets					
Trade accounts receivable	278.3	–	278.3	6.2	272.1
Tax and welfare benefit accounts receivable	51.0	–	51.0	–	–
Group and associates	19.7	–	19.7	–	–
Other accounts receivable	72.1	–	72.1	–	–
Other current assets	142.8	–	142.8	0.5	142.3
Prepaid expenses	**18.5**	**–**	**18.5**	**–**	**–**

The items entered under current assets amounted to €58.7 million at December 31st 2004 compared with €56.1 million at December 31st 2003, and consisted mainly of income to be received in an amount of €41.8 million at December 31st 2004 compared with €41.8 million at December 31st 2003.

Note 9 - Provisions for liabilities and charges

€ millions	12.31.2003	Increase	Reversal (provisions used)	Reversal (provisions not used)	12.31.2004
Provisions for ligitation	52.8	1.3	0.4	26.3	27.4
Provisions for exchange losses	2.4	–	2.4	–	–
Provisions for charges	31.9	38.0	25.1	4.0	40.8
Other provisions for liabilities(1)	192.0	9.0	6.3	77.9	116.8
Total	**279.1**	**48.3**	**34.2**	**108.2**(2)	**185.0**

(1) This item includes provisions for fiscal risks, and for industrial and commercial risks relating to operations (contracts, product returns) and personnel liabilities.
(2) This amount consisted mainly of reversals of provisions for social liabilities.

The change in provisions for liabilities and charges has had the following impact on the items indicated:

€ millions	Increase	Reversal (provisions used)	Reversal (provisions not used)
Operating profit	18.5	14.7	27.6
Financial income	18.0	17.8	–
Exceptional income	11.8	1.7	80.6
Income tax	–	–	–
Total	**48.3**	**34.2**	**108.2**

Note 10 - Borrowings and debts

L'Oréal carries out financing through medium-term bank loans, and by the issue of short-term paper in France. The programme amounts to €1,600 million.

Liquidity for the issue of short-term paper is ensured by confirmed lines of bank cash in an amount of €2,121 million at December 31st 2004 compared with €2,075 million at December 31st 2003. The cash lines, like the medium-term loans, are not subject to any financial ratio clauses or rating clauses.

Total borrowings and debts consist of the following:

By type

€ millions	12.31.2004	12.31.2003
Debenture loans	n/s	n/s
Borrowings from and debts due to financial institutions	721.7	808.5
Perpetual loan(1)	83.2	85.9
Short-term paper	634.3	262.6
Other borrowings and debts	221.2	156.0
Overdrafts	2.3	7.1
Total	**1,662.7**	**1,320.1**

(1) In accordance with OEC recommendation no.28, the perpetual loan is recorded under the *Debts* heading. In 2007 the loan will be deemed to constitute a perpetual loan of €71 million.

By maturity

€ millions	12.31.2004	12.31.2003
Due within 1 year	965.5	599.6
Due in 1-5 years	624.3	577.8
Due beyond 5 years	72.9	142.7
Total	**1,662.7**	**1,320.1**

The following main variations were recorded during the year:

€ millions	
Loans subscribed	942.9
Loans repaid	594.6

At December 31st 2004, the perpetual loan subcribed by L'Oréal in 1992 generated a total interest charge for the year of €9.2 million, including interest receivable but not yet due in an amount of €4.4 million.

Note 11 - Statement of debts

€ millions	
Trade accounts payable	**281.8**
Tax and welfare benefit debts	138.0
Fixed asset debts	11.8
Group and associates	0.1
Other debts	85.1
Other current liabilities	**235.0**

There is no debt maturing beyond one year.

Other trade accounts payable amounted to €138.1 million at December 31st 2004 compared with €136.1 million at December 31st 2003.

Other tax and welfare benefit debts amounted to €86.8 million at December 31st 2004 compared with €80.5 million at December 31st 2003. They consisted mainly of the provision for employee profit-sharing (€17.6 million at December 31st 2004) and the provision for incentives (€42.9 million at December 31st 2004).

Other fixed asset debts amounted to €4.1 million.

Other debts amounted to €43.3 million.

Note 12 - Translation differences

The revaluation of debtor and creditor balances denominated in foreign currencies at the exchange rates ruling at December 31st resulted in the recording of the following translation differences:

€ millions	Assets		Liabilities	
	12.31.2004	12.31.2003	12.31.2004	12.31.2003
Financial receivables	n/s	4.6	–	0.1
Trade accounts receivable	1.7	1.7	0.4	0.2
Financial debts	–	0.2	0.5	5.3
Trade accounts payable	n/s	–	1.3	2.7
Financial instruments	2.1	5.7	2.6	1.5
Total	**3.8**	**12.2**	**4.8**	**9.8**

The overall foreign exchange position, based on the accounting principles described earlier, was as follows:

€ millions	12.31.2004	12.31.2003
Japanese yen	0.1	1.2
U.S. dollar	0.7	–3.6
Other currencies hedged	–0.1	0.3
Currencies not hedged	0.3	–0.3
Total	**1.0**	**–2.4**

The overall foreign exchange position indicates an unrealised gain, which is not recorded in the profit and loss account.

Note 13 - Derivatives

The financial instruments held for exchange rate risk hedging purposes are mainly related to future operations, and comprise the following:

€ millions	Notional		Market value	
	12.31.2004	12.31.2003	12.31.2004	12.31.2003
Currency futures				
Sale of USD/Purchase of EUR	172.4	159.1	6.1	25.1
Purchase of JPY/Sale of EUR	9.5	3.1	–0.1	1.0
Sale of GBP/Purchase of EUR	54.8	30.8	0.7	1.4
Sale of RUB/Purchase of EUR	27.5	3.9	1.3	0.1
Sale of RUB/Purchase of USD	33.1	38.5	–1.0	–3.4
Sale of CAD/Purchase of EUR	29.2	24.6	0.6	1.1
Sale of MXN/Purchase of USD	1.1	10.6	n/s	0.1
Sale of CHF/Purchase of EUR	6.9	14.6	n/s	0.4
Sale of AUD/Purchase of EUR	8.9	7.9	0.1	–0.2
Sale of CNY/Purchase of USD	32.0	1.1	0.7	n/s
Sale of ARS/Purchase of USD	13.2	5.7	–0.5	–0.1
Sale of other currencies/Purchase of EUR	40.2	20.9	–0.4	0.2
Sale of other currencies/Purchase of USD	–	2.4	–	–0.4
Purchase of other currencies/Sale of EUR	0.1	–	n/s	–
Currency futures total	**428.9**	**323.2**	**7.5**	**25.3**
Currency options				
USD/EUR	74.0	41.9	7.0	4.9
MXN/EUR	6.9	–	0.4	–
GBP/EUR	8.5	–	0.2	–
CAD/EUR	4.4	–	0.1	–
RUB/EUR	33.9	–	2.4	–
Currency options total	**127.7**	**41.9**	**10.1**	**4.9**
of which: call options	153.4	102.0	11.8	10.1
put options	–25.7	–60.1	–1.7	–5.2
Futures instruments total	**556.6**	**365.1**	**17.6**	**30.2**

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 following financial instruments are held for the purpose of interest rate risk hedging:

€ millions	Notional		Market value	
Interest rate derivatives	12.31.2004	12.31.2003	12.31.2004	12.31.2003
Borrower rate/floating rate swaps				
EUR Euribor/fixed rate	325.5	332.7	22.0	23.1
Floating rate/floating rate swaps				
EUR Euribor/Euribor	286.2	354.7	0.6	2.2
Purchases caps				
EUR Euribor	300.0	300.0	–	0.1
Total	**911.7**	**987.4**	**22.6**	**25.4**

Note 14 - Off-balance sheet commitments

a) Off-balance sheet commitments consist of the following:
The confirmed credit lines are indicated in note 10.

€ millions	12.31.2004	12.31.2003
Commitments given for employee retirement obligation and related benefits(1)	487.2	399.2
Minorities buyback commitments	78.3	280.5
Commitments given(2)	621.1	671.8
Commitments received	9.0	7.1
Investment orders	35.0	23.3
Documentary credits	4.9	3.3

(1) The discount rate used in 2004 to assess the value of these commitments is 4.75%, compared with 5.25% in 2003. A social liabilities mutualisation agreement was implemented in 2004. Under this agreement, the commitments are allocated between the French companies in the group, and their financing is organised on a prorata basis according to respective total wage bills (personalised depending on the scheme), so that the companies are jointly and severally responsible for the execution of the said commitments within the limit of the collective funds constituted.
(2) This line includes various sureties and commitments including €613.3 million at December 31st 2004 on behalf of directly and indirectly held subsidiaries, compared with €664.2 million at December 31st 2003. Liability commitments are added in the customary way.

b) Lease commitments due in under 1 year amounted to €48.7 million, those due in 1-5 years to €134.1 million, and those due in over 5 years to €40.6 million.
The breakdown of finance lease commitments is indicated in note 3.

c) Contingent liabilities
In its normal operations, L'Oréal is involved in legal actions and is subject to tax assessments, customs controls and administrative audits. The company 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 company.

Notes to the profit and loss account

Note 15 - Net sales

€ millions	12.31.2004	12.31.2003
Goods	849.4	829.9
Raw materials, packaging	16.4	17.8
Services(1)	801.3	759.5
Rental	32.4	30.4
Other revenue	74.7	68.5
Total	**1,774.2**	**1,706.1**

(1) Mainly revenue from technical assistance.

Net sales in France amounted to €1,119.6 million in 2004 compared with €1,100.4 million in 2003.

Note 16 - Other revenue
This item consists mainly of royalties on trademarks.

Note 17 - Breakdown of average number of employees

The average number of employees in each category is indicated below:

	2004	2003
Executives	2,400	2,366
Supervisors	2,157	2,161
Employees	518	521
Manual workers	352	371
Sales representatives	319	312
Total	**5,746**	**5,731**
o/w apprentices	125	136
o/w external tempory workers	189	233

Note 18 - Depreciation and charges to provisions

Depreciation and charges to provisions consisted of:

€ millions	12.31.2004	12.31.2003
Depreciation of fixed assets	53.4	53.3
Depreciation of current assets	2.6	3.2
Provisions for liabilities and charges	18.3	16.0
Total	**74.3**	**72.5**

Note 19 - Net financial income

Net interest income amounted to €1,167.7 million at 31 December 31st 2004, compared with €1,139.7 million at December 31st 2003. It consisted mainly of the following:

€ millions	12.31.2004	12.31.2003
Dividends collected	1,215.7	1,191.2
Loan interest income	2.6	3.8
Income from other accounts receivable and marketable securities	5.5	15.3
Loan interest charges	–38.6	–59.7

Net charge to/(reversal of) provisions and transfers of charges amounted to à €–152.7 million at December 31st 2004, compared with €–150.5 million at December 31st 2003 and related mainly to:

€ millions	12.31.2004	12.31.2003
Net reversals of provisions for depreciation of financial assets excluding treasury stock	15.0	–10.5
Net charges to provisions for depreciation of treasury stock	–170.4	–139.8
Net charges to provisions for financial liabilities and charges	–0.2	–3.0

Note 20 - Exceptional income/(loss)

This item consisted in particular of the following:

- the loss relating to disposal and destruction of intangible, tangible and fixed assets which amounted to €15.1 million,
- the first charge to the long-service medal provision in an amount of €5 million,
- the net reversals of provisions for exceptional liabilities and charges (excluding long-service medals), in an amount of €75.5 million.

Note 21 - Income tax

The tax charge for the year consisted of the following:

€ millions	12.31.2004	12.31.2003
Income tax	–5.3	12.5
Tax on exceptional income and employee profit-sharing	–15.5	–2.1
Net provisions for tax	–	6.3
Sum of taxes of subsidiaries	–	107.5
Income tax	**–20.8**	**124.2**

The change in this item is the result of the recording by each subsidiary of the tax integration of its own tax, making a total of €151.4 million.

Application of tax regulations resulted in a €2.8 million reduction in the profit for the year, mainly because of the charge to regulatory provisions and the research tax credit.

Note 22 - Deferred tax assets and liabilities

€ millions	Start of financial year		Variations		End of financial year	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Temporary deferrals						
Regulatory provisions		7.2	3.2	3.3		7.3
Temporarily non-deductible charges	170.1		78.0	49.4	198.7	
Charges deducted (or revenue taxed) for fiscal purposes and not yet recorded		1.8	6.6	4.7	0.1	
Temporarily non-taxable revenue		1.0	0.2			0.8
Items to be imputed						
Losses, deferred depreciation, etc.						
Possible taxation items						
Special reserve of long-term capital gains(1)		259.2	82.4			176.8

(1) The optional exit tax instituted by the Amended French Finance Act for 2004 will provide discharge from the additional income tax normally due in the event of a charge to the special reserve of long-term capital gains. The decision to opt for this optional tax must be taken by December 31st 2006 and the charge, based on the reserve amount, will be €22.3 million.

The figures include the additional 1.5% contribution and the 3.3% social contribution, increasing corporate tax at the normal and reduced rates.

Notes on the statement of cash flows

Note 23 - Cash used for working capital

The cash used for working capital amounted to €–83.7 million at December 31st 2004, compared with €156.2 million at December 31st 2003. It consisted of the following:

€ millions	12.31.2004	12.31.2003
Inventories	–0.8	6.4
Receivables	–14.6	123.1
Debts	–68.3	26.7
Total	**–83.7**	**156.2**

Note 24 - Changes in other financial assets

This line includes cash flows relating to treasury stock for the year, classified under *Marketable securities* and *Other long-term investments*.

Note 25 - Cash and cash equivalents at end of year

Cash and cash equivalents amounted to €317.5 million at December 31st 2004, compared with €182 million at December 31st 2003 and consisted of the following:

€ millions	12.31.2004	12.31.2003
Cash and cash equivalents excluding interest receivable	319.8	189.1
Overdrafts	–2.3	–7.1
Total	**317.5**	**182.0**

TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31ST 2004

Detailed information

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held: Gross	Book value of shares held: Net	Profit or loss in last financial year	Dividends collected by the company during the financial year
A. Main French subsidiaries – Holding over 50%							
Areca & Cie	35	1	99.78	35	35	39	(1)
Banque RE.GE.FI.	19,250	62,536	100.00	75,670	75,670	10,437	13,898
Beauté Créateurs	4,412	–800	50.00	3,425	3,425	4,204	
Biotherm Distribution & Cie	182	413	99.90	472	472	4,679	7,322
Centrex	1,800	29	100.00	3,532	3,532	9	(1)
Chimex	5,642	–5,287	100.00	7,501	7,501	910	
Cosmétique Active France	21	6,392	69.91	130	130	15,459	13,961
Cosmétique Active International	17	3,931	87.94	15	15	5,823	9,101
Episkin	1	0	99.00	2	2	99	(1)
Exclusive Signatures International	10	0	99.00	10	10	80	(1)
Fapagau & Cie	15	0	79.00	12	12	4,096	(1)
Faprogi	15	0	59.90	9	9	–3,654	(1)
Finval	2	0	99.00	2	2	967	(1)
Gemey Maybelline Garnier	49	1,919	66.61	34	34	43,794	58,970
Gemey Paris-Maybelline NY	35	380	99.96	46	46	26,607	
Goldys International	15	0	99.90	15	15	0	(1)
Helena Rubinstein	30	–2,833	99.95	46,661	46,661	4,819	
Holdial	1	0	98.00	1	1	870	(1)
L & J Re	1,500	5,601	100.00	1,500	1,500	2,078	
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	6,862	8,362
Laboratoire Garnier & Cie	579	2	99.97	5,784	5,784	4,862	(1)
Laboratoires Innéov	250	6,750	50.00	3,500	3,500	–6150	(1)
Lancôme Parfums et Beauté & Cie	1,192	0	100.00	3,235	3,235	37,460	50,208
Lascad	18	0	99.17	18	18	34,949	(1)
Lehoux et Jacque	39	56	100.00	263	263	601	666
Laboratoires Industriels de Vichy	2,200	–1,651	100.00	5,015	5,015	–4,349	
L'Oréal Produits de Luxe International	76	1,478	99.20	76	76	44,264	56,325
L'Oréal Produits de Luxe France	63	7,278	74.33	46	46	16,051	19,401
Ormes Bel Air	153	35	100.00	946	946	151	232
Par-Bleue	2	0	99.00	2	2	–1,058	(1)
Parfums Cacharel & Cie	1	1	99.00	2	2	–13	(1)
Parfums Guy Laroche	332	5,520	100.00	1,656	1,656	35	141
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	–89	(1)
Parfums Ralph Lauren	2	0	99.00	2	2	–497	(1)
Prestige & Collections International	24	155	75.56	18	18	10,538	4,168
Sicos & Cie	375	6	80.00	999	999	8,069	(1)
Socinay	33	10	97.73	66	66	0	
Soprocos	8,250	1,337	100.00	11,904	11,904	2,182	374
Soproreal	15	0	99.90	15	15	–7,884	(1)
Sparlys	750	89	100.00	3,826	3,826	1,651	881
Société de Développement Artistique	2	0	99.00	2	2	–109	(1)
Viktor et Rolf Parfums	2	0	99.00	1	1	–3	(1)
B. Main French subsidiaries – Holding under 50%							
Galderma International	879	57,216	29.85	2	2	–4,644	
Sanofi-Aventis	2,822,809	(2)	10.14	512,853	512,853	(2)	145,902
C. Main foreign subsidiaries – Holding over 50%							
Aofi (Anglo Overseas Finance) (India)	3,087	–838	100.00	4,306	2,247	–2	
Avenamite S.A. (Spain)	242	48	100.00	6,216	6,216	126	126

(1) The general partnerships, joint ventures and civil partnerships distribute all their profits.
(2) This information is not available.

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held		Profit or loss in last financial year	Dividends collected by the company during the financial year
				Gross	Net		
Beautycos International Co. Ltd (China)	56,342	–14,725	90.00	44,313	44,313	2,648	
Beautylux Intern.Cosm (Shanghai) (China)	5,629	–6,954	100.00	16,871	16,871	–122	
Beautytech Intern.Cosm (YiShang) (China)	3,070	–2,914	100.00	135,185	135,185	–1,292	
Biotherm (Monaco)	152	17	99.80	3,545	3,545	267	634
Club Créateurs de Beauté Korea (South Korea)	72	183	50.00	132	0	–1,724	
Cosmelor Ltd (Japan)	4,490	13,277	100.00	35,810	35,810	950	
Cosmephil Holdings Corpo. (Philippines)	258	–234	100.00	400	14	0	
Cosmetica Activa Portugal Ltda	75	431	95.00	709	709	2,199	1,473
Cosmétique Active Belgilux (Belgium)	3,240	429	86.71	3,423	3,423	2,674	2,697
Cosmétique Active Hellas (Greece)	705	334	99.97	14,468	14,468	3,910	1,683
Cosmétique Active Ireland Ltd	82	–348	100.00	732	732	1	
Cosmétique Active Österreich (Austria)	75	130	100.00	1,579	1,579	1,802	1,530
Cosmétique Active Suisse (Switzerland)	33	15	99.40	4,645	4,645	3,015	3,070
Elebelle (Proprietary) Ltd (South Africa)	952	60,154	100.00	61,123	61,123	0	
Erwiton (Uruguay)	2,303	857	100.00	17	17	2,099	0
Galderma Pharma S.A. (Switzerland)	32,115	112,830	50.00	10,124	10,124	–94,642	
Geral Inc. (United States)	224	–88	100.00	302	302	196	1,335
Kosmepol Sp ZOO (Poland)	47,370	–631	99.73	48,965	48,965	4,229	
Lai Mei Cosmetics Int. Trading (China)	12,885	–4,689	100.00	11,197	11,197	8,707	
Lancarome A/S (Denmark)	402	32	100.00	953	953	1,635	2,304
Le Club des Créateurs de Beauté (Belgium)	500	–470	50.00	251	251	–234	
Le Club des Créateurs de Beauté Taiwan	647	–269	50.00	328	328	103	
L'Oréal Argentina Sociedad Anonima	50,902	–53,208	100.00	81,068	35,154	3,256	3,468
L'Oréal Australia	6,127	9,909	100.00	18,794	18,794	18,841	9,413
L'Oréal Balkan (Serbia)	90	–1	100.00	85	85	–73	
L'Oréal Baltic (Latvia)	466	1,293	100.00	529	529	1,242	
L'Oréal Belgilux (Belgium)	10,000	26,681	99.98	35,583	35,583	21,625	19,442
L'Oréal Canada Inc.	3,541	13,919	100.00	144,226	144,226	37,441	31,253
L'Oréal Ceska Republica (Czech Republic)	8,288	–3,448	100.00	8,678	5,889	620	
L'Oréal Chile	28,811	–7,838	100.00	43,784	35,637	8,124	4,622
L'Oréal China Co. Ltd	33,676	–21,437	100.00	37,482	37,482	–1,461	
L'Oréal Colombia	3,261	88	94.00	6,395	4,101	1,039	335
L'Oréal Danmark A/S (Denmark)	268	5,311	100.00	7,382	7,382	4,649	3,543
L'Oréal Deutschland GmbH (Germany)	12,647	53,074	99.99	71,832	71,832	75,235	57,348
L'Oréal España S.A. (Spain)	59,911	70,092	63.86	228,809	228,809	48,731	30,987
L'Oréal Finland Oy	673	11	100.00	1,280	1,280	5,687	5,600
L'Oréal Guatemala S.A.	1,475	200	100.00	2,162	2,162	1,905	2,399
L'Oréal Hellas (Greece)	3,465	5,001	77.41	2,112	2,112	12,215	7,979
L'Oréal Hong Kong Limited	4	–2,740	99.97	604	604	34,914	30,185
L'Oréal India Private Limited	51,234	–37,420	100.00	54,605	13,937	354	
L'Oréal Investments B.V. (Netherlands)	18	8	100.00	18	18	0	
L'Oréal Israël Ltd	6,055	5,434	92.97	38,497	33,597	3,277	
L'Oréal Italia Spa	153,818	22,217	100.00	161,801	161,801	71,527	67,987
L'Oréal Japan Ltd	468	–547	100.00	275	275	–44	
L'Oréal Korea Limited (South Korea)	2,550	5,374	100.00	20,794	20,794	–705	1,106
L'Oréal Liban SAL	4,291	407	75.17	3,155	3,155	1,982	
L'Oréal Luxe Producten Nederland B.V.	908	26	100.00	1,937	1,937	5,930	9,533
L'Oréal Luxury Products Norge (Norway)	334	176	100.00	853	853	1,419	1,126
L'Oréal Luxury Products Sverige (Sweden)	113	45	100.00	108	108	1,522	4,662
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,199	406	100.00	7,815	7,815	1,310	1,744
L'Oréal Malaysia SDN BHD (Malaysia)	15,191	–7,083	97.50	14,360	14,360	3,509	2,880
L'Oréal Mexico SA de C.V	3,729	33,051	100.00	8,443	8,443	26,359	26,000
L'Oréal Middle East (United Arab Emirates)	2,924	1,340	100.00	2,507	2,507	3,044	
L'Oréal Nederland B.V. (Netherlands)	34	331	100.00	4,894	4,894	16,398	14,182
L'Oréal New Zealand Limited	39	1,352	100.00	624	624	3,013	2,244
L'Oréal Norge A/S (Norway)	1,136	1,362	100.00	3,198	3,198	6,867	5,183

€ thousands	Capital	Reserves and retained earnings before appropriation of profits	% holding	Book value of shares held Gross	Net	Profit or loss in last financial year	Dividends collected by the company during the financial year
L'Oréal Österreich GmbH (Austria)	2,785	311	100.00	2,240	2,240	5,358	7,660
L'Oréal Peru	2,886	–798	100.00	3,739	2,730	423	221
L'Oréal Philippines Inc.	7,147	–4,805	95.38	12,478	3,063	162	
L'Oréal Polska Sp. Z.O.O. (Poland)	26,458	–400	100.00	38,210	38,210	6,612	4,886
L'Oréal Portugal LDA	114	2,462	99.08	1,369	1,369	12,898	12,582
L'Oréal Produits de Luxe Belgique (Belgium)	250	591	99.97	2,885	2,885	7,943	6,078
L'Oréal Produits de Luxe Hellas A.E	1,026	1,563	99.89	2,135	2,135	3,679	3,468
L'Oréal Produits de Luxe Portugal LDA	250	50	99.90	317	317	3,895	3,688
L'Oréal Produits de Luxe Suisse (Switzerland)	263	124	99.63	556	556	3,306	2,970
L'Oréal Romania SRL	3,638	–1,022	100.00	5,883	5,883	622	336
L'Oréal Singapore Pte Ltd	1,549	–625	100.00	18,991	18,991	4,996	3,921
L'Oréal Slovenija Kosmetica D.O.O. (Slovenia)	516	364	100.00	856	856	2,036	1,648
L'Oréal Slovensko S.R.O. (Slovakia)	1,502	1,081	100.00	1,673	1,673	1,798	854
L'Oréal Suisse (Switzerland)	197	79	100.00	116,776	116,776	14,849	14,172
L'Oréal Sverige AB (Sweden)	1,985	383	100.00	2,139	2,139	5,713	
L'Oréal Taiwan	18,922	–20,257	100.00	40,942	37,572	3,641	
L'Oréal Thailand	4,995	–5,704	100.00	5,238	1,960	23	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticar	28,597	–7,551	100.00	22,207	22,207	3,684	
L'Oréal U.S.A. Inc.	5,971	882,373	100.00	2,561,561	2,561,561	265,195	217,389
L'Oréal UK Ltd	27,964	494	100.00	47,372	47,372	56,800	61,450
L'Oréal Ukraine	4	0	100	4	4	0	
L'Oréal Uruguay	865	–1,220	100.00	472	0	–831	
L'Oréal Venezuela C.A.	5,370	–5,795	100.00	12,502	3,171	3,566	1,246
L'Oréal Zagreb D.O.O.	135	1,288	100.00	1,503	1,503	422	407
Maybelline Suzhou Cosmetics (China)	68,220	–71,404	63.71	44,196	9,832	13,068	
Nihon L'Oréal KK (Japan)	164,667	–912	100.00	377,752	363,752	–1,764	
Parbel of Florida Inc. (United States)	55	–1,595	100.00	100,317	100,317	18,392	21,423
Parmobel Ltd (Cyprus)	776	–853	100.00	34,776	34,776	7,080	9,830
Procosa Productos De Beleza Ltda (Brazil)	135,025	–26,349	100.00	155,184	155,184	5,350	
P.T. L'Oréal Indonesia	1,765	–915	99.00	2,305	1,312	400	
P.T. Yasulor Indonesia	5,653	6,706	99.98	40,854	15,265	404	
Scental Limited (Hong Kong)	7	160	100.00	8	8	0	
Sincos Private Limited (Singapore)	1,673	–1,123	100.00	1,505	560	0	
Sofamo (Monaco)	160	2,039	99.97	1,851	1,851	6	1,109
Venprobel (Venezuela)	62	–282	100.00	2,722	0	0	
Yue-Sai Kan Cosmetic (Shenzhen) (China)	4,167	8,953	100.00	168,708	168,708	–1,929	
D. Main foreign subsidiaries – Holding under 50%							
Club Créateurs de Beauté Japon KK (Japan)	10,757	–4,600	20.00	1,691	1,691	–6,389	
Siampar Limited (Thailand)	744	–273	49.99	502	252	26	

For subsidiaries and foreign interests, the capital, reserves and retained earnings have been converted into thousands of euros on the basis of the exchange rates ruling at the end of the financial year, and profits and losses have been converted at the average exchange rate for 2004.

It is stipulated that the above list of companies is not exhaustive.

Information relating to all subsidiaries and investments combined

€ thousands	Subsidiaries French	Subsidiaries Foreign	Investments French	Investments Foreign
Book value of shares held:				
• gross restated	207,173	5,396,818	512,855	2,194
• net	206,277	5,184,041	512,855	1,944
Amount of loans and advances granted	85,443	83,758		
Amount of bonds and guarantees granted		612,672		
Amount of dividends collected	244,123	750,934	145,902	1

STATUTORY AUDITORS' GENERAL REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31st 2004)

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 an explanatory paragraph discussing the Auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. The report also includes information relating to the specific verification of information in the Board of Directors' Management Report. This report should be read in conjunction with French law and professional auditing standards applicable in France.

In accordance with our appointment as Statutory Auditors by your Annual General Meeting, we hereby report to you, for the year ended December 31st 2004, on:
- the audit of the accompanying financial statements of L'Oréal,
- the justifications of our assessments,
- the specific verifications and disclosures required by law.

These 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 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 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 financial statements give a true and fair view of the company's financial position and of its assets and liabilities as of December 31st 2004, and of the results of its 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*) relating to the justification of our assessments, we draw your attention to the matter set out below:
Investments and advances have been valued in accordance with the accounting methods described in the Note to the company's financial statements entitled "Accounting policies – Financial assets – Investments and advances". 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.

These assessments are part of our audit approach to the financial statements of the company taken as a whole and therefore contribute to the expression of the overall opinion given in the first part of this report.

Specific verifications and disclosures
We have also performed the specific verifications required by law, in accordance with professional standards applicable in France.

We have no comment to make as to the fair presentation and consistency with the financial statements of the information given in the Board of Directors' Management Report and the documents sent to the shareholders in respect to the financial position and the financial statements.

Pursuant to the law, we assured ourselves that the information relating to the acquisition of interests or control and the identity of the holders of share capital and voting rights have been presented in the Management Report.

Paris-la-Défense and Neuilly, February 17th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH THE LAST PARAGRAPH OF ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF L'ORÉAL, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND TREATMENT OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31st 2004)

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In our capacity as Statutory Auditors of L'Oréal, and in accordance with the last paragraph of Article L.225-235 of the French Commercial Code, we report to you on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31st 2004.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organised and the Internal Control procedures in place within the company. It is our responsibility to report to you our observations on the information set out in the Chairman's report on the Internal Control procedures relating to the preparation and treatment of financial and accounting information.

We performed our procedures in accordance with professional standards applicable in France. These standards require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the Internal Control procedures relating to the preparation and treatment of financial and accounting information. These procedures notably consisted of:
- obtaining an understanding of the objectives and general organisation of Internal Control, as well as the Internal Control procedures relating to the preparation and treatment of financial and accounting information, as set out in the Chairman's report,
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the Internal Control procedures relating to the preparation and treatment of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with the last paragraph of Article L.225-37 of the Commercial Code.

Paris-la-Défense and Neuilly, February 17th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

(Year ended December 31st 2004)

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

In our capacity as Statutory Auditors of L'Oréal, we are required to report to shareholders on regulated agreements that have been disclosed to us by the company's management. Our responsibility does not include identifying any undisclosed agreements.

We have not been informed of any agreements governed by Article L.225-38 of the Commercial Code.

Paris-la-Défense and Neuilly, February 17th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON THE SHARE CAPITAL INCREASE RESERVED FOR COMPANY EMPLOYEES

(Ordinary and Extraordinary General Shareholders' Meeting of April 26th 2005)

This is a free translation of the original text in French for information purposes only.

As Statutory Auditors of your company and pursuant to Article L.225-135 of the French Commercial Code (*Code de commerce*), we hereby present you with our report on the draft resolution authorising the Board of Directors to perform a share capital increase, on one or several occasions, reserved for employees (or former employees) of the company or affiliated companies as defined by Article L.225-180 of the French Commercial Code (*Code de commerce*). Employees that can benefit from the share capital increase are those participating in a L'Oréal group corporate savings plan or in any mutual funds through which the share issue could be subscribed, pursuant to the terms and conditions of Article L.443-5 of the French Labor Code (*Code du travail*). This draft resolution is submitted to you for approval pursuant to Article L.225-129 of the French Commercial Code (*Code de commerce*).

The total number of shares likely to be issued, on one or several occasions, pursuant to this authorisation, cannot exceed 1% of the company's issued share capital as of the date of the Ordinary and Extraordinary General Meeting.

On the basis of its report, the Board of Directors asks you to grant it authorisation for a period of 26 months to set the terms and conditions of the share capital increase or increases that may be carried out in connection with this authorisation and proposes the cancellation of your pre-emptive subscription rights.

We have performed our procedures in accordance with professional standards applicable in France. Those standards require that we perform procedures to verify the terms and conditions for determining the share issue price.

Subject to the subsequent review of the terms and conditions of each share capital increase that the company may decide to carry out in connection with this authorisation, we have no comment to make on the terms and conditions for determining the share issue price as set forth in the Board of Directors' report.

As the share issue price has not yet been set, we are unable to express an opinion on the final terms and conditions under which the share capital increase or increases would be performed. As a result, we are unable to express an opinion on the cancellation of your pre-emptive subscription rights as proposed by the Board of Directors. However, such cancellation logically falls within the scope of the transaction submitted to you for approval.

In accordance with Article 155-2 of the decree of March 23rd 1967, we will prepare an additional report for each share capital increase that your Board of Directors may decide to perform in connection with the draft authorisation which has been submitted to you.

Paris-la-Défense and Neuilly, February 17th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Pierre Coll	Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON THE ALLOCATION OF FREE GRANT SHARES TO EMPLOYEES AND CORPORATE OFFICERS IN THE FORM OF EXISTING SHARES OR NEWLY ISSUED SHARES

(Ordinary and Extraordinary General Shareholders' Meeting of April 26th 2005)

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

In our capacity as Statutory Auditors of L'Oréal and in accordance with Article L.225-197-1 of the French Commercial Code, we hereby present our report on the planned allocation of free grant shares in the form of existing shares or newly issued shares to all or certain employees of L'Oréal and related companies within the meaning of Article L.225-197-2 of the French Commercial Code, and to corporate officers as defined by the law.

Your Board of Directors is inviting shareholders to grant it authorisation to allocate free shares in the form of existing shares or newly issued shares pursuant to the provisions of Articles L.225-197-1 to L.225-197-5 of the French Commercial Code. The Board is required to draw up a report on this transaction. Our responsibility is to provide you with our assessment of the information given to you in this report concerning the planned transaction.

As there are no professional standards applicable to this transaction, which is based on legislation dated December 30th 2004, we ensured that the terms and conditions considered and presented in the Board of Directors' report comply with the requirements laid down by the law.

We have nothing to report regarding the information provided in the Board of Directors' report on the planned free grant share issue.

Paris-la-Défense and Neuilly, February 17th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

Additional information

GENERAL INFORMATION RELATING TO THE COMPANY(1)

Legal form

L'Oréal is incorporated in France as a "*société anonyme*".

Law of issuer

French.

Activity

The L'Oréal company, in addition to its role of strategic, scientific and industrial coordination of the worldwide group, also carries out a holding company function and a sales activity that is specific to France. It is the owner of the major intangible assets for companies in the group to which it grants licenses in return for the payment of royalties.

Most of the subsidiaries have a role of development and marketing of the products made in the group's factories.

The L'Oréal company wholly owns the very great majority of its subsidiaries. In the other subsidiaries, minority interests are not significant (volume 2, pages 29-32). It also has substantial holdings in non-consolidated companies (volume 2, pages 32 and 33).

Date of incorporation and expiry (Article 5 of the Articles of Association)

"The company's term shall be ninety-nine years, which began to run on January 1st 1963 and which shall thus expire on December 31st 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association."

Purpose of the company (extracts from Article 2 of the Articles of Association)

"The company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows:
• the manufacturing and the sale of cosmetics products in general; of all devices intended for the same uses as the products listed above; of all household maintenance products; of all products and articles relating to the feminine and/or child hygiene and to the embellishment of human beings; the demonstration and advertising of such products; the manufacturing of packaging articles;
• the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution;
• all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the company's interest, in any form whatsoever;
• the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies, the contribution to pre-existing companies, the merger or the alliance with such companies."

Company registration code

632 012 100 RCS Paris.

(1) The total number of employees in the consolidated group rose over the past three years as follows: 2002: 50,491; 2003: 50,500; 2004: 52,081.

Consultation of legal documents relating to the company

The Articles of Association, financial statements, reports and information for shareholders can be consulted at 41, rue Martre, 92117 Clichy, France, preferably by appointment.

Fiscal year (Article 14 of the Articles of Association)

"Each fiscal year shall have a duration of twelve (12) months, to begin on January 1st and to end on December 31st of each year."

Distribution of profits (Article 15 of the Articles of Association)

"A - From the distributable profits, the following amounts shall be withheld, in the following order:
1. The amount required to pay the "primary dividend" to the shareholders equal to five percent (5%) of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years.
2. From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next fiscal year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds. Such reserve fund(s), which shall not bear any interest, may be distributed to the shareholder, or allocated to complete the 5% primary dividend for the shareholders, in the event of insufficient results during one or more fiscal years, or to acquire and to cancel shares or investment certificates in the company, or to redeem in whole or in part such shares or investment certificates.
3. The remaining balance (if any) shall be divided up among all the shareholders, without any discrimination, and each share shall entitle its holder to receive the same income.

B - The losses (if any) shall be charged to the retained earnings from preceding fiscal years or to the reserve funds, and the balance shall be booked into a special "carry forward" account."

Annual General Meetings

The Annual General Meetings are governed by all the legal requirements laid down on this matter.

Statutory share ownership threshold

"Any holder, whether direct or indirect, of a fraction of the company's share capital equal to 1%, or to a multiple of this percentage lower than 5%, is required to inform the company within a period of fifteen days in the event that these thresholds have been passed in either direction" (Article 7, paragraph 2 of the Articles of Association).

This statutory stipulation completes the legal requirement covering disclosures concerning the crossing of thresholds relating to one-twentieth, one-tenth, one-fifth, one-third and one-half or two-thirds of share capital or of voting rights (Article L.233-7 of the French Commercial Code).

"If not disclosed in accordance with the conditions stipulated by law or by the Articles of Association, shares exceeding the fraction which should have been disclosed are deprived of voting rights at Shareholders' Meetings, in accordance with the conditions stipulated in the French Commercial Code, if during a Meeting the failure to disclose is noted, and if one or more shareholders together holding at least 5% of the share capital, so request during the Meeting." (Article 7, paragraph 3 of the Articles of Association).

THE L'ORÉAL SHARE

Information on the L'Oréal share

Fiscal year from January 1st to December 31st.

Isin Code: FR0000120321.

Minimum lot: 1 share.

Par value: €0.2.

Trading on the cash market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

Unsponsored American Depositary Receipts are freely traded in the United States through certain Americain banks.

Share price

Price at 12.31.2004	€55.85
High	€69.90 at January 22nd 2004
Low	€51.50 at October 12th 2004
Annual rise at 12.31.2004:	
- L'Oréal	–14.1%
- CAC 40	+7.4%
- Euronext 100	+8.03%
- DJ Stoxx 50	+6.9%
Market capitalisation at 12.31.2004	€37.76 billion
At 12.31.2004, the L'Oréal share accounted for:	
- 2.92% of the CAC 40	
- 2.67% of the Euronext 100	
- 0.71% of the DJ Stoxx 50	

L'ORÉAL SHARE MARKET

Primary market until Friday, February 18th 2005
Eurolist – compartment A (Large Caps) since Monday, February 21st 2005
Deferred Settlement Service of the Paris Bourse

Trading volume and price of the company's shares

Date	Adjusted prices (€)[1]			Average daily trading volume (€ millions)
	High	Low	Average	
2000				
January	81.90	66.05	71.35	85.09
February	72.75	63.90	67.95	66.48
March	70.00	60.35	65.54	67.58
April	76.50	65.60	72.17	81.92
May	80.50	72.50	76.78	76.59
June	90.70	74.80	81.79	89.17
July	90.10	77.50	84.41	84.05
August	89.80	80.20	84.54	68.16
September	88.70	74.95	81.83	116.95
October	90.00	78.65	84.18	69.63
November	95.30	85.10	89.99	84.38
December	93.90	82.15	86.90	72.07
2001				
January	92.10	77.50	81.59	83.49
February	84.80	78.50	81.64	72.92
March	84.00	68.60	77.81	77.18
April	84.30	70.25	79.79	90.43
May	83.70	75.00	78.74	86.77
June	81.40	72.85	76.47	98.26
July	83.00	74.65	79.40	90.70
August	83.30	72.50	77.64	76.65
September	80.90	64.00	74.29	142.02
October	83.40	73.60	78.89	106.38
November	80.90	73.80	76.62	95.72
December	81.00	74.20	78.20	77.73
2002				
January	81.90	75.15	77.83	83.05
Febuary	80.90	75.35	77.31	97.18
March	85.20	79.25	81.95	115.58
April	87.90	81.00	85.21	132.94
May	88.30	76.20	81.78	136.76
June	79.90	72.70	76.50	158.05
July	81.00	60.55	72.73	144.49
August	79.10	61.75	73.09	120.81
September	79.30	66.50	73.98	139.05
October	79.50	70.65	75.66	137.52
November	75.90	69.55	72.46	111.81
December	73.95	67.70	71.12	111.61
2003				
January	74.85	58.50	67.89	123.00
February	65.65	58.40	61.01	125.61
March	63.15	50.15	57.77	116.09
April	67.30	55.10	63.50	133.10
May	65.80	59.65	62.64	120.21
June	66.60	59.85	62.89	144.25
July	61.85	56.90	59.00	116.25
August	64.40	56.10	59.54	86.64
September	66.65	58.00	62.30	93.82
October	64.95	58.15	61.57	85.59
November	65.20	60.60	63.21	125.25
December	65.15	60.95	63.08	81.31

(1) Adjusted for the ten-for-one share split approved at the AGM of May 30th 2000.

Date	Adjusted prices (€)[1]			Average daily trading volume (€ millions)
	High	Low	Average	
2004				
January	69.90	62.95	65.42	114.00
February	69.40	63.50	66.15	78.86
March	67.60	60.10	63.63	85.84
April	65.75	61.90	64.18	85.08
May	65.05	61.90	63.68	116.67
June	67.45	62.85	64.87	90.17
July	66.00	58.55	61.43	82.49
August	59.90	54.25	56.52	94.77
September	57.75	52.45	55.28	97.71
October	54.45	51.50	52.83	90.22
November	56.90	53.45	55.38	71.04
December	56.45	53.85	55.06	73.68

Date	Adjusted prices (€)[1]			Average daily trading volume (€ millions)
	High	Low	Average	
2005				
January	58.10	54.50	56.40	89.07
February	60.20	57.30	58.55	84.03

(1) Adjusted for the ten-for-one share split approved at the AGM of May 30th 2000.

Dividends

The limitation period for dividends is five years. Any dividends whose payment has not been requested are paid to the *Caisse des dépôts et consignations*.

Total Shareholder Return

Amongst the various economic and financial indicators used to measure shareholder value, L'Oréal has chosen to apply the criterion of Total Shareholder Return (TSR). This indicator takes into account not only the value of the share but also the dividend income received (exluding tax credits).

10-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of dividends and odd lots

Date of operation	Nature of operation	Investment (€)	Income (€)	Number of shares after operation
12.31.1994	Purchase of 90 shares, at €166.02 per share	14,941.80		90
06.28.1995	Dividend: €1.86 per share, excluding tax credit		167.39	90
	Reinvestment: purchase of 1 share at €185.84	185.84		91
06.28.1996	Dividend: €2.03 per share, excluding tax credit		184.51	91
	Reinvestment: purchase of 1 share at €260.54	260.54		92
07.01.1996	Bonus issue (1 for 10)			101
07.31.1996	Compensation for 2 voting rights at €22.86 per right		45.72	101
	Reinvestment: purchase of 1 share at €236.91	236.91		102
07.01.1997	Dividend: €2.13 per share, excluding tax credit		217.70	102
	Reinvestment: purchase of 1 share at €393.93	393.93		103
06.12.1998	Dividend: €2.44 per share, excluding tax credit		251.24	103
	Reinvestment: purchase of 1 share at €473.05	473.05		104
06.15.1999	Dividend: €2.82 per share, excluding tax credit		293.31	104
	Reinvestment: purchase of 1 share at €586.50	586.50		105
06.15.2000	Dividend: €3.40 per share, excluding tax credit		357.00	105
	Reinvestment: purchase of 1 share at €825.00	825.00		106
07.03.2000	Ten-for-one share split			1,060
06.08.2001	Dividend: €0.44 per share, excluding tax credit		466.40	1,060
	Reinvestment: purchase of 6 shares at €78.15	468.90		1,066
06.04.2002	Dividend: €0.54 per share, excluding tax credit		575.64	1,066
	Reinvestment: purchase of 8 shares at €74.95	599.60		1,074
05.27.2003	Dividend: €0.64 per share, excluding tax credit		687.36	1,074
	Reinvestment: purchase of 12 shares at €61.10	733.20		1,086
05.14.2004	Dividend: €0.73 per share, excluding tax credit		792.78	1,086
	Reinvestment: purchase of 13 shares at €63.65	827.45		1,099
Total		**20,532.72**	**4,039.04**	
Total net investment		**16,493.68**		

Portfolio value at December 31st 2004 (1,099 shares at €55.85 per share): €61,379.15.

The initial capital has thus been multiplied by 4.11 in 10 years (10-year inflation rate = 16.9% – Source: INSEE) and the final capital is 3.72 times the total net investment.

The Total Shareholder Return of the investment is thus 14.49% per year (assuming that the shares are sold on December 31st 2004, excluding tax on capital gains).

Note: it is assumed that the tax credits attached to the dividends cover the income tax to be paid by the investor as a result of the dividends.

ISSUER RISKS

Market risks

Market risks and their management are stated in the notes to the consolidated financial statements on pages 21 to 23 of volume 2 of this Reference Document.

Legal risks

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 whenever a risk is found to exist, and an estimate of its costs 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.

Industrial and environmental risks

To ensure that the group complies with its commitments to protect the environment and improve occupational health and safety, and to achieve specific targets, a rigorous Safety, Health and Environment (SHE) policy has been implemented throughout the group for many years.

The aim of the policy is to achieve extremely high standards in occupational health and safety, and in environmental protection. L'Oréal is committed to developing, producing, distributing and selling innovative products of the best quality, designed to enhance beauty and improve the sense of well-being. L'Oréal must carry out this mission in an ethical way, by minimising its impact on the environment and ensuring the health and safety of its employees, its customers and the communities in which L'Oréal operates.

To achieve this aim, L'Oréal is committed to:
- measuring and communicating its SHE performance levels,
- continuously improving all aspects of SHE,
- complying with all SHE laws and regulations in force, and with its own internal standards, in all our fields of activity,
- promoting the use of a SHE management system, both internally and by its subcontractors and suppliers,
- encouraging the involvement of employees in the group's SHE effort,
- evaluating all significant new products and processes to minimise their SHE risks,
- implementing a programme of internal and external SHE audits,
- promoting the concept of sustainable development and publishing information on its progress in this field.

In functional terms, the Production and Technology Division of L'Oréal is responsible for the protection of people, goods and the environment on all the group's sites. It can draw on support from the SHE Division, the Sustainable Development Division, and a decentralised network of designated experts.

The SHE Division:
- implements technical projects in the fields of SHE at international level,
- manages the interventions of SHE experts and specialists at each organisational level and on each manufacturing site,
- checks that the standards are applied,
- circulates information about best practices to foster ongoing improvements,
- sets detailed targets for improvements in the fields of SHE.

The Sustainable Development Division:
- informs and trains employees all over the world, while raising their environmental awareness,
- coordinates environmental and sustainable development programmes,
- communicates the results obtained to people inside and outside the group,
- sets strategic priorities for the future.

The group's strong commitment to its environmental programme encompasses all the group's sites worldwide: all the administrative offices, all the laboratories, all the factories and all the dispatching centres. The L'Oréal group operates 116 manufacturing sites, of which 5 are classified in the "major seveso" category. The same rules are applied worldwide, even in the emerging countries. The number of SHE personnel varies depending on the size of the site, but there is at least one SHE representative on each site. Sixty five parameters are monitored every month on each of the manufacturing sites. The monthly charts of SHE protection performance include information about prevention and data about incidents and set out the results achieved in water and energy consumption, emissions, effluents, waste and waste recycling. The charts are analysed in detail by the group's SHE experts and give rise to corrective actions to ensure that the targets are met.

The group has set up the means it needs to achieve this aim: a specific organisational structure and management team, employee training, internal and external audits, and appropriate certification procedures.

SHE management tools

The Industrial Organisation Risk (IOR) and Industrial Safety Risk (ISR) rules are internal rules issued by the Production and Technology Division setting out the principles of L'Oréal's global SHE policy. Information is provided for each topic (such as general alert instructions, personnel safety in high bay warehousing, and the prevention of soil and water pollution) under a series of headings: responsibilities of each individual, information systems, training, improvement actions, and means of control.

• The Safety Hazard Assessment Procedure (SHAP) is a hazard prevention programme based on the assessment of hazards by employees at grassroots level. It helps define the hazards associated with each workstation, and assesses the corresponding danger, so that a highly detailed map of each factory's hazards can be drawn up. Using this method, a record is kept of all hazards, the level of each hazard is assessed, and new ways of limiting residual hazards can be found. It is applied uniformly throughout the group, and is supported by dialogue between managers, thus contributing to a significant collective improvement in hazard limitation.

• The SHE Awards are made to the winners of internal competitions intended to mobilise group employees worldwide to reduce hazards, help protect the environment and understand the reality of the group's citizenship to the community in which it operates. The awards are intended to convey the fundamental values needed to keep on making progress: initiative, improvement and constancy of purpose.

Insurance

The group's policy on insurance

The objective of the group's policy on insurance is to protect the group's assets from any identified risks. This transfer of risk is the last link in the group's risk management chain.

The policy is applied at two levels:
• at a central level, the group has negotiated worldwide insurance programmes to cover its main risks after reviewing the cover available;
• in a local context, the subsidiaries must set up insurance cover to meet their local regulatory obligations, and take out cover in addition to the group's worldwide programmes for their remaining risks.

The financial solidity of the insurers is an important criterion in the group's choice.

Each insurance programme subscribed by the group involves a pool of insurers. The main global insurers participate in one or more of the programmes.

Integrated worldwide programmes

Third party liability

The group set up an integrated programme covering all the subsidiaries several years ago. The programme covers the financial consequences of the third party liability of group entities. In particular it covers operating liability, including sudden and accidental environmental pollution, product liability and product withdrawal costs.

No significant level of claims has been made under this programme, which reflects the high standards of quality and safety applied by the group in piloting its operations and in designing and manufacturing its products.

The health and safety of consumers and employees is a constant concern at all levels of group operations.

Property damage and interruption of operations

The group has set up two centralised programmes to cover all the property (fixed assets and inventories) of its subsidiaries: one for L'Oréal USA and the second for all other group entities worldwide. These programmes also cover operating losses resulting from certain specified types of damage. The insurance cover amounts correspond to the maximum reasonably foreseeable loss, in view of the prevention and protection measures implemented on the group's manufacturing sites and of the plans drawn up to ensure continuity of activity on the group's sites.

As the capacity of the insurance market is limited for certain types of event, these programmes include global sub-limits, particularly in the event of earthquakes, storms, hurricanes, cyclones and flooding.

These programmes include preventive inspections of the group's sites by specialist departments of insurers. The inspections form part of the group's general safety system.

Transport

The group has set up cover for all goods transport. All subsidiaries are members of this programme, which ensures maximum security in transport insurance for all flows of merchandise.

Self-insurance

Through its reinsurance subsidiary, the group sets aside an amount that is not material at consolidated level, in addition to the franchise amounts that apply to the subsidiaries insured.

Local insurance

Customer risk

Subsidiaries are encouraged to set up credit insurance, with assistance from headquarters, in addition to their own credit management policy, provided that cover compatible with the level of commercial activity is available in financially acceptable conditions.

Other insurance

The subsidiaries have taken out complementary insurance to comply with local regulatory obligations, and also to supplement the cover provided by the group's worldwide integrated programmes.

Other specific risks

There are no other identified risks of any nature which could have, or which could have had, a significant impact on the group's financial situation.

INVESTMENT POLICY

L'Oréal is an industrial company whose development is governed by two types of investment:
1. scientific investments and investments in equipment which are explained at length in several sections of the Annual Report;
2. ongoing marketing investments and occasional financial investments about which no systematic information can be given, particularly in advance, for reasons relating to strategy and competition:
a - marketing investments are ongoing and inherent to the group's activities, particularly as regards cosmetics. Winning new market share necessitates thorough research all over the world, and advertising and promotional expenses which are modulated depending on the familiarity of the brands and their competitive position,
b - financial investments are strictly occasional. They reflect a strategy of moderate external growth which is implemented essentially with a view to exploiting long term opportunities.
For the reasons given above, L'Oréal cannot therefore answer questions relating to future investments.

OPERATIONS CONCLUDED WITH THE MEMBERS OF EXECUTIVE MANAGEMENT AND THE BOARD OF DIRECTORS

Cf. Statutory Auditors' special report on regulated agreements page 71.

INFORMATION POLICY

Ever since its first listing on the Paris Bourse 40 years ago, L'Oréal has constantly been improving the sources of information available to its 250,000 French and international shareholders and investors. L'Oréal does everything possible to keep them regularly supplied with a wide range of clear and accessible information.

The group's shareholder information policy centres on several key events:
• two major financial information meetings for analysts and investors, to which journalists specialising in the cosmetics sector are invited. The annual presentation of the L'Oréal group's financial results is broadcast live online on the financial website loreal-finance.com, and the charts presented at these financial information meetings are also made available online on the same day, both for the annual results and the half-year results;
• the Annual General Meeting, which is of great importance in the dialogue with shareholders;
• presentations by the group throughout the year to shareholders in France, notably with Euronext and the *Cercle de liaison des informateurs financiers en France* (CLIFF), and numerous meetings with institutional investors in the main international financial centres;
• participation in the Actionaria Fair at the *Palais des Congrès* in Paris on November 19th and 20th 2004, where each shareholder was able to meet representatives of the L'Oréal group face-to-face.

L'Oréal also offers its shareholders a wide range of documents presenting the group, its strategy and recent developments. The Annual Report, filed as a Reference Document, comprises 3 volumes. It is translated or summarised into English, German, Spanish and Italian. Four Letters to Shareholders are also published each year, together with a Shareholder Digest. All these documents are available on request, or can be downloaded from the financial website loreal-finance.com. Releases and financial announcements complete the list.

In 1997 L'Oréal created the specialised financial Internet site loreal-finance.com for the use of international finance professionals and all its shareholders. This interactive resource, which is constantly updated, contains all the group's financial and stock market information, and indicates the price of the L'Oréal share in real time. Tens of thousands of visits are made to the site each month. A special corner is provided for shareholders, and can be entered with a single click. As shareholders are increasingly on the move, there is also a mobile edition of loreal-finance.com, which presents the main information from the financial website for Personal Digital Assistant users.

Moreover, a freephone service has been available to L'Oréal shareholders calling from France or other countries, in French, English or Italian. The service provides practical information and enables shareholders to keep track of their L'Oréal share accounts; it also enables holders of registered shares to access a share trading service. See also "Financial information provision" and "Corporate governance" in the Annual Report (volume 1), page 64 and pages 4-7 respectively.

RECENT EVENTS AND FUTURE OUTLOOK

Release of February 17th 2005

Double-digit growth in pre-tax profit for the 20th consecutive year.

Profitability sharply improved once again in 2004.

Proposed dividend up by +12.3%.

Lindsay Owen-Jones presents plan for his succession.

Market share gains and high sales growth: up by +6.2% like-for-like.

Strong growth in operating profit: €2,116 million, up by +16.3%.

Improved profitability in all geographic zones.

Pre-tax profit of consolidated companies: €2,063 million, up by +10.3%.

Net income after minority interests: €3,626 million, up by +143%.

Share buyback programme extended to €1,250 million.

**Appointment of two new directors proposed:
Mr. Louis Schweitzer, Chairman and Chief Executive Officer of Renault and Mr. Werner Bauer, Executive Vice-President of Nestlé.**

The Board of Directors of L'Oréal met on Wednesday, February 16th 2005 under the chairmanship of Mr Lindsay Owen-Jones and in the presence of the Statutory Auditors. The Board closed the consolidated financial statements and the financial statements of the L'Oréal parent company for 2004. The Board of Directors congratulated the senior managers and the management teams on achieving pre-tax profit growth for the 20th consecutive year.

The dividend proposed to the Annual General Meeting of April 26th will be €0.82 per share. The Board of Directors has, furthermore, decided to extend the share buyback programme by raising it to €1,250 million.

Commenting on the results, Mr Lindsay Owen-Jones, Chairman and Chief Executive Officer of L'Oréal said: "In 2004, thanks to the innovations of its laboratories and the success of its brands, L'Oréal once again increased its sales, by +6.8% excluding the impact of currency fluctuations, a rate considerably higher than the growth of the cosmetics market.

Our strategy of retail channel diversification and strong presence in new fast-growing markets has led to another year of strong growth. This expansion, combined with strict cost control, has enabled us once again to significantly improve our profitability.

The merger of Sanofi-Synthélabo with Aventis has allowed us to deconsolidate our stake in pharmaceuticals, thus clarifying our focus on the core cosmetics business."

Furthermore, Mr Owen-Jones has shared with the Board of Directors his proposals for his succession, having first submitted them to the "Management and Remuneration" Committee.

Mr Owen-Jones will propose to the meeting of the Board of Directors which will follow the Annual General Meeting of April 2006, to separate the functions of Chairman and of Chief Executive Officer. He will recommend as Chief Executive Officer Mr Jean-Paul Agon, 48, graduate of HEC, who joined L'Oréal in 1978 and who has devoted his entire career to the group. After having been General Manager of several brands and L'Oréal companies within the European structure, Mr Agon was named Director for the development of the Asia zone in 1997. He is currently President of L'Oréal USA, a post he has occupied since October 2001.

Commenting on these proposals, Mr Owen-Jones announced: "I am keen to organize a smooth and transparent transition of the group's management, reflecting the continuity of our results and our strategy. It is my duty to initiate this transition and to ensure its success. Jean-Paul Agon is the ideal candidate. He is a natural team leader and is endowed with great human qualities. His track record has been rich, diverse and unfailingly successful. He enjoys my full confidence."

The Board of Directors has approved the plan. At the meeting, Mrs Bettencourt, as Chairwoman of the "Management and Remuneration" Committee, expressed her great satisfaction that, following so many years of regular and repeated business success, Mr Owen-Jones had, in a timely anticipation of events, shown such consideration for the future of the company and for his own succession.

Mr Rainer E. Gut, Vice-Chairman of the Board of Directors, joined Mrs Bettencourt in conveying his congratulations; he expressed his satisfaction that, in this transition, continuity is ensured in the form of Mr Owen-Jones' role as Chairman. He confirmed his confidence and support to Mr Jean-Paul Agon in his future position as Management Director.

Finally, the Board of Directors decided on the draft resolutions to be submitted to the Annual General Meeting on April 26th 2005.

The Annual General Meeting will be asked to approve the financial statements for 2004, the allocation of income, and the attribution of the dividend.

Changes in the Board of Directors
At the Annual General Meeting, the Board will propose that the tenure of the following directors should be renewed:
- Mrs Françoise Bettencourt Meyers;
- Mr Peter Brabeck-Letmathe;
- Mr Jean-Pierre Meyers.

Mr François Dalle, Chairman and Chief Executive Officer of L'Oréal from 1957 to 1984 and a director of the group since 1950, has decided not to request the renewal of his tenure as director.

Mr Owen-Jones, in his own name and on behalf of the Board of Directors, paid a special tribute to Mr Dalle, emphasising the remarkable contribution he has made in the construction of the group, its growth and its international expansion. Mr Owen-Jones said: "A major part of L'Oréal's history is the work of François Dalle".

Mr Rainer E. Gut, a director of L'Oréal since 2000, has decided to step down as director at the end of the Annual General Meeting of April 26th. The Board thanked him warmly in recognition of the high quality of his work, particularly as a member of the Review Committees.

The Board will propose to the Annual General Meeting the election of two new directors:
- Mr Louis Schweitzer, Chairman and Chief Executive Officer of Renault;
- Mr Werner Bauer, Executive Vice-President, Research and Production, Nestlé SA.

The full text of the draft resolutions, and the documents required for the Annual General Meeting of April 26th 2005, will be included in the notice to attend to be published in the *Bulletin d'annonces légales obligatoires* (BALO) and on L'Oréal's financial Web site, loreal-finance.com.

Main annual indicators

€ millions	12.31.2003	12.31.2004	Growth (%)
Sales	**14,029**	**14,534**	**+3.6**
Operating profit	**1,819**	**2,116**	**+16.3**
Exchange gains and losses	144	46	–
Adjusted operating profit(1)	**1,964**	**2,161**	**+10.1**
Pre-tax profit of fully consolidated companies	**1,870**	**2,063**	**+10.3**
Share in net operational profit of equity affiliates(2)	420	292	–
Net operational profit after minority interests(3)	**1,653**	**1,656**	**+0.1**
Net earnings per share	2.45	2.46	–
Dividend (€)	0.73	0.82(4)	+12.3
Net income after minority interests	**1,491**	**3,626**	**+143**

(1) Operating profit including exchange gains and losses.
(2) Share in profit of Sanofi-Synthélabo, deconsolidated on August 12th 2004.
(3) 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 stock, 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. It has also been adopted by the very great majority of financial observers.
(4) Dividend to be proposed to Annual General Meeting on April 26th 2005.

2004 annual sales

Sales growth by operational division and geographic zone was as follows:

At December 31st 2004		Growth	
	€ millions	Like-for-like(1)	Published figures
By operational division			
Professional Products	1,998	+7.6%	+5.2%
Consumer Products	7,754	+5.8%	+3.3%
Luxury Products	3,520	+5.2%	+2.3%
Active Cosmetics	852	+15.0%	+13.8%
Cosmetics total	**14,220**	**+6.3%**	**+3.8%**
By geographic zone			
Western Europe	7,313	+1.1%	+1.3%
North America	3,772	+8.1%	–0.3%
Rest of the World, of which:	3,135	+18.1%	+16.2%
- Asia	1,269	+17.0%	+19.3%
- Latin America	724	+16.2%	+7.0%
- Eastern Europe	524	+29.3%	+27.3%
- Other countries	618	+13.9%	+13.2%
Cosmetics total	**14,220**	**+6.3%**	**+3.8%**
Dermatology(2)	293	+1.8%	–4.3%
Group total	**14,534**	**+6.2%**	**+3.6%**

(1) Based on a comparable structure and identical exchange rates.
(2) Group share, i.e. 50%.

Sales growth in each of the divisions was as follows:

- the Professional Products Division, whose products are sold through hair salons, achieved +7.6% like-for-like growth, which was greater than the market. Growth was supported by the launches of the Kérastase Réflection range of products for coloured hair, and of Platinium lightening paste from L'ORÉAL PROFESSIONNEL, together with the continuing global roll-out of MATRIX;
- the sales of the Consumer Products Division grew by +5.8% like-for-like. The second part of the year benefited from the excellent reception given to the latest launches from L'ORÉAL PARIS (Elsève anti-dandruff shampoo, the ReFinish facial micro-dermabrasion kit and True Match foundation), GARNIER (Multi-Lights hair colour kit) and MAYBELLINE make-up (XXL mascara and Dream Matte Mousse foundation);
- the Luxury Products Division achieved like-for-like growth of +5.2%. Several product successes made important contributions: Armani Black Code perfume, and the recently launched Line Peel cream from BIOTHERM, Hydra Genius cream from HELENA RUBINSTEIN and Hypnôse mascara from LANCÔME. Other developments worth noting were the expansion of KIEHL'S and SHU UEMURA and the success of the opening of the LANCÔME, BIOTHERM and KIEHL'S boutiques;

• Active Cosmetics, number one in the market for dermocosmetic skincare products sold through pharmacies, once again produced strong like-for-like growth with a figure of +15.0%. Successful launches during the year made a solid contribution to this impressive figure. In the fast-growing nutricosmetics market, INNÉOV strengthened its position by becoming number one in the anti-ageing segment, and by the successful launch of Innéov Hair Mass;
• in the dermatology branch, Galderma's sales grew by +1.8% like-for-like, a modest increase reflecting the sluggishness of the dermatology market in the United States.

Rapid growth in North America
Spectacular expansion of new markets

In North America, like-for-like sales growth was +8.1%, with each of the three divisions making substantial market share gains. Professional Products took advantage of successful launches for all the Division's brands. In Consumer Products, Fructis by GARNIER achieved a breakthrough, while L'ORÉAL PARIS increased its sales, and MAYBELLINE confirmed its position as number one in mass-market make-up. The sales of Luxury Products were bolstered by strong growth from KIEHL'S and LANCÔME, the success of the new Armani Cosmetics line and the successful launches of RALPH LAUREN perfumes.

Sales in Western Europe increased by +1.1% like-for-like, with good performances in Spain (+8.6%), the United Kingdom (+7%) and all the Scandinavian countries. Professional Products once again grew faster than the market, thanks in particular to the successes of KÉRASTASE and L'ORÉAL PROFESSIONNEL. With the success of its product launches, the Consumer Products Division has become number one in the facial skincare market in value terms, and increased its hair colourant market share by more than one percentage point. Luxury Products sales trends, favourable in the United Kingdom and Spain, were however held back by stock reduction in the selective retail channel in France and Germany. Once again, Active Cosmetics made rapid progress, while winning market share, particularly in Germany.

The growth rate in the Rest of the World was once again very high at +18.1% like-for-like:
• sales continued to increase quickly in Asia, with like-for-like growth of +17%. Sales in China almost doubled thanks to the effect of growth by existing brands and the MININURSE and YUE-SAI acquisitions. Growth in the whole of the Chinese world increased rapidly, with like-for-like growth of +36% in Hong Kong and +22% in Taiwan. There were also strong increases in sales in Malaysia, Thailand and Singapore;
• sales in Latin America, which rose by +16.2% like-for-like, were supported by growth in all the group's divisions, with increases of +12.6% in Mexico and +12.5% in Brazil. Sales in Argentina, up by +23% like-for-like, continued to recover;
• in Eastern Europe, 2004 saw very rapid sales growth of +29.3% like-for-like, with figures of +42% for the Russian Federation and +18% for Poland. The Czech Republic, with like-for-like growth of +20%, took advantage of the success of Elsève shampoo, now number one in its market;
• sales in all the other countries combined grew strongly at +13.9% like-for-like. Performance in India (+46%), Australia (+14%) and Turkey (+26%) was outstanding.

Strong increase in operating profitability: +16.3%

Operating profit grew sharply by +16.3%, much faster than the increase in sales. Sales were affected by the negative impact of currency fluctuations.

Continuing industrial rationalisation efforts led to a further improvement in purchases, which increased less strongly than sales.

Control of the headcount in Europe and the United States helped reduce personnel costs as a percentage of sales.

External charges increased by 1.7%. This modest rise reflects firstly the strict control of operating expenses, and secondly the lower level of activity in the second half in perfume launches, for which very large advertising expenses are necessary. Finally, the trend in the mix of different activities, which by their nature generate very different levels of external charges, contributed to this low increase.

In all, operating profit advanced by +16.3% to reach 14.6% of sales.

Exchange gains amounted to €46 million, compared with €144 million at the end of December 2003. Adjusted operating profit thus came out at €2,161 million, up by +10.1%.

The adjusted operating profit of the cosmetics branch came out at €2,099 million, or 14.8% of sales, considerably higher than in 2003 when the figure was 13.9%.

Improved profitability in all geographic zones

As % of sales	Cosmetics branch Adjusted operating profit by geographic zone	
	2003	2004
Western Europe	14.8	15.3
North America	12.9	13.5
Rest of the World	10.2	10.4
Zones total	**13.4**	**13.7**
Non allocated(1)	+0.5	+1.0
Cosmetics total	**13.9**	**14.8**

(1) This figure is the balance of central expenses and central revenue, that cannot be directly attributed to a particular zone.

The low increase in the sales of the dermatology branch in two of its main markets (United States and Germany), together with the weakening of the US dollar against the euro, have resulted in a slight decrease in adjusted operating profit as a proportion of sales, which now stands at 17.2%.

Pre-tax profit grows by +10.3%

Net financial expense, at €99 million, is stable. The financial cost generated by the acquisitions and the share buyback programme has been offset by positive financial flows and favourable interest rates.

The pre-tax profit of the consolidated companies thus comes out at €2,063 million, up by 10.3%.

Deconsolidation of Sanofi-Synthélabo

L'Oréal's share in the profit of Sanofi-Synthélabo for 2004 (up to August 12th) amounted to €292 million, compared with €420 million in 2003.

Because of the dilution in the stake resulting from the take-over of Aventis by Sanofi-Synthélabo, the net income includes a "dilution profit" of €2.2 billion. In its 2005 financial statements, the group will record its share of Sanofi-Aventis dividends.

Net profit

In all, the net operational profit after minority interests amounted to €1,656 million, stable compared with 2003 because of the Sanofi-Synthélabo deconsolidation.

Net income after minority interests grew strongly at +143%.

Another increase in dividend

The Board of Directors will propose to the Annual General Meeting, to be held on April 26th 2005, a dividend of 0.82 euro per share, up by +12.3%. The dividend payment date is Wednesday May 11th 2005.

IFRS schedule

The changes relating to the new IFRS reference framework are currently being finalised, and L'Oréal decided to publish its 2004 annual results in accordance with French standards without delay on February 17th 2005.

The effects of this change in accounting standards, together with the audited 2004 results established in accordance with IFRS standards, will be presented at a special information meeting at the end of April 2005.

Finally, on September 2nd 2005 the audited interim results will be presented in accordance with IFRS standards.

AUDITORS

	Date first appointed	Term of office	Expiry of term
Auditors			
PricewaterhouseCoopers Audit 32 rue Guersant 75017 Paris - France	April 29th 2004	6 years	AGM reviewing financial statements for 2009 to be held in 2010
Deloitte & Associés 185 avenue Charles-de-Gaulle 92200 Neuilly-sur-Seine - France	April 29th 2004	6 years	
Substitutes			
Mr Yves Nicolas 32 rue Guersant 75017 Paris - France	April 29th 2004	6 years	
Mr Jean-Paul Picard 7/9 villa Houssay 92220 Neuilly-sur-Seine - France	May 29th 2001[1]	6 years	

(1) Renewed on April 29th 2004.

Fees of Auditors and members of their networks charged to the group

€ thousands	PricewaterhouseCoopers				Deloitte & Associés				Other			
	Amount		%		Amount		%		Amount		%	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Auditing	5,380	3,808	83.3	68.2	3,599	2,321	67.7	53.7	254	3,113	13.6	64.2
Other associated assignments	306	803	4.7	14.4	663	514	12.4	11.9	–	–	–	–
Subtotal	**5,686**	**4,611**	**88.0**	**82.6**	**4,262**	**2,835**	**80.1**	**65.6**	**254**	**3,113**	**13.6**	**64.2**
Other services[1] (legal/fiscal/social)	775	972	12.0	17.4	1,056	1,485	19.9	34.4	1,603	1,733	86.4	35.8
Total	**6,461**	**5,583**	**100**	**100**	**5,318**	**4,321**	**100**	**100**	**1,856**	**4,846**	**100**	**100**

(1) Mainly provided outside France.

PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT

Mr Christian Mulliez, Executive Vice-President, Administration and Finance, on the authority of the Chairman and Chief Executive Officer of L'Oréal, Mr Lindsay Owen-Jones.

Declaration by the person responsible for the Reference Document

"To the best of our knowledge, the contents of this Reference Document truly and fairly reflect the existing situation; they include information necessary to enable investors to make a judgement about the assets and liabilities, activity, financial position, result and prospects of the company and its group; there are no omissions which could adversely affect the fairness of the presentation."

Clichy, April 6th 2005

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez
Executive Vice-President Administration and Finance.

STATUTORY AUDITORS' STATEMENT ON THE "*DOCUMENT DE RÉFÉRENCE*"

(Year ended December 31st 2004)

(*Free translation of a French language original prepared for convenience purposes only. Accounting principles and auditing standards and their application in practice vary from one country to another. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices followed by the Statutory Auditors in France with respect to such financial statements included in a prospectus may differ from those generally accepted and applied by Auditors in other countries. Accordingly, the French financial statements and the Auditors' report – of which a translation is presented in this document for convenience only – are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.*)

As Statutory Auditors of L'Oréal ("the company") and in accordance with Article L.211-5-2 of Book II of the AMF (*Autorité des marchés financiers*) General Regulations, we have examined, in accordance with professional standards applicable in France, the information relating to the financial position and the historical accounts included in the "*Document de Référence*".

The "*Document de Référence*" is the responsibility of the Chairman and Chief Executive Officer of the company. Our responsibility is to report on the fairness of the information presented relating to the financial position and the accounts contained in the "*Document de Référence*".

Our procedures were conducted in accordance with professional standards applicable in France. Those standards require that we assess the fairness of the information presented relating to the financial position and the accounts and verifying that this information agrees with the financial statements on which we have issued a report. Our procedures also included reading the other information contained in the "*Document de Référence*" in order to identify any material inconsistencies with the information relating to the financial position and the accounts, and reporting any manifestly incorrect information that came to our attention, based on our overall knowledge of the company, as acquired during our audit. As this "*Document de Référence*" does not include any selected prospective data determined according to a structured process, our procedures did not take into account the assumptions used by management and the amounts obtained by applying these assumptions.

The financial statements of the company and the consolidated financial statements for the years ended December 31st 2002 and December 31st 2003 prepared in accordance with French generally accepted accounting principles and as approved by the Board of Directors, were audited by Pierre Coll and Etienne Jacquemin in accordance with professional standards applicable in France. They expressed an unqualified opinion on these financial statements. We audited in accordance with professional standards applicable in France, the financial statements of the company and the consolidated financial statements for the year ended December 31st 2004, prepared in accordance with French generally accepted accounting principles, and as approved by the Board of Directors. We expressed an unqualified opinion on these financial statements.

Based on the procedures described above, we have no matters to report regarding the fairness of the information presented relating to the financial position and the accounts contained in the "*Document de Référence*".

Paris-la-Défense and Neuilly, April 6th 2005

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

ADDITIONAL INFORMATION

The "*Document de Référence*" includes:

• the Statutory Auditors' reports on the financial statements of the company and the consolidated financial statements for the year ended December 31st 2004, on page 70 of volume 3 and page 34 of volume 2 of the "*Document de Référence*" respectively, including the justification of our assessments prepared in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*);

• the Statutory Auditors' report (page 71 of volume 3 of the "*Document de Référence*") prepared in accordance with the last paragraph of Article L.225-235 of the French Commercial Code (*Code de commerce*) on the report prepared by the Chairman of the Board of Directors of the company on the Internal Control procedures relating to the preparation and treatment of financial and accounting information.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

In application of Articles 211-1 to 211-42 of the General Regulation of the *Autorité des marchés financiers*, this Reference Document was filed with the *Autorité des marchés financiers* on April 7th 2005. This Reference Document may be used in connection with a financial transaction if it is accompanied by an Information Memorandum approved by the *Autorité des marchés financiers*.

Table of contents

The three volumes listed below together constitute the 2004 Reference Document of the L'Oréal group, which has been filed with the *Autorité des marchés financiers*, in accordance with Articles 211-1 à 211-42.