2005 ANNUAL REPORT

L'ORÉAL

A world of passion

Born out of science nearly a century ago, L'Oréal has since then never stopped investing in research to enhance the efficacy and innovative qualities of its products, which are focused on one business: cosmetics.

Driven by its global brands, each with its own aesthetic sensibility and exclusive aura, L'Oréal has made the universal dream of beauty into a unique experience. It has become a mode of personal expression which each woman and each man can make their own in the respect of their differences.

Beyond the alchemy of science and sensibility is the passionate enthusiasm of the people who make L'Oréal what it is, their ability to sense future aspirations, and their determination to anticipate up and coming trends.

Towards new horizons

In 2005, we focused on two priority objectives.

The first was to set in motion the long planned change of generation at the head of L'Oréal, without destabilising either the company or the financial markets. Today it is fair to say that this objective has been fully met: the legitimacy of Jean-Paul Agon is very widely acknowledged both inside and outside the company. A smooth transition is therefore taking place which not only represents continuity but also reasserts our open-mindedness and ambitions for the future.

The second objective was once again to achieve another year of double-digit earnings growth. We have met this target for the twenty-first consecutive year.

Worldwide growth despite difficulties in Europe

In 2005 sales outside Western Europe accounted for some 53% of our total sales, and this figure even exceeded 55% in the second half.

This is clearly what enabled us to achieve a sales growth of +6.5% over the year, despite some difficulties in Europe. In a highly depressed market, annual growth in Western Europe finally came out at +0.1% despite a very difficult start to the year.

In North America, our sales were strong, with like-for-like growth of +6.4%, nearly twice the market's growth rate.

Furthermore, L'Oréal continued to make very rapid advances in the Rest of the World with further breakthroughs in new markets such as the Russian Federation, where growth remains extremely strong (+40%), Mexico (+13%), Argentina (+22%) and China (+27% excluding acquisitions), a country in which our group continues to place high hopes.

Once again, the "growth-relay" countries magnificently lived up to their reputation, confirming the success of the calculated gamble we took a few years ago to open up subsidiaries simultaneously in almost all the emerging markets. We are already paving the way for second generation "growth-relay" countries, a prime example being India, where our sales advanced by 46% in 2005.

As for our businesses, our diversification strategy paid off once again.

The rapid growth of the Active Cosmetics (+13.5%) and Professional Products (+6.1%) Divisions made up for a year in which the Luxury Products Division (+2.7%) was faced with the consolidation of retailers both in Europe and in the United States, and the Consumer Products Division (+4.6%) was held back by weak growth in Europe.

"Once again, the "growth-relay" countries magnificently lived up to their reputation, confirming the success of the calculated gamble we took a few years ago to open up subsidiaries simultaneously in almost all the emerging markets."

"We are fully convinced that diversity enriches us, by making us more creative, more imaginative and more innovative."

A further improvement in margins

Overall, our sales growth has been combined with a further improvement in our operating margins.

The improvement in the cost of sales continued in line with the past improvements, despite factors such as the increased price of some raw materials. The trend in selling, general and administrative expenses was also favourable, and the same was true of advertising and promotion expenses, which increased at a slightly lower rate than sales thanks to improved purchasing conditions and better management of technical expenses.

We are improving our margins without sacrificing the company's long-term investments. Our research and development budget has thus continued to increase rapidly, reflecting our belief that our future growth will be driven by technological progress.

Profitability is increasing across all our divisions and geographic zones. In the Rest of the World in particular, operating profit before foreign exchange gains and losses grew by +29% in 2005. Like our sales growth, the dynamism of this zone is generating high hopes and tremendous prospects for the future.

Lastly, it should be noted that our stake in Sanofi-Aventis has again made a very substantial contribution to our earnings, with a dividend rising by +17.6%. The prospects for this company suggest that we made the right decision when we supported the merger of the two laboratories.

"My confidence stems from the ability of our teams to always "seize up-and-coming trends"."

Outlook

We are looking forward to the future with confidence.

Our market has numerous reservoirs of growth. In the developed countries first of all, thanks to the potential of many product categories, and of new groups of consumers, such as young people, senior citizens, and men, who feature for the first time ever on the cover of our Annual Report. It is up to us to invent new products and new services, to create and fulfil new hopes and desires of consumers.

My confidence stems from the ability of our teams to always "seize up-and-coming trends", an idea that was dear to François Dalle, to whose memory I wish to pay tribute in this Report. Being able to identify upcoming trends, taking risks, making decisions quickly: cosmetics is a business in which intuition, sensitivity, responsiveness and rapidity are of the essence.

Our brands still have new territories to conquer. We can raise our market share in many countries, including the most developed. The potential for improvement is even greater in the emerging markets. The Rest of the World zone, which already represents more than a quarter of our sales, is gradually gathering momentum. Within a few years, this zone will become the largest in terms of sales for the group, and this will clearly have a positive impact on our sales growth rate. Lastly, acquisitions can also contribute to our growth.

In our development, we can draw on a mosaic of individuals of different cultures, gender, colour, religious conviction and social origins. This is truly a key advantage for L'Oréal, for we are fully convinced that diversity enriches us, by making us more creative, more imaginative and

Jean-Paul Agon, Deputy Chief Excutive Officer.

more innovative. This responsible approach to managing our human resources is one of the key factors in our group's commitment to be open to the world and to our harmonious and sustainable development.

Finally, I have always said that at the age of sixty I would initiate a transition of the group's executive management to the next generation. To guarantee to our shareholders the stability and continuity of the company's main strategies, I proposed to the Board of Directors that the offices of Chairman and Chief Executive Officer should be separated at the end of my term of office. I therefore propose at the Board Meeting on April 25th 2006 that Jean-Paul Agon should be appointed Chief Executive Officer.

Everyone agrees that Jean-Paul Agon is the right candidate. A man of outstanding intelligence, modest and warm-hearted, he displays great human qualities. He has worked in all the group's geographic zones and divisions. He has succeeded in each of the challenges he has faced, demonstrating his clear understanding of our key strategic priorities, and his ability to mobilise and inspire his teams. I am convinced that he will be successful in taking up all the challenges of the future.

He knows that he can count on my support, and that of the group's 52,000 employees.

As I had promised, my succession is secure.

The great L'Oréal adventure continues, as we move towards new horizons.

SIR LINDSAY OWEN-JONES,
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Aged 49, Jean-Paul Agon has spent his whole career within the L'Oréal group, in all its divisions and on several continents.
He joined L'Oréal in 1978. After working as a sales representative for one year, he then took on marketing responsibilities.
He began his international career in 1981, and at the age of 25, became General Manager of L'Oréal in Greece.
Five years later, he assumed the role of General Manager of L'Oréal Paris in France, where his product launches included the Studio Line range. In 1989, he became International Managing Director of Biotherm, in the Luxury Products Division, and oversaw the strategic repositioning of the brand.
In 1994, Jean-Paul Agon became Managing Director of L'Oréal in Germany.
In 1997, he set up L'Oréal's Asian zone, taking overall responsibility for all the group's businesses. He created companies in countries where the group had previously operated through agents, boosting the brands' rapid growth in this region.
In October 2001, Jean-Paul Agon was appointed President and Chief Executive Officer of the group's largest subsidiary, L'Oréal USA. He played an active part in the global roll-out of the American brands and introduced into the United States international lines such as Fructis by Garnier. At the same time he strengthened the diversity of the teams by taking key initiatives in this area, which were later applied throughout the group.
Jean-Paul Agon has been the group's Deputy Chief Executive Officer since July 2005.
Throughout the 27 years he has spent in countries all over the world, Jean-Paul Agon has consistently sought to understand different sensitivities and cultures, and has always attached the highest importance to respecting differences.

Board of Directors

COMPOSITION AT **DECEMBER 31ST, 2005**
(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.)

SIR LINDSAY OWEN-JONES[1]
Age: 59. 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 (CEO) 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 Sanofi-Aventis and Ferrari (Italy). Vice-Chairman of the Supervisory Board of Air Liquide.

JEAN-PIERRE MEYERS[2] [6]
Age: 57. L'Oréal Board member since 1987 (term of office renewed in 2005). Vice-Chairman of the Board. Nestlé SA (Switzerland) Board member.

PETER BRABECK-LETMATHE[2] [4]
Age: 61. Austrian. With the Nestlé group since 1968, appointed General Manager in 1992, then Chief Executive Officer of Nestlé SA (Switzerland) in 1997, Vice-Chairman of the Board in 2001 and Chairman in 2005. L'Oréal Board member since 1997 (term of office renewed in 2005). Vice-Chairman of the Board. Board member of Crédit Suisse Group (Switzerland), Alcon (Switzerland) and Roche Holding (Switzerland).

LILIANE BETTENCOURT[2] [3]
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: 52. Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2005).

WERNER BAUER
Age: 55. German. With the Nestlé group since 1990, appointed General Manager in 2002. L'Oréal Board member since April 26th 2005. Board member of Alcon (Switzerland).

FRANCISCO CASTAÑER BASCO[2] [6]
Age: 61. 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).

JEAN-LOUIS DUMAS[4]
Age: 67. 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 Peugeot SA.

XAVIER FONTANET[5]
Age: 57. 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 Crédit Agricole SA.

BERNARD KASRIEL[2]
Age: 59. 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 from 1989 to 2003 and then Chief Executive from 2003 to 2005. L'Oréal Board member since 2004. Vice-Chairman of the Board of Lafarge.

MARC LADREIT DE LACHARRIÈRE
Age: 65. Member of the Institut. 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: 50. 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. Board member of Quiksilver (United States) and ONA (Morocco).

LOUIS SCHWEITZER
Age: 63. Joined Renault in 1986, Chairman and Chief Executive Officer from 1992 to April 29th 2005. Chairman of the Board thereafter. Chairman of the Board of AstraZeneca (United Kingdom). L'Oréal Board member since April 26th 2005. Board member of BNP Paribas, EDF, Veolia Environnement, AB Volvo (Sweden). Vice-Chairman of the Supervisory Board of Philips (Netherlands).

The statutory length of the tenure of a L'Oréal director is 4 years, and is renewable.

Each director holds a minimum of 1,000 L'Oréal shares.

(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.

Rainer E. Gut did not wish to renew his tenure as director in 2005.
François Dalle (who died in August 2005) did not wish to renew his tenure as director in 2005.

Tribute to François Dalle

CHAIRMAN OF L'ORÉAL FROM 1957 TO 1984, FRANÇOIS DALLE DIED ON AUGUST 9TH, 2005.

"For me and for several generations of L'Oréal people, he was an outstanding mentor. He was a deeply generous man, always eager to share ideas and pass on his know-how, his experience and his values. He recognised talent in his staff and was always demanding of them yet constantly cheerful and attentive to their needs. His commitment, and the ambition that he instilled in the group, his vision of the future, his sense of anticipation and strategy were absolutely remarkable. His example still guides our action today."

These were the terms in which Sir Lindsay Owen-Jones paid tribute to François Dalle for his exceptional contribution to the construction, growth and globalisation of the group.

"Seize up-and-coming trends"

A man of intuition, François Dalle wrote a decisive chapter in the history of L'Oréal. His career was marked by his love of humanity, his affection for our products, and his advanced and often iconoclastic views of markets and consumer trends. Just like Eugène Schueller, the founder of L'Oréal, François Dalle, his deputy, was a great believer in research. Starting with 25 research staff when he arrived at L'Oréal, numbers had grown to more than 1,000 when he left the company, and he helped to give the cosmetics industry a truly scientific base.

His ability to anticipate consumers' expectations was often surprising, and its impact is still visible today. Products that were conceived during his time still enjoy vast success on world markets: Elnett hair lacquer from L'Oréal, the Dermo-Expertise skincare line, Majirel hair colourants from L'ORÉAL PROFESSIONNEL and Anaïs Anaïs fragrance from CACHAREL.

A trailblazer who knew no frontiers

François Dalle's genius also led him to explore all channels that could distribute cosmetics products, something no-one had dared to do before him. In the early fifties, when mass-market retailers were setting up their first outlets, he made sure that the L'Oréal brand —previously sold exclusively by hairdressers— was on their shelves.
By buying out new brands, he also took L'Oréal for the first time into luxury goods outlets and pharmacies. He laid the foundations for L'Oréal's international development and launched its brands widely in Europe, while opening up markets in the United States, Japan and Latin America. By listing L'Oréal on the stock market in 1963, he gave it the decisive impetus which took it to greater heights.

A whole career at L'Oréal

In 1942, François Dalle joined Monsavon, owned by Eugène Schueller, who appointed him Group Executive Vice-President of L'Oréal six years later. In 1951, Monsavon and L'Oréal were merged into a single entity, of which François Dalle became Chief Executive Officer. In 1957, following the death of Eugène Schueller, François Dalle became Chairman and Chief Executive Officer of L'Oréal, a position he held for more than 27 years. He was a director of L'Oréal from 1950 until April 2005, and of Nestlé SA from 1974 to 1989.

A Board that consistently applies the best corporate governance practices

A balanced, diversified Board with extended skills

The Board has been strengthened by two new directors, elected at the Annual General Meeting held on April 26th 2005. Mr Werner Bauer and Mr Louis Schweitzer are therefore now able to contribute to the L'Oréal Board the knowledge they have gained in the fields of science and industry. Their expertise and experience are added to those of the other L'Oréal directors.
The Board has thirteen members: the majority shareholders are represented by six members, of whom three represent Mrs Bettencourt and her family and three represent Nestlé. The two Vice-Chairmen of the Board respectively represent the two parties. Alongside the Chairman, six other directors are independent personalities who have held professional responsibilities at the most senior level.

"All directors are required to act with due care and attention while having complete freedom of judgement."

All directors are required to meet the highest standards of integrity, and to act with due care and attention, while having complete freedom of judgement and strictly respecting the collective nature of the decisions taken by the Board.
With regard to inside information, the principles which the Board applies to itself are in line with the preventive measures taken by L'Oréal in relation to its employees. The goal is to prevent any improper use or transmission of inside information, and to make sure that all investments in the company's shares are carried out with a high degree of security.
To respect the interests of the company and all its shareholders, it is also compulsory for directors 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.
The Board met five times in 2005, with an average attendance rate of almost 88%. Many of the directors also attend the Annual General Meeting.

Committees actively involved in preparing for the work of the Board

The Board's Committees carry out missions entrusted to them by the Board. They are actively involved in preparing for the Board's work, but do not themselves have any decision-making powers.

■ The Committee for "Strategy and Implementation"

This Committee clarifies the strategic orientations which are submitted to the Board, and monitors the implementation and progress of significant ongoing operations. It ensures that general financial stability is maintained. With these aims in mind, the Committee reviews the main strategic lines of development, options and projects presented by the General Management together with their economic and financial consequences, acquisition opportunities, and financial transactions that could significantly change the balance sheet structure. It also reviews paths for future development.
The Committee for "Strategy and Implementation" met five times in 2005, and all its members attended on each occasion.
In 2005, the Committee reviewed not only trends in the sales and results of L'Oréal from an international viewpoint, but also the situation of the major countries in terms of performance, market share and market positions compared with competitors.
The Committee also studied files concerning possible acquisitions and the situation of L'Oréal's stake in Sanofi-Aventis.

■ The Audit Committee

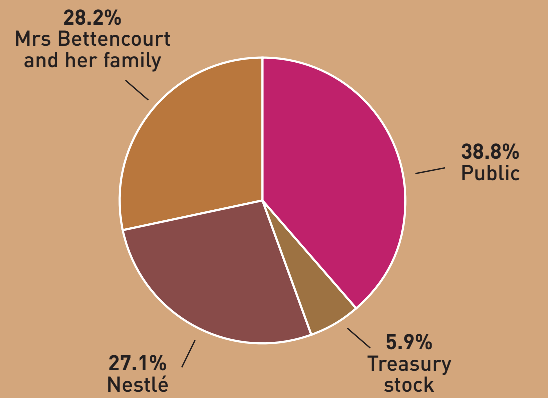
The role of the Audit Committee is to ensure that the General Management is provided with information enabling it to identify and manage the economic, financial and legal risks faced by the group both inside and outside France in its routine and exceptional operations.
After setting the schedule and agenda of its meetings, the Committee met four times in 2005, with all its members attending on each occasion.
The main issues reviewed with the managers in charge of the respective fields in the company were the new accounting standards, provisions, legal disputes and insurance.

The Committee was informed about the work of the Internal Audit Direction. The Chairman's Report on Internal Control was presented to the Committee, including a document summarising the fundamental internal control rules. During the presentation, it was pointed out that the aims of Internal Control are protecting and safeguarding the company's assets, ensuring the reliability and coherence of information, particularly of a financial nature, ensuring compliance with the applicable laws and regulations, and improving performances.
In 2005, prior to the publication of the interim financial statements, the Committee devoted much of its work to reviewing the conversion of the 2004 financial statements and the compilation of the 2005 financial statements to ensure compliance with IFRS accounting standards.

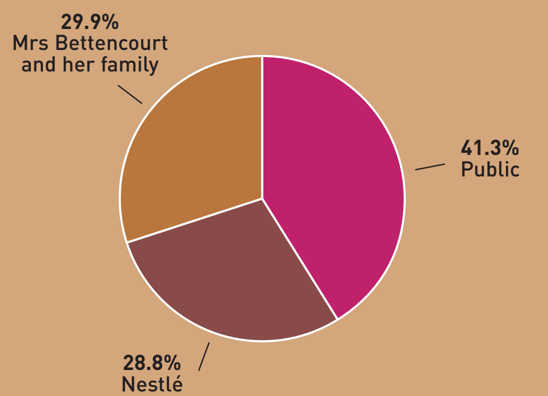
■ **The "Management and Remuneration" Committee**
The "Management and Remuneration" Committee assists the Chairman and the Board in their review of succession plans for the group's senior management positions, reviews the composition of the Board of Directors and any possible changes, makes proposals to the Board concerning the remuneration of the senior management and attributions of stock options, and addresses general issues of remuneration policy in the company.
The Committee met four times in 2005, in complete independence, and then made proposals to the Board of Directors mainly concerning a succession plan for the senior management positions, stock option attributions, the principles for determining remuneration for senior management positions, and the level of that remuneration. The Committee asked the Board to approve the proposal made by Sir Owen-Jones, who wished to present Mr Jean-Paul Agon as the next Chief Executive Officer of L'Oréal. The Board took the view that this was an exemplary way to prepare for the future, particularly in view of the fact that the person concerned was both well known and greatly appreciated by the Board. Mr Agon has been the instigator of some outstanding success stories, particularly the expansion of L'Oréal's operations in the United States and the outstanding results achieved there.

A periodical evaluation of the Board's modus operandi which the directors wished for a long time

Each year since 1996 the Board has carried out a formal assessment of its composition, organisation and modus operandi. The assessment is based on interviews, organised by the Secretary of the Board, based on regulations, recommendations and generally accepted practices. Where necessary, the Board takes measures to ensure that improvements are made.
In 2005, the Board expressed satisfaction that a greater number of senior managers made presentations during Board meetings, a practice it believes represents a step forward and should continue. As well as enabling the Board to get to know senior managers better, it provides a deeper insight into all aspects of the group's strategy. The Board encouraged the Committees to present more regular progress reports, which are essential to ensure the quality of its debates.
Lastly, it requested further improvements in the organisational processes through which directors, outside of meetings, are provided with relevant information for carrying out their duties. The principle is that the company makes available to directors all the means necessary to enable them to accomplish their missions.



BREAKDOWN OF SHAREHOLDING STRUCTURE AT DECEMBER 31ST, 2005



BREAKDOWN OF VOTING RIGHTS AT DECEMBER 31ST, 2005

The Board's review Committee

■ **The Committee for "Strategy and Implementation"**
6 members:
- Sir Lindsay Owen-Jones (Chairman)
- Liliane Bettencourt
- Jean-Pierre Meyers
- Peter Brabeck-Letmathe
- Francisco Castañer Basco
- Bernard Kasriel

5 meetings in 2005.

■ **The Audit Committee**
3 members:
- Xavier Fontanet (Chairman)
- Jean-Pierre Meyers
- Francisco Castañer Basco

4 meetings in 2005.

■ **The "Management and Remuneration" Committee**
3 members:
- Liliane Bettencourt (Chairwoman)
- Peter Brabeck-Letmathe
- Jean-Louis Dumas

4 meetings in 2005.

Management Committee

1 **Sir Lindsay Owen-Jones**
Chairman and Chief Executive Officer

2 **Jean-Paul Agon**
Deputy Chief Executive Officer

3 **Béatrice Dautresme**
Executive Vice-President
Corporate Communications,
External Affairs and Prospective

4 **Jean-François Grollier**
Executive Vice-President
Research and Development

5 **Marcel Lafforgue**
Executive Vice-President
Production and Technology

6 **Jean-Jacques Lebel**
President
Professional Products

7 **Marc Menesguen**
President
Luxury Products

8 **Christian Mulliez**
Executive Vice-President
Administration and Finance

9 **Patrick Rabain**
President
Consumer Products

10 **Geoff Skingsley**
Executive Vice-President
Human Resources

L'Oréal financial highlights

Careful and harmonious management of the main financial balances

The continuing focus on our major financial management objectives was accompanied in 2005 by substantial changes, which represent genuine progress in terms of presenting and monitoring our economic performance. The changes are related to:
- the introduction of International Financial Reporting Standards (IFRS), whose main effects are presented below and set out in detail in the Reference Document,
- the presentation of our profit and loss account by destination,
- the publication of the profitability of each division.

These advances were made possible by thorough groundwork, which for the change in accounting standards began in 2002, to which all the group's administrative and financial teams have greatly contributed.
Continuing the modernisation of its systems, the Administration and Finance Division will set up in 2006 a new reporting and consolidation tool for the use of all the group's entities.
The Administrative, Financial and Operational departments of all L'Oréal's entities have contributed to the operational performance of our businesses. In particular, they have helped improve cash flow by constantly ensuring strict control of trade accounts receivable, inventories and investments. Furthermore, the departments have actively supported the programmes, in all the subsidiaries, aimed at reducing costs, improving productivity and pooling resources.
Overall, the balance sheet of L'Oréal, strengthened by its financial investment in Sanofi-Aventis, is solid.
L'Oréal is thus in a position to apply a policy of strong and steady growth in the dividends paid to its shareholders, accompanied since 2004 by share buyback programmes of significant amounts.

Christian Mulliez
Executive Vice-President, Administration and Finance

PROFIT AND LOSS ACCOUNT: NEW PRESENTATION

Old presentation **BY NATURE**	*New presentation* **BY DESTINATION**
Net sales	**Net sales**
Purchases and variation in inventories	Cost of sales
Personnel costs	**Gross profit**
External charges	Research and development
Taxes and similar payments	Advertising and promotion
Depreciation	Selling, general and administrative expenses
Charges to provisions	
Operating profit	**Operating profit before foreign exchange gains and losses**
Exchange gains and losses	Foreign exchange gains and losses
Adjusted operating profit	**Operating profit**

IMPACT OF IFRS STANDARDS ON L'OREAL'S 2004 FINANCIAL STATEMENTS

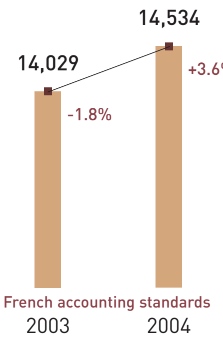
Balance sheet at 12/31/2004: a strengthening of the structure

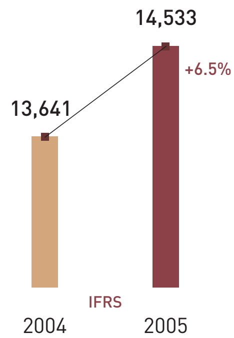
- Shareholders' equity increased by €1,261 million to reach €11,825 million, that is +12%
- Net debt up from €1,471 million to €1,568 million
- Gearing down from 15.9% to 13.3%

2004 profit and loss account: a slight improvement in earnings per share

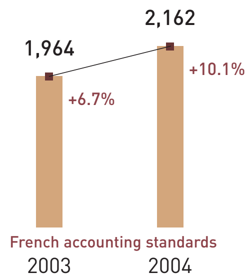
- 2004 published sales reduced by €893 million, that is –6.1%
- Operating profitability improved from €2,162 million, or 14.9% of sales to €2,089 million, or 15.3% of sales
- Net income after minority interests up from €3,626 million to €3,970 million
- Net earnings per share before non-recurrent items up from €2.46 to €2.48
- Net earnings per share excluding non-recurrent items —with Sanofi-Aventis deconsolidated— up from €2.23 to €2.29

GROUP PERFORMANCE OVER THREE YEARS

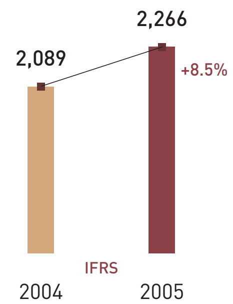




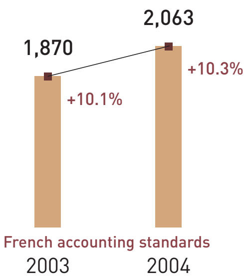
CONSOLIDATED SALES
(€ millions)



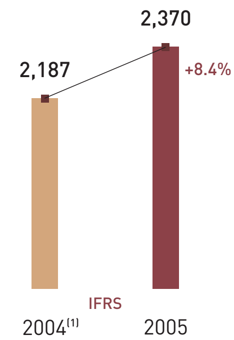
ADJUSTED OPERATING PROFIT
(€ millions)



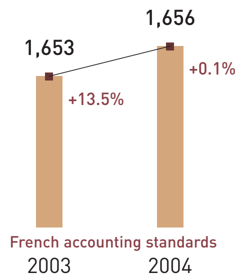
OPERATING PROFIT
(€ millions)



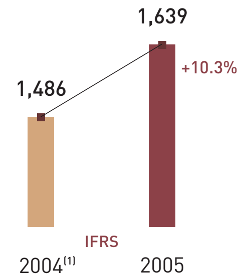
PRE-TAX PROFIT OF CONSOLIDATED COMPANIES
(€ millions)



PRE-TAX PROFIT EXCLUDING NON RECURRENT ITEMS[2]
(€ millions)



NET OPERATIONAL PROFIT AFTER MINORITY INTERESTS
(€ millions)



NET PROFIT EXCLUDING NON RECURRENT ITEMS AFTER MINORITY INTERESTS[2]
(€ millions)

(1) For comparison purpose, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million,
- and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million and tax: €471.1 million.
(2) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs.

BREAKDOWN BY BRANCH[1]

2005 CONSOLIDATED SALES

	€ millions	Growth	
		Like-for-like	Published figures
Cosmetics	14,215	+6.5%	+4.8%
Dermatology[2]	318	+8.3%	+6.3%

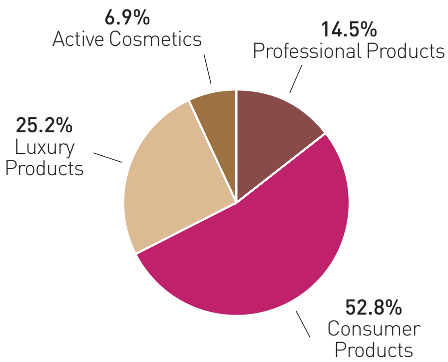
2005 OPERATING PROFIT

	€ millions	Weight	Growth	% of sales
Cosmetics	2,212	97.6%	+8.5%	15.6%
Dermatology[2]	54	2.4%	+6.3%	16.9%

(1) The groups business is organised into two branches: cosmetics and dermatology.
(2) Group share, i.e. 50%.

COSMETICS BRANCH: 2005 CONSOLIDATED SALES

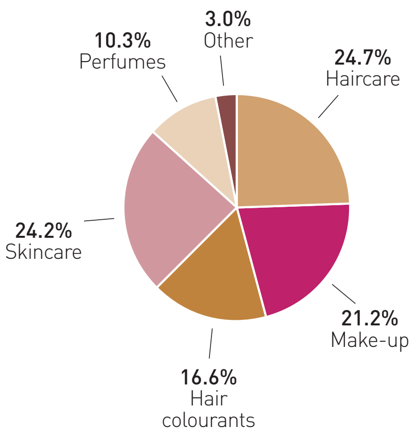
BY DIVISION



	€ millions	Growth based on published figures	Like-for-like growth
Professional Products	2,061	+7.3%	+6.1%
Consumer Products	7,499	+6.4%	+4.6%
Luxury Products	3,582	+3.9%	+2.7%
Active Cosmetics	986	+17.2%	+13.5%
Total cosmetics sales[1]	**14,215**	**+6.5%**	**+4.8%**

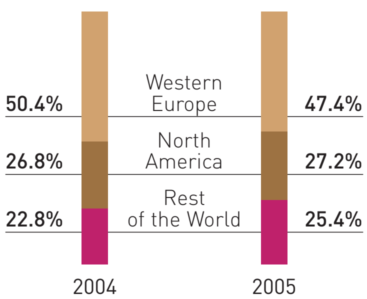
(1) The difference between the total cosmetics sales and the combined total of the 4 divisions (€87 million) consists mainly of mail order sales.

BY BUSINESS SEGMENT



	€ millions	Growth based on published figures	Like-for-like growth
Haircare	3,503	+7.2%	+5.6%
Make-up	3,017	+4.9%	+3.3%
Hair colourants	2,359	+4.8%	+2.8%
Skincare	3,443	+11.1%	+8.9%
Perfumes	1,471	+2.3%	+1.3%
Other	421	+1.0%	–0.9%
Total cosmetics sales	**14,215**	**+6.5%**	**+4.8%**

BY GEOGRAPHIC ZONE



EVOLUTION OF THE GEOGRAPHIC ZONES' WEIGHT IN THE COSMETICS SALES

	€ millions	Growth based on published figures	Like-for-like growth
Western Europe	6,742	+0.1%	+0.1%
North America	3,868	+8.3%	+6.4%
Rest of the World, of which:	3,604	+18.4%	+12.6%
Asia	1,375	+10.6%	+7.4%
Latin America	861	+23.5%	+11.3%
Eastern Europe	682	+34.3%	+28.5%
Other countries	687	+15.0%	+11.5%
Total cosmetics sales	**14,215**	**+6.5%**	**+4.8%**

COSMETICS BRANCH: OPERATING PROFIT

BY DIVISION

	2004		2005	
	€ millions	% of sales	€ millions	% of sales
Professional Products	365	19.0%	406	19.7%
Consumer Products	1,187	16.8%	1,290	17.2%
Luxury Products	694	20.1%	724	20.2%
Active Cosmetics	157	18.6%	187	19.0%
Cosmetics divisions total[1]	2,406	18.0%	2,609	18.4%
Non-allocated[2]	–368	–2.8%	–396	–2.8%
Cosmetics branch total	**2,038**	**15.3%**	**2,212**	**15.6%**

BY GEOGRAPHIC ZONE

	2004		2005	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,363	20.2%	1,415	21.0%
North America	632	17.7%	708	18.3%
Rest of the World	411	13.5%	486	13.5%
Total for geographic zones[1]	2,406	18.0%	2,609	18.4%
Non-allocated[2]	–368	–2.8%	–396	–2.8%
Cosmetics branch total	**2,038**	**15.3%**	**2,212**	**15.6%**

(1) Includes the operating profit of the "cosmetics miscellaneous" activity which consists mainly of mail order sales.
(2) "Non-allocated" items consist of the expenses of functional divisions and of fundamental research, and of stock option costs, which are not allocated to the cosmetics divisions. This item also includes activities not forming part of the group's core businesses, such as insurance, reinsurance and banking.

THE L'ORÉAL SHARE (AT DECEMBER 31ST, 2005)

Market capitalisation	41.37 billion euros
Share price	62.80 euros
2005 EPS[1]	2.60 euros
2005 dividend per share	1.00 euro
Annual share price performance in 2005	+12.4%

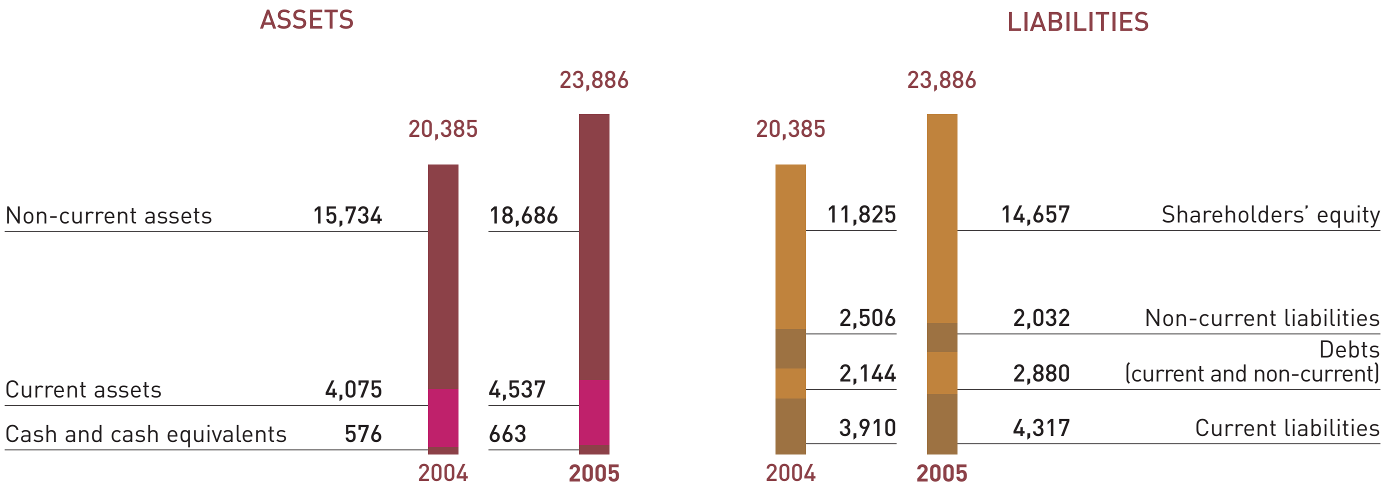
(1) After minority interests, diluted, excluding non-recurrent items.

10 YEARS INVESTMENT IN L'ORÉAL SHARES

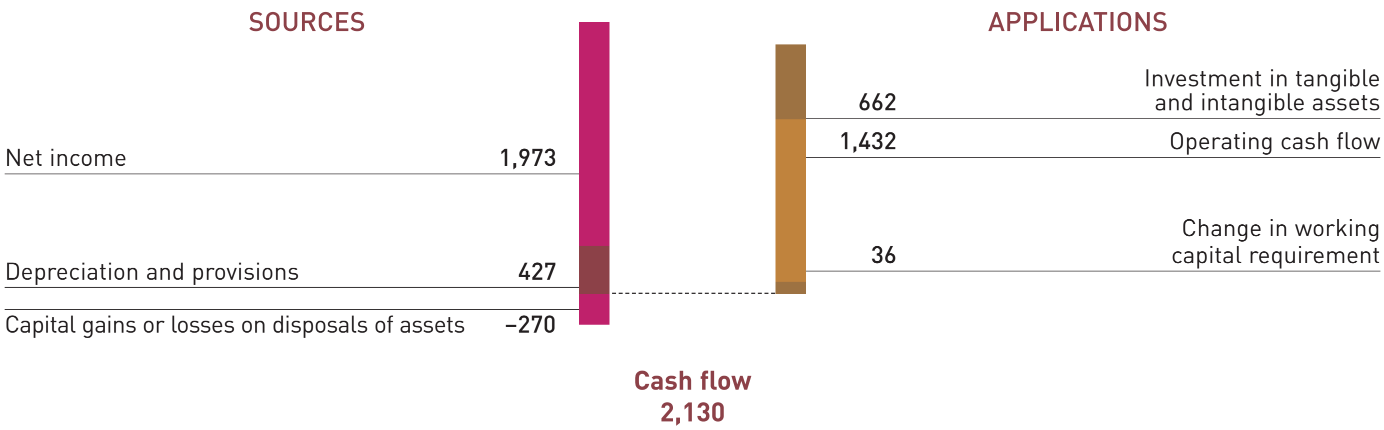
Purchase of 75 shares at €199.86 on December 31st, 1995	14,989.50 euros
Valuation at December 31st, 2005 including reinvestment of dividends (927 shares at €62.80)	58,215.60 euros
Initial capital multiplied by 3.88 in 10 years **Total Shareholder Return: 15.37%**	

BALANCE SHEET, CASH FLOWS AND FINANCIAL RATIOS

BALANCE SHEET (€ millions)



2005 SOURCES AND APPLICATIONS OF FUNDS (€ millions)



FINANCIAL RATIOS

	2004	2005
(% of sales) Operating profit / Sales	= 15.3%	**15.6%**
(% of shareholders' equity) Net profit excluding non-recurrent items after minority interests / Opening shareholders' equity	= 12.9%(1)	**13.9%**
(% of shareholders' equity) Gearing(2)	= 13,3%	**15.1%**

(1) Opening shareholders' equity at January 1st, 2004 (pro forma).

(2) Net gearing = $\frac{\text{Current and non-current debt – Cash and cash equivalents}}{\text{Shareholders' equity after minority interests}}$

L'ORÉAL OVER TEN YEARS

IFRS (€ millions)	2005	2004[1] pro forma	2004
Results of operations			
Consolidated sales	14,533	13,641	13,641
Operating profit	2,266	2,089	2,089
As a percentage of consolidated sales	15.6	15.3	15.3
Pre-tax profit excluding non-recurrent items	2,370	2,187	2,334
Net profit excluding non-recurrent items after minority interests	1,639	1,486	–
Total dividend	659	554	554
Balance sheet			
Non-current assets	18,686	15,734	15,734
Current assets	4,537	4,075	4,075
Cash and cash equivalents	663	576	576
Shareholders' equity[2]	14,657	11,825	11,825
Net current and non-current debt	2,217	1,568	1,568
Per share data (€)			
Diluted net profit excluding non-recurrent items after minority interests	2.60	2.29	–
Net dividend[3] [4]	1.00	0.82	0.82
Share price at December 31st [3]	62.80	55.85	55.85
Diluted weighted average number of share outstanding	630,892,470	649,598,404	649,598,404

FRENCH ACCOUNTING STANDARDS (€ millions)	2004	2003
Results of operations		
Consolidated sales	14,534	14,029
Pre-tax profit of consolidated companies	2,063	1,870
As a percentage of consolidated sales	14.2	13.3
Income tax	696	629
Net operational profit	1,659	1,661
As a percentage of consolidated sales	11.4	11.8
Net operational profit after minority interests	1,656	1,653
Total dividend	554	494
Balance sheet		
Fixed assets	11,534	8,136
Current assets	6,645	6,876
Of which cash and marketable securities	*1,981*	*2,303*
Shareholders' equity[3]	10,564	8,136
Borrowings and debts	2,175	1,941
Per share data (notes 4 to 6) (€)		
Net operational profit after minority interest per share[7] [8] [9]	2.46	2.45
Net dividend per share[10] [11]	0.82	0.73
Tax credit	–	0.37
Share price as of December 31st [10]	55.85	65.00
Weighted average number of shares outstanding	673,547,541	676,021,722

IFRS

(1) For comparison purpose, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million,
- and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.

(2) Plus minority interests.
(3) 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 is fixed at €131,753,932: the par value of one share is now €0.2.
(4) The dividend is fixed in euros since the Annual General Meeting of May 30th, 2000.

FRENCH ACCOUNTING STANDARDS

(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.

2002	2001	2000[2]	1999[1][2]	1998[1]	1998	1997	1996	1995
14,288	13,740	12,671	10,751	9,588	11,498	10,537	9,200	8,136
1,698	1,502	1,322	1,125	979	1,339	1,183	1,011	897
11.9	10.9	10.4	10.5	10.2	11.6	11.2	11.0	11.0
580	536	488	429	375	488	422	328	285
1,464	1,236	1,033	833	722	807	722	644	579
10.2	9.0	8.2	7.7	7.5	7.0	6.9	7.0	7.1
1,456	1,229	1,028	827	719	719	641	568	515
433	365	297	230	191	191	165	144	125
8,130	8,140	7,605	5,918	5,299	5,590	5,346	4,687	3,550
6,843	6,724	6,256	5,139	4,229	4,937	4,512	4,048	3,617
2,216	*1,954*	*1,588*	*1,080*	*762*	*903*	*825*	*810*	*685*
7,434	7,210	6,179	5,470	5,123	5,428	5,015	4,429	3,938
2,646	2,939	3,424	1,914	1,718	1,748	1,767	1,598	848
2.15	1.82	1.52	1.22	1.06	1.06	0.95	0.84	0.76
0.64	0.54	0.44	0.34	0.28	0.28	0.24	0.21	0,18
0.32	0.27	0.22	0.17	0.14	0.14	0.12	0.11	0,09
72.55	80.90	91.30	79.65	61.59	61.59	35.90	29.79	18.17
675,990,516	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	614,601,970

(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.
(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 is fixed at €131,753,932: 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.

International brands for all the

PROFESSIONAL PRODUCTS

€2,061 million*

CONSUMER PRODUCTS

€7,499 million*

beauties of the world

LUXURY PRODUCTS
€3,582 million*

ACTIVE COSMETICS
€986 million*

*2005 consolidated sales (IFRS).

Global expansion: a growth strategy for the future

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, in order to win over increasing numbers of consumers worldwide.


РЕВОЛЮЦИЯ
GARNIER
FRUCTIS
STYLE
ГАРНЬЕР ФРУКТИС СТАЙЛ
С МИКРО-ВОСКАМИ
ФРУКТОВ
GARNIER
FRUCTIS
STYLE
ГЕЛЬ
GARNIER
News

FRANCE

Whirlwind success for Hypnôse

It took Hypnôse from LANCÔME only three months to become the number one fragrance in the travel retail sector, in value terms, with its 30 ml bottle. In another size, the 50 ml bottle, Hypnôse also captured second place in the rankings.

To win over cosmopolitan customers in French airports, L'ORÉAL created an unprecedented poster campaign inside and outside Roissy-Charles de Gaulle Airport. The aim for 2006 is to make Hypnôse a top five fragrance and turn it into the brand's new flagship product.

UNITED KINGDOM

Mizani move brings success

MIZANI, the expert professional brand for African and mixed-race hair was rolled out in the United Kingdom in 2005. Its unique formulations feature natural botanical ingredients, combined with the best in L'ORÉAL technologies, specially created by the Chicago-based L'Oréal Institute for Ethnic Hair and Skin Research. With its comprehensive range of services and its original approach to hairdressers training, MIZANI highlights the beauty of African and mixed-race hair with resolutely modern looks. This unique positioning brought immediate success in the United Kingdom, establishing a strong reputation for the brand.

CANADA

Innovative retail concept for Active Cosmetics

The sales performance of Active Cosmetics in Canada (+16% in 2005) reflects the success of a new retail concept: the Dermocosmetic Skincare Centre. Initially introduced in drugstores, this concept enabled the brands to achieve very high growth figures —including a +38.6% increase for La Roche-Posay— and confirmed the leadership of Vichy in dermocosmetics.

CHINA

Biotherm on to a winner in China

By supporting its core products (Aquasource, Age Fitness, Hydra Detox, White Detox and Source Thérapie), strengthening its close customer relations and building up its reputation, Biotherm has become a well-known expert skincare brand not only for women but also for men in China.
2005 was also notable for a remarkably successful partnership with Takeshi Kaneshiro, a star all over Asia and the ambassador of Biotherm Homme.
In 2005, the brand's success led to the opening of 12 new counters, complete with advice and service areas, raising the total number of Biotherm sales counters in China to 42.

BRAZIL

Elsève: effective cosmetics win over Brazilian consumers

Barely six months after its launch in April 2005, Elsève Anti-Dandruff became number one in its segment. Its success reflects the range's innovative technology, which ensures outstanding anti-dandruff efficacy and high cosmetic appeal. The product has won over Brazilian consumers, eager for an effective solution that also enhances the beauty of their hair.

UNITED STATES

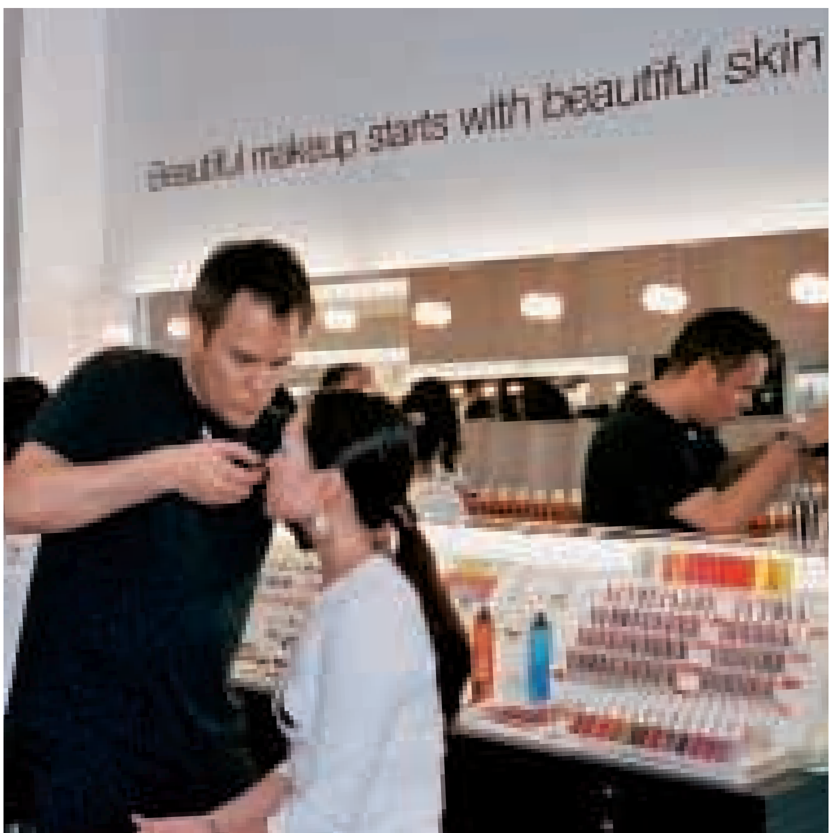
Garnier Fructis: a winning bet

Garnier Fructis Shampoo and Conditioner and Garnier Fructis Style continued with unrelenting growth in the United States in 2005. Thanks to a strong product portfolio, exciting marketing programs, eye-catching displays and advertising which attracted American youth, the "Big Green Machine" gained market shares. Garnier Fructis has become a top player and a true force to be reckoned with in the hair care and styling categories in just three years.

CHINA

Vichy: already 1,300 points of sale

The roll-out of VICHY throughout China gathered speed in 2005. The brand is now on sale in the 90 largest cities in the country, where it has a high profile in pharmacies, at major skin diagnostic shows and in powerful and educational media communication. In May, VICHY took a major step forward with the opening in Wuhan of its 1000th pharmacy, and it ended the year with more than 1,300 points of sale. Asia was also the centre of media interest in September when VICHY opened its first boutique in Hong Kong.



UNITED STATES

Shu Uemura conquers the west coast

The opening of the new SHU UEMURA boutique in San Francisco in May 2005 was one of last spring's key events for west coast consumers. This new boutique not only allows SHU UEMURA to achieve high double digit sales growth in the Unites States but also accelerates the development of a Japanese brand throughout the world through the implementation of a very modern and unique expression of SHU UEMURA as the trendy "make up artist" brand.

INDIA

Matrix, partnering thousands of hairdressers

Matrix made a genuine breakthrough in India in 2005. In a country where hair colouring is a longstanding tradition both for women and men, Matrix has conquered the small hair salon sector where few, if any, professional products were used in the past. Thanks to its offer of services combined with a specially adapted range of hair colourants, Matrix became the partner to nearly 5,000 hair salons in less than one year. The brand's efforts have so far been focussed on three major cities: Mumbai, Delhi and Kalcata, but the offensive will be extended from 2006 onwards.

DUBAI

Hypnôse mascara captivates fashion shoppers

Never before has a mascara achieved such spectacular and rapid success immediately on its launch in the Middle East. Its stunning volume effect, the quality of its formulation and its ease of application have made Hypnôse a must for the elegant women of the Gulf, who are eager and expert users of eye make-up. The contribution made by Hypnôse in increasing the brand's appeal has been outstanding, enabling Lancôme to further increase its market leadership in this region of the world.

SPAIN

Nutricosmetics carve out niche

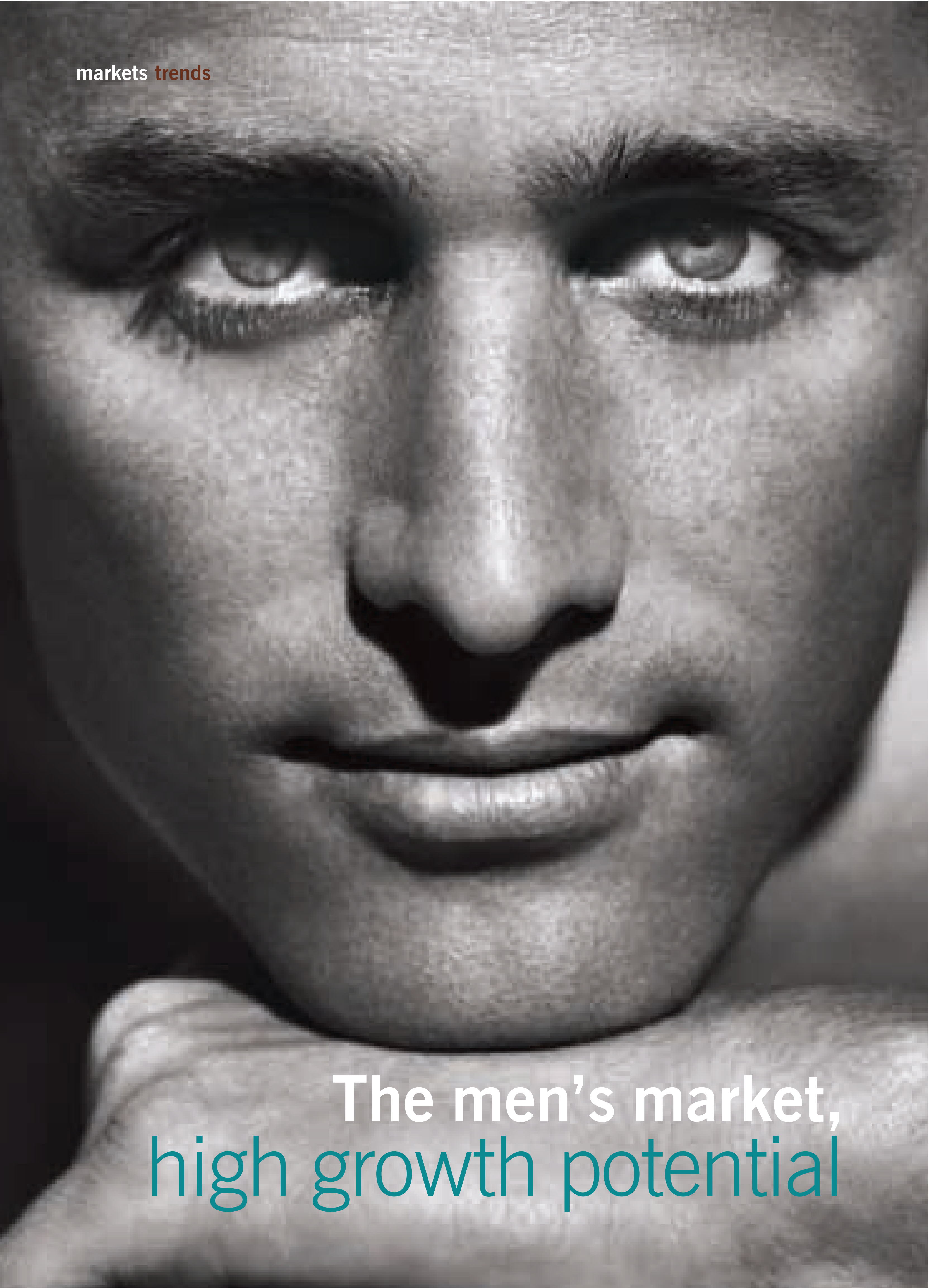
In March 2003, when the Spanish nutricosmetics market was still largely undeveloped, the launch of the INNÉOV brand proved a resounding commercial success. By the end of 2005, INNÉOV had become one of the leading nutricosmetics brands.
This achievement was made possible by a powerful campaign to educate consumers —through the press, dermatologists and pharmacists— to build up the product's credibility. The aim is now to strengthen penetration and the outlook is promising, as in Spain nutricosmetics represent only 8% of the dermocosmetics market, compared with 19% in France.

MEXICO

Maybelline is number one in the mass-market

In Mexico, MAYBELLINE is now the number one mass-market brand in, both volume and value terms. The brand was relaunched with a broadening of distribution channels, successful launches for XXL and Dream Matte Mousse, robust performances from flagship products Water Shine Liquid Diamonds, Super Natural and Wonder Finish, and the introduction of the new Urban Connection in-store merchandising.

The initial results of the latest Hydra Extreme launch helped the brand become number one in mass-market lipstick. XXL also confirmed its position as number one in mascaras: 1 mascara out of every 3 sold in mass-market retail outlets is a Maybelline product! The secret behind the success story? Launching products that feature genuine technological advances and are also affordably priced.



The men’s market, high growth potential

Béatrice Dautresme
Executive Vice-President, Corporate Communications, External Affairs and Prospective

"Men represent half of the population. Of course, L'Oréal did not wait until 2005 before integrating this fact into its research and development strategy and its prospective vision of markets. Over the last few years however, the growth potential opened up by recent changes in thinking has encouraged the group to set its sights even higher and strengthened its determination to invest in the male universe. Development prospects for men's products in both skincare and haircare are immense. This market still represents only 10% of the total cosmetics market, but day by day its high growth potential is becoming clearer. L'Oréal has been planning ahead for several years with this market in mind, and holds strategic positions for the future."

GROWTH IN TOTAL SALES OF L'ORÉAL MEN'S PRODUCTS IN 2005 (like-for-like basis)

+17.8%

Men today are changing, and are no longer so bound by their traditional roles: they have gradually adopted more varied lifestyles, and are devoting a greater proportion of their time to their families. "Taking care of one's appearance" is no longer a taboo. It is one aspect of feeling good about oneself. The way a man dresses and takes care of himself can even become a pleasure. All over the world, for new generations of men, skincare and haircare have become quite natural concerns.

Skincare: a new habit for men

Skincare is the fastest growing sector. The figures speak for themselves: in 1990, only 4% of European men used a skincare product; in 2001 the figure was 17% and in 2003 it was 20%[1].
Of course, young people are leading the way: in Europe, 24% of men under 30 use skincare products, compared with 20% for the population as a whole. In Japan, some 30% of men under 30 use a skincare product, and in South Korea the figure is over 80%[2]! For the younger generation, taking care of one's appearance represents an effective way of asserting professional status. Older men share this interest in their appearance, but for them it is mainly to do with feeling better socially and in their relationships. This new pleasure in taking care of oneself is something which the different generations have in common.

Our studies of the male hygiene and beauty market very clearly reflect the existence of three main types of behaviour with regard to skincare products. The "hedonists" are urban men who are extremely well informed about cosmetics. They make considerable use of cosmetic products for pleasure. Very demanding, they cannot understand why the most technically advanced treatments should be reserved primarily for women. How does L'Oréal meet their needs?

WHY ARE THERE SPECIFIC SKINCARE PRODUCTS FOR MEN?

The group has been studying men's skin for more than 40 years, and is now able to provide the personalized solution for each individual requirement. Men's skin is both more sensitive, and more greasy, than women's, and this often brings shininess problems. Male skin is also thicker, which means that men's wrinkles develop at a later stage, but also more suddenly. Men's needs and men's attitudes are quite clearly different from those of women.

Biotherm, the first solution for the "hedonists"

Launched in 1985 in perfumeries and department stores, BIOTHERM was the first brand to take men beyond traditional after-shave products towards genuine and increasingly technical skincare products. Its expertise today enables it to move successfully into other areas: anti-pollution moisturising, anti-wrinkle peeling, and even bodycare. Men all over the world now trust BIOTHERM, in the United States, in Hong Kong, in Taiwan, in South Korea and even in China, where the brand —whose ambassador is Takeshi Kaneshiro, a celebrated actor with Chinese and Japanese connections— is already a reference.

Less than ten years later, in 2003, LANCÔME Hommes was another landmark on this road towards the emancipation of "men's cosmetics", and today the rapid development of the KIEHL'S brand —one-third of whose customers are men— shows that this was the right path to follow. The result is that today the Luxury Products Division accounts for almost 50% of the skincare market in Europe[3].

Vichy reassures the "sensible" target group

Not all men will join the "hedonist" target group, far from it. A large proportion of men, who may be described as "sensible", are primarily very careful about their health, and need the reassurance provided by the pharmacy setting. With this in mind, in 1986, VICHY launched Basic Homme and took advantage of the pharmacy advice channel to educate a whole generation of men. VICHY today holds 52%[4] of the skincare market in Europe and is continuing to advance rapidly thanks to the success of the firming facial care lines MagC and Silicium R. The brand has also made a very successful move into Eastern Europe and the Russian Federation, where the new generation of consumers is quite prepared to put aside a significant budget for achieving the right look, adopting straight away the behaviour patterns of Western consumers.

L'Oréal Paris wins over the "pragmatists"

But these successes should not hide the fact that most men are essentially "pragmatists", looking above all for simple product choices and affordability. This was the target group in mind when Men Expert was launched by L'ORÉAL PARIS at the end of 2004 in mass-market outlets.
With this range, the whole market has been galvanised: it has doubled in size in France[5] and increased by around 50% in the United States[5]. This is a clear demonstration of the scope of the men's market. It is also becoming more sophisticated: Men Expert's best sellers are in fact eye contour and anti-ageing products.

Hair, a universal male preoccupation

Hair is another important concern for men. Of course they expect shampoos designed for them, and for several years now L'Oréal has been offering highly specific formulations, such as Elsève Anti-dandruff from **L'Oréal Paris**. But the major concern, for more than one out of every two men, remains hair loss. This is a real challenge for L'Oréal research, which took a decisive step in 2005 with the launch of Aminexil SP94 by the **Vichy** brand, enabling it to strengthen its number one position in Europe[4] in this sector.

It seems that the trend in styling (gels and foams) is following a similar pattern to skincare. In 2003, 61%[6] of young European males aged 12 to 19 used at least one product of this type. This was reflected in the success in 2005 of the highly sophisticated styling products Work Hard and Stand Tough from **Redken**, the fashionable New York brand sold in hair salons, which offers urban trend setters the best in haircare.

Fragrances remain the largest market

But the largest sector in men's products worldwide in value terms remains fragrances. The use of perfumes —including *eaux de toilette* and after-shaves—is one of the first personal care trends adopted by men, because it was associated with shaving. This sector accounts for more than 40%[7] of the total men's cosmetics market, and L'Oréal is the world leader[8]. The group extended its lead in 2005 with the combined successes of the **Giorgio Armani** and **Ralph Lauren** brands. **Giorgio Armani**, the world's number one men's fragrance brand, also became number one in the United States in 2005, thanks to the whirlwind success of Armani Code, launched at the end of 2004. Furthermore, **Ralph Lauren** strengthened its positions with the launch of Polo Black, enabling L'Oréal to capture the top four places in the highly competitive United States men's fragrance market at the end of the year[9].

This is just the start. On all continents, men are increasingly taking care of themselves. Driven by skincare, the men's products market is growing rapidly, and if this growth rate continues over the next few years, the rate of expansion could be at least 3 times[10] as fast as the rest of the cosmetics market.

Sources: (1) Ipsos survey. (2) TNS survey for L'Oréal, March 2005. (3) European forecast 2004, NPD Europe 2004 and 2005 trend. (4) IMS panel. (5) Nielsen end-November 2005. (6) Ipsos 2003. (7) Euromonitor 2004 estimate. (8) European forecast 2004, NPD USA 2004, Generation for travel retail 2004 and 2005 trend. (9) NPD USA December 2005. (10) Internal L'Oréal survey.

Top 4 men's fragrances in the United States at the end of 2005[9]

1 - Acqua di Gió
by **Giorgio Armani**

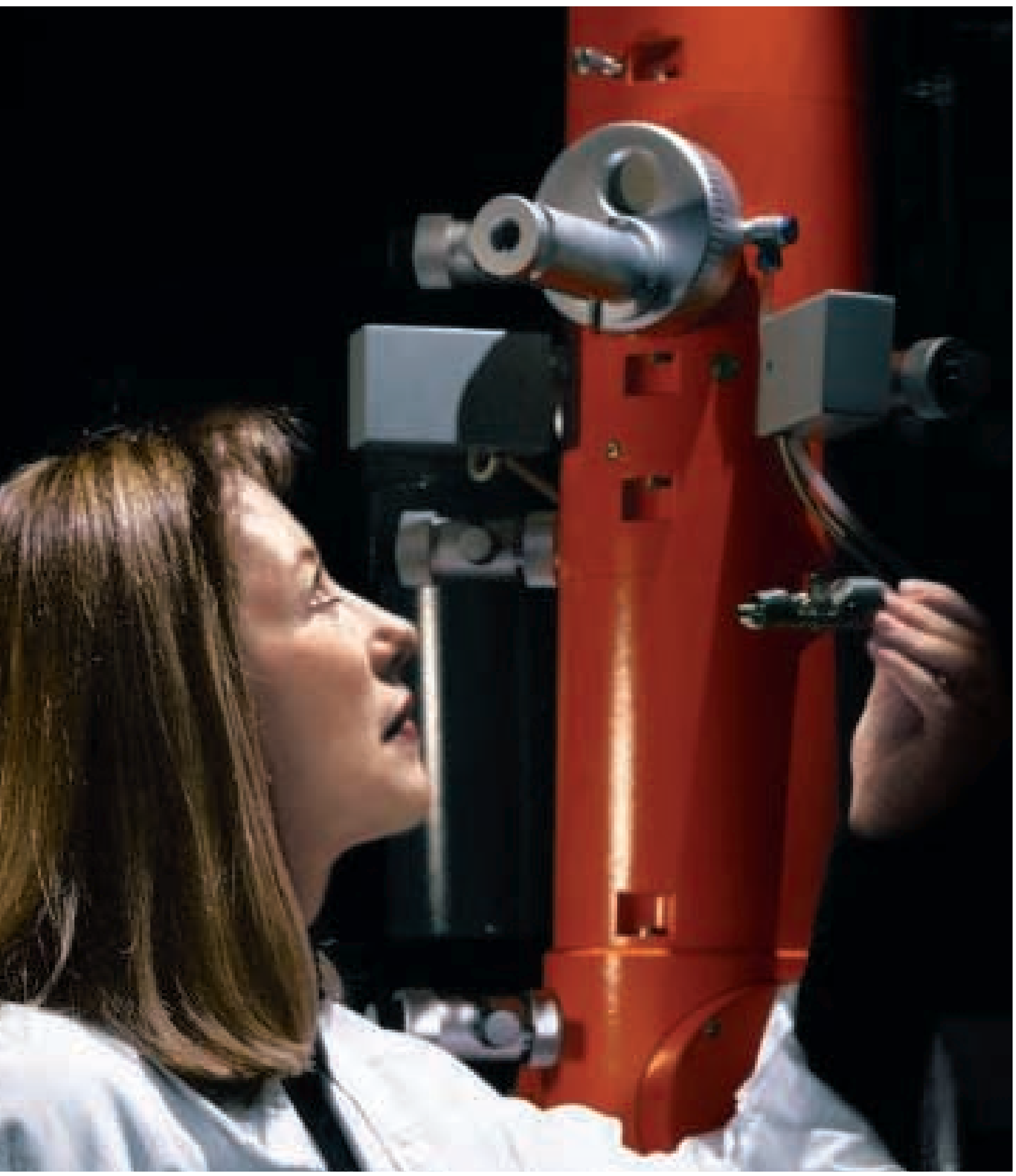
2 - Polo Black
by **Ralph Lauren**

3 - Armani Code
by **Giorgio Armani**

4 - Polo Blue
by **Ralph Lauren**

Research with an eye to the world

Genuine innovation is only possible through a subtle blend of anticipation and respect for diversity, both cultural and environmental. In 2005, L'Oréal's research and development put these principles, intrinsic to all research activities, into practice once again.



Electron microscope used to study the most minute structures of skin and hair.

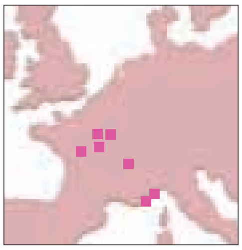
Anticipating the markets of the future

The official opening on September 22nd, 2005 of the Pudong centre, dedicated to research into Chinese skin and hair, in the presence of Sir Lindsay Owen-Jones, was a clear expression of the group's determination to anticipate the markets of the future.
At the opening ceremony, the Chairman and Chief Executive Officer pointed out that 3.4% of the group's annual sales were re-invested into research. Acquiring knowledge of China, its beauty routines and its scientific expertise has therefore become a major pillar of the group's development. It is noteworthy that the Chinese population represents some 2 billion people on the planet.
Each time L'Oréal opens a research centre somewhere in the world, it aims not only to evaluate the specific features of skin and hair, but also behavioural patterns. Studying the impact of the group's products in the context in which they are used, and everyday beauty care habits and routines, makes it possible to adapt and to respect local diversities.
In addition to its research centres, the evaluation centres enable L'Oréal to extend specific features observed in different contexts to other countries and populations. L'Oréal is building significant reservoirs of knowledge and know-how not only for emerging markets, but also for existing markets, which can be enriched by discoveries made elsewhere.

Strong focus on bio-inspired materials

Anticipating future trends remains a crucial issue for research and development. The research conducted in 2005 into structural colour clearly illustrates this determination to anticipate both the requirements of society

COSMETICS AND DERMATOLOGICAL RESEARCH CENTRES WORLDWIDE



France: Chevilly-Larue, Clichy, Tours, Aulnay, Lyon, Sophia Antipolis, Monaco

United States: Clark, Chicago, Princeton

China: Pudong
Japan: Kawasaki, Tokyo

and consumer expectations. By working on photonic structures in nature to create a new generation of cosmetics products, L'Oréal is directing its research towards bio-inspired materials.

Structural colour, the product of interaction between light wavelengths and the structure of certain materials such as mica and silica, could ultimately make pigments unnecessary. In the course of 2006, an initial range of products incorporating this type of process will pave the way for new materials. This advance has been made possible through collaboration with British researcher, Pete Vukusic (see insert).

This researcher has earned a worldwide reputation for his work on characterising unique photonic systems developed naturally by animals, plants and minerals. Butterfly wings illustrate the palette of colours produced by the play of light on what are in fact successive layers of scales.

Nature knows how to organise structures which generate colours. L'Oréal has taken its inspiration from this model, mastering the photonic flows which form light rays.

Renewed focus on combating ageing

With the same focus on future trends, L'Oréal has also been carrying out fundamental research into skin ageing. One project, dedicated to the "hormonal machinery of young and old skin", has pinpointed the hormonal cause of ageing. By drawing on the work of research scientist Fernand Labrie from Quebec in Canada, L'Oréal's researchers have succeeded in revealing the mechanisms of the hormonal machinery of the skin.

Structural colour

"My meeting and subsequent collaboration with L'Oréal's researchers have been a fascinating experience. They are colour specialists and I am a researcher in natural photonics, and together we have found a fruitful field of common endeavour which consists of generating colours without pigments. I have been exploring this field of photonics for years. Nature knows how to organise the structures in butterfly wings and opals to produce shimmering colours without using pigments. I showed and explained these structures to L'Oréal's researchers and, six months later, the teams from the Make-up laboratory came back to me with white and translucent powders and gels, which when applied to the skin, lips and nails, revealed superb colours... just as beautiful as those in nature. This was a great moment for me. My academic work was leading directly to consumer products. It is a great pleasure for me to continue to share my knowledge with them."

PETE VUKUSIC,
SCHOOL OF PHYSICS
EXETER UNIVERSITY (UNITED KINGDOM)

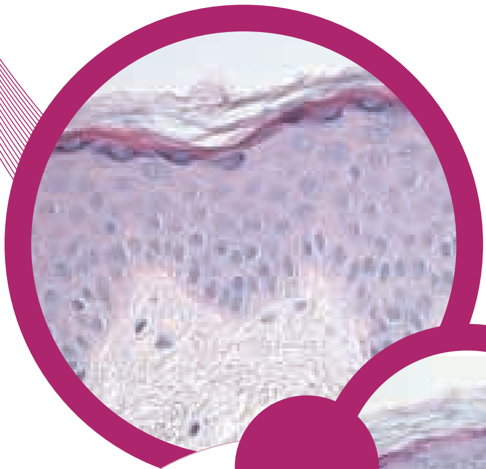
€496m
invested in 2005
(including 50% of Galderma research investments)

529
patents registered in 2005

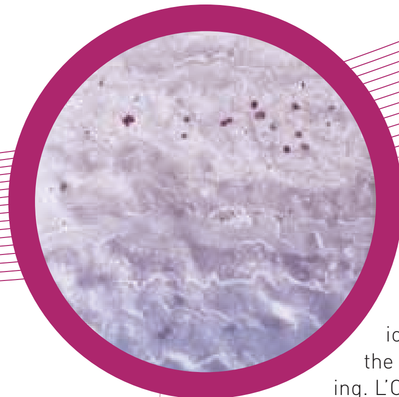
2,903
cosmetics and dermatological research employees
(including 50% of Galderma research employees)

Behind the scenes: Platinéum from Lancôme

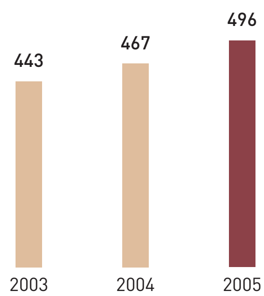
Platinéum, the first women's skincare product dedicated to women aged over 60, is the culmination of an innovative approach based on knowledge, collaboration with worldwide skin experts, the art of formulation and rigorous evaluation.



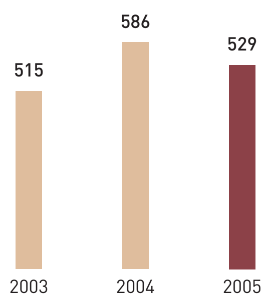
Phase 1
With age, the epidermis becomes thiner and flatter. This atrophy is one of the first signs of skin ageing. In 1985, Professor Peter Elias of the University of San Francisco demonstrated that a normal epidermis has a calcium ion concentration which varies in concentration from the deep layers to the surface of the skin. This concentration diminishes during the ageing process, rendering the skin increasingly fragile.



Phase 2
Based on this observation, it was proposed that calcium ions should be added to the epidermis to prevent ageing. L'Oréal's research laboratories identified the best ingredient in terms of safety and efficacy: a calcium salt, hydroxyapatite, in the form of small spheres whose size has been optimised. In this microscopic view of a cross-section of the epidermis, we can see the restoration of a calcium ion gradient by homogeneous distribution of the grains of hydroxyapatite.



RESEARCH AND DEVELOPMENT BUDGET
(€ millions —including 50% of Galderma research investments)



PATENTS
(cosmetic and dermatological research)

In a second stage, the decryption of this hormonal machinery was tested on samples of reconstructed epidermis, leading to unquestionable progress in our understanding of the phases and mechanisms of ageing.
Other studies into skin ageing have led to considerable advances in our understanding of men's skin, which had not previously been considered a major priority. This has culminated in the development of a predictive model for skin ageing.

As these developments prove, opening up towards the scientific community at world level is a priority for L'Oréal. "Seizing up-and-coming trends" for research and development also means being involved in emerging technologies across the globe, both in the areas of new methodology and of imaging instruments capable of working at the atomic level. This openness will happen through alliances with internationally renowned research scientists and with unusual sectors that have not yet been explored, such as the optical, microelectronic and biotechnological industries.

Sustainable development in innovation

In all its activities and in its anticipation of future developments, L'Oréal's research arm is committed to following the five principles of sustainable development:
- respect for consumers, particularly by protecting them against any risk linked to product use,
- preserving biodiversity in the natural environment and in species,
- adopting an impeccable ethical code in the development of products and in the procedures used for patent registration and knowledge dissemination,
- equity in exchanges with partners,
- taking into account the social and societal impact of the innovations developed.

Phase 3

The effectiveness of the formula incorporating this active ingredient was evaluted by measuring moisturisation and skin tone in a clinical study under dermatological control on 25 people aged 60 and over. The final stage before the launch involved carrying out sensorial evaluation studies of the product to ensure that perceptions of both texture and perfume were positive, and finally, consumer tests to make sure that consumer expectations had been met.

Phase 4

Platinéum has proved a popular choice among consumers because it is a skincare product that provides a tailor-made response for women over 60. Its uniqueness lies in the concept that the skin, like bones, loses its vital calcium content with age. L'Oréal research has succeeded in restoring this calcium content through the development of a unique formulation.

Opening of the first research centre dedicated to Chinese skin and hair in Shanghai

Located in Pudong, on the edge of Shanghai, L'Oréal's research centre in China, the first and only one of its kind created by a cosmetics company, has a team of around forty researchers and technicians. A development laboratory specialising in the study and evaluation of products for the Asian market will be housed in an area of 3,000 square metres.

Initially, development laboratories will focus on make-up, skincare and haircare. In 2006 biology and chemical analysis laboratories will be set up: the biology laboratories will be mainly used for tissue engineering, while the chemical analysis facilities will concentrate on applications for the chemical and plant raw materials used in Chinese medicine. By the end of 2006, the centre will have a staff of more than 60 people.

Innovation and standardisation drive performance

In 2005, the group's factories produced 4.4 billion units. In addition to safety and productivity improvements, this year saw the introduction of a new shampoo manufacturing process in all the factories, and continuing efforts to ensure more efficient production organisation.

Dark and Lovely kit packaging line, Midrand factory (South Africa).

Packaging innovation

70 packaging patents were registered in 2005. Products such as MAYBELLINE XXL and L'Oréal Panoramic Curl mascaras benefited from packaging innovation. Furthermore, the Tecni.art styling range from L'ORÉAL PROFESSIONNEL was awarded the 2005 Packaging Oscar[1] for the Play Ball pack with its innovative ergonomic design that appeals to the senses.
The group has also launched an ambitious worldwide programme to make its bottles more lightweight so as to reduce the quantities of plastics used.

Quality, safety and the environment

94% of output from the factories is ISO 9001-certified, a result achieved while ensuring full compliance with safety, hygiene and environmental standards. In 2005, one-third of the group's manufacturing sites recorded zero accidents resulting in sick leave. Around half of the factories are now certified for safety management in accordance with either OHSAS[2] 18001 or OSHA VPP[3].
The group's target of gaining ISO 14001 environmental certification for all its factories should be achieved in 2006.

Production optimisation continues

The policy of creating technologically specialised factories, which began several years ago, means that productivity improvement still continued in 2005. Equipment standardisation meanwhile is helping to reduce investments in factories.

Subsidiary supply logistics

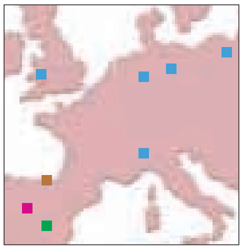
The reorganisation of subsidiary supply logistics is being stepped up, with the implementation of the new approach in North America, South America and Asia. Since last year, the Luxury Products Division in Europe has been operating with a single subsidiary supply logistics system. Setting up this network optimises the flow of information from factories to subsidiaries, while improving the service level and lowering inventory levels.

Cost reduction

In view of the rising cost of raw materials, and oil in particular, the teams of industrial buyers have worked in close conjunction with suppliers on all factors that can help cut costs (process analysis, market massification, value analysis, negotiations with Tier 2 suppliers, etc.). Furthermore, the growing use of reverse auctions and sourcing from emerging countries has brought new cost saving opportunities. These steps, taken across the world, have made a major contribution to cutting packaging and raw materials purchases. As a result, production costs are continuing to decline, with the help of growth in volumes and productivity gains.

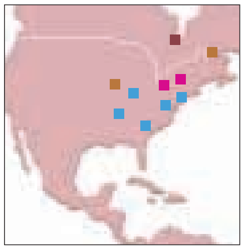
(1) Packaging Oscar awarded on November 24th 2005.
(2) OHSAS: Occupation Health and Safety Assessment Series.
(3) OSHA VPP: Occupational Safety and Health Administration Voluntary Protection Program.

INDUSTRIAL FACTORIES IN THE WORLD

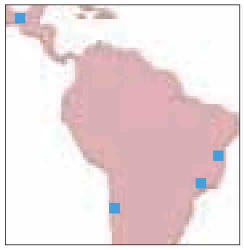


Europe:
20 factories

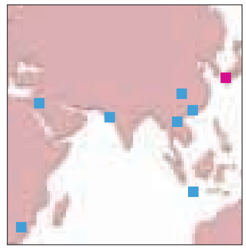
of which France:
12 factories



North America:
10 factories



South America:
4 factories



Asia-Africa:
8 factories

- Consumer Products: 25 factories
- Luxury Products: 7 factories
- Professional Products: 3 factories
- Active Cosmetics: 2 factories
- Dermatology: 2 factories
- Raw materials: 3 factories

	2003	2004	**2005**
Millions of units Cosmetics plant output	3,853	4,307	**4,379**
€ millions Cosmetics investments (production & physical distribution commitments)	332	293	**288**
Index (base: 100 in 2003) Comparable product purchasing price index trend	100	95.6	**92.1**
Units Packaging patents	81	80	**70**

2005	Cosmetics output	Cosmetics sales
Western Europe	51.4%	47.4%
North America	27.0%	27.2%
Rest of the World	21.6%	25.4%
Total	**100.0%**	**100.0%**

New shampoo process

Shampoo lines account for a very large proportion of manufacturing volumes at L'Oréal. Any improvement in this area therefore has a substantial economic impact on factory productivity.

The development of a new process has enabled much shorter manufacturing times for shampoos. This means a significant drop in production costs.

As a result, the current production capacity should now be adequate to cope with the levels of growth forecast for shampoo's volumes for the next three years with no need for additional investments.

Strengthening human capital

With 52,403 employees in 58 countries, L'Oréal follows a human resources policy revolving around diversity. In 2005, L'Oréal stepped up its efforts in all countries to recruit and effectively integrate the talents of the future, to develop skills and to provide a fast track for future business leaders.

Developing sensitivity to the products.

Spotting the talents of tomorrow

To track down the talents of tomorrow to familiarise them with the specifics of its business, L'Oréal launched two new initiatives in 2005:
-the launch of a global recruitment campaign, "To build beauty, we need talent", across 50 countries,
-the creation of the "L'Oréal Ingenius Contest", a competition between 48 French and Chinese trainee engineers. Each team received coaching from L'Oréal managers and competed to develop the most innovative industrial project.

Long-term vision and operational activity on campuses worldwide are the two major components of L'Oréal's recruitment policy. In 2005, the group therefore continued the international roll-out of its business games. The "L'Oréal e-Strat Challenge" was opened up to more than 36,000 students in 125 countries. "Brandstorm", the marketing game now in its 13th year, brought together more than 4,000 students from 31 countries who worked on innovative projects for the Studio Line product range.

According to the 2005 "Trendence" survey of 22,000 students from 11 European countries, L'Oréal is ranked equal first on the list of preferred companies to work for, according to European business school students.

Lastly, in 2005 L'Oréal hired 2,027 executives of 75 different nationalities, including 242 young executives who had completed an operational internship.

Encouraging debate and sharing know-how.

Facilitating and personalising integration

Recruiting new talents has always been considered as a long-term investment. To facilitate the integration of new employees, L'Oréal has created the "Follow-up and Integration Track" programme (FIT). This cross-functional project involves the Management Committee, team managers, HR teams and new employees.

Inspired by best practices of proven international effectiveness, FIT is a two-year personalised support programme with six phases designed to enable the new employee, whether a recent graduate or an experienced executive, to better understand the group's operations and find the best career path inside the group.

By focusing on the integration process, this programme ensures respect for cultural diversity, and enables new employees to be effective more quickly, while instilling in them both the desire to continue their adventure within L'Oréal and the knowledge they need to do so. The strengthening of the diversity of talents and the transmission of the corporate culture, the expertise and the know-how which have ensured the success of L'Oréal are thus helping to secure its long-term future.

Understanding the business, developing skills, transmitting the corporate culture

To ensure that employees can easily gain access to training and career development programmes, L'Oréal has built a network of four "Management Development Centers" worldwide, the latest of which is the Asian centre in Shanghai, opened in 2005.

2005 highlights

■ **February**
L'Oréal creates the "Follow-up and Integration Track" programme (FIT), under which the new employee, whether a recent graduate or an experienced executive, follows a six-phase personalised integration programme over two years.

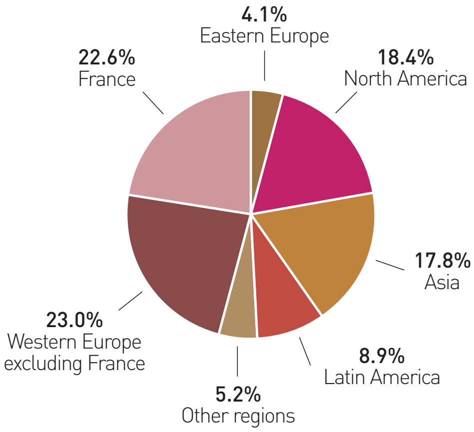
■ **April**
After New York, Rio de Janeiro and Paris, the 4th "Management Development Center" is officially opened in Shanghai to serve Asia and provide employees with better access to training and development courses.

■ **June**
L'Oréal is voted joint number one (with BMW) in the rankings of preferred companies to work for, according to European business schools ("Trendence" survey of 22,000 students in 11 European countries).

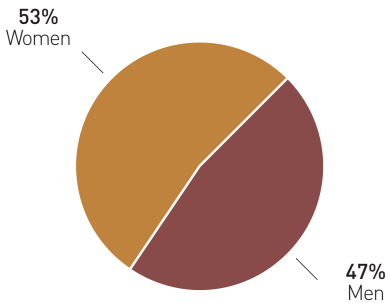
■ **September**
Launch of a worldwide recruitment campaign, "To build beauty, we need talent", in over 50 countries.

According to the Hewitt Associates' survey conducted in Europe "Top 10 Companies for Leadership", L'Oréal is number 2 for generating leaders.

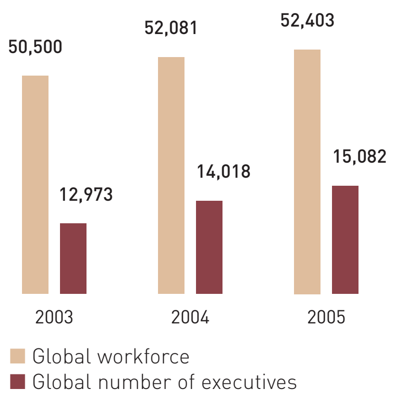
■ **November**
Launch of the "L'Oréal Ingenius Contest" 2006 version, a worldwide industrial strategic game. After France and China the game has been extended to: Brazil, Mexico, United States and Germany.



EMPLOYEES BY GEOGRAPHIC ZONE



BREAKDOWN OF FEMALE AND MALE EXECUTIVES



CHANGE IN WORKFORCE

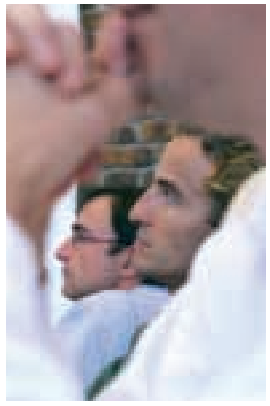
"L'Oréal e-Strat Challenge": discovering future talent.

Business games

"L'Oréal Brandstorm"
This game gives students around the world the chance to experience what marketing really involves. The 13th edition of "L'Oréal Brandstorm" proved extremely successful, with the participation of 4,000 students from 31 countries, representing 176 schools and universities. A jury of senior executives from L'Oréal and McCann Erickson gave its verdict on the best marketing strategies for the Studio Line range. The University of Saint-Gall in Switzerland took 1st prize for the second time (a unique achievement in the history of the game). Distinctions were also awarded to Monash University (Australia), University of Cape Town (South Africa), University Teknologi (Malaysia) and Universidad Adolfo Ibáñez (Chile).

"L'Oréal e-Strat Challenge"
This competition, the first one of its kind, enables students to rapidly gain experience of the cosmetics industry by using the latest tools available on the Internet. Success in this online game means successfully dealing with real-life business situations. More than 36,000 students from 125 countries took up the challenge of the 5th edition. First place in the MBA section went to the Brazilian team from Coppead Graduate School of Business from Rio de Janeiro and in the Bachelor's Degree section to the Chinese team from University of Business and Economics from Beijing.

"L'Oréal Ingenius Contest"
In 2005, French and Chinese trainee engineers took up the challenge of designing an industrial site for L'Oréal. Supported by group managers, 48 students from five schools and universities created virtual factories, demonstrating their talents for innovation, teamwork and decision-making. Industrial experts from L'Oréal designated Zheijang University (China) and Ecole des Mines de Paris (France) as the winners, and awarded them international training courses in industry.



Personalised training programmes offer everyone the skills they need to ensure career progress.

L'Oréal draws up personalised training programmes for executives in each geographic zone. In 2005 the training course range was substantially extended by a number of measures:
- the series of "Transition to" management programmes, providing support for managers each time they take on new responsibilities, was extended by the "Transition to Advanced Management" module. Developed in partnership with Cranfield University, this seminar provides training for managers appointed for the first time to a Management Committee or a similar position,
- to optimise resources and enrich content, some marketing seminars for product managers in the group's four divisions have been pooled based on a common core programme and expertise modules which are specific to each division,
- to raise employees' awareness of the different dimensions of luxury products, the Luxury Products Division has developed a specific "Luxury energies" programme,
- the creation of a seminar, "HR Manager as Business Partner", in partnership with Cranfield University, which enables HR directors to play a key role in supporting change.

Support for senior executives has also been strengthened by the creation of new programmes:
- "Global Learning Alliance", a joint experience with four leading worldwide companies,
- "Re-Source", seminars focusing on central issues linked to senior executive responsibilities and the business of L'Oréal.

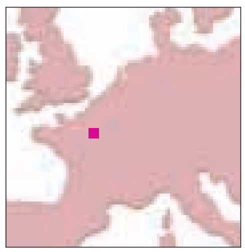
Finally, in partnership with Cedep (European Centre for Continuing Education), sessions providing opportunities for dialogue and enabling exchanges between Group Senior Management and executives in all the company have been intensified.

Raising leaders' awareness of their responsibilities

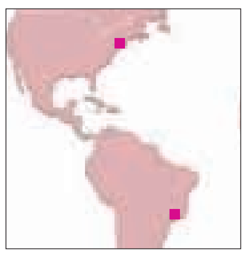
Based on the "Talent Development" system which enables each executive to take part in an individual assessment and development interview, the promotion of junior employees with leadership potential is one of the specific features of the human resources policy and one of the keys to L'Oréal's success. Close monitoring of the individuals and participation in programmes designed to develop their leadership qualities ensure that these junior managers gain the skills they need to ensure that their career progresses.

The structure of L'Oréal's Management Committees reflects the possibilities for individual development, mobility and career path diversity offered by the group: 26% of Committee members are non-locals and 33% are women.

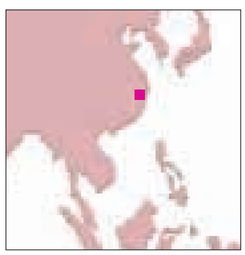
MANAGEMENT DEVELOPMENT CENTERS



Europe:
France, Paris



Americas:
New York
Rio de Janeiro



Asia:
Shanghai

Good citizenship and a sense of responsibility

Fully in line with the principles of its first-ever sustainable development report, published in 2004, L'Oréal once again demonstrated in 2005 its determination to link closely its economic growth with strong ethical principles and a genuine awareness of its responsibilities.

The winners of the 2005 L'Oréal-Unesco For Women in Science Awards.

L'Oréal-Unesco For Women in Science Programme 2005

In 2004, of the 190 members of the French Academy of Sciences, only 14 were women. From 1903 to 2004, only 12 out of 503 Nobel Prizes for Science were awarded to women. Aware of the fact that women today are under-represented at the highest levels of science, and convinced that women of science can influence the scientific orientations of tomorrow through a new social vision of science and its benefits, L'Oréal has been committed since 1998 to encouraging and recognising the achievements of women scientists.
The For Women in Science programme, developed in partnership with Unesco, has three parts: five eminent female scientists from the five continents are chosen to receive awards, 15 international fellowships are awarded to women students pursuing post-doctorate studies, and national scholarships are awarded in around fifteen countries. Similar scholarships are to be developed in more than 50 countries, including France.

Sir Lindsay Owen-Jones, Chairman and Chief Executive Officer of L'Oréal, Koïchiro Matsuura, General Manager of Unesco.

Diversity, a cornerstone value

L'Oréal aims to encourage diversity not only in its products and distribution channels, but also in its teams. A signatory of France's Diversity Charter in December 2004, the group continued its efforts in 2005 by:

- appointing a Diversity Co-ordinator reporting to the International Recruitment unit,
- developing training and awareness raising programmes aimed at human resources departments, managers and employees,
- diversifying recruitment sources (presence at forums and partnerships with associations or temporary employment agencies which promote the interests of minorities),
- developing an international integration programme,
- offering scholarships to assist disadvantaged students in pursuing selective studies, to support foreign students and to promote the interests of women,
- setting up a handicap audit covering all the group's sites in France.

In acknowledgement of the group's commitment, its efforts in favour of visible minorities, and its anti-discrimination policy, Sir Lindsay Owen-Jones was recently presented with the Anti-Defamation League's International Leadership Award.

Protecting the environment and strengthening safety

In the field of Safety, Health and the Environment (SHE), L'Oréal set itself three priorities in 2005: to reduce the quantities of water and electricity consumed to make each finished product (eco-efficiency measurements) and improve safety in all its activities. In addition to these priority goals, the group is determined to improve all its key performance indicators (KPI) in the fields of environment and safety. Furthermore, L'Oréal is committed to applying its internal standards all over the world, even if the requirements of local laws and regulations are less demanding. The compliance of its sites with internal standards and the regulations of host countries is therefore monitored through a comprehensive audit programme. The group's industrial sites also compile monthly reports covering more than 80 KPIs in SHE-related fields.
A full and detailed report on the SHE programmes, indicating the progress made, will be included in the Sustainable Development Report, which can be consulted on the group's Internet site: www.loreal.com.

Fostering social dialogue

L'Oréal is committed to a constructive social dialogue through the various bodies that represent personnel in countries in which it operates.
In 1996 an agreement was signed between the management and French and European trade union organisations (FECCIA and EMCEF), creating the L'Oréal European Works Council (IEDS).
The Council's aim is to provide personnel representatives with information, and exchange ideas with them, about the group's situation and its economic, financial and social outlook. With the enlargement of the European Union in 2004, the IEDS is now made up of 30 members representing 15 countries, for whom economic and social training is provided. A Secretariat for Liaison, in which at least two nationalities must be represented, is responsible for maintaining links between management and the members.
In 2006, the tenure of the IEDS personnel representatives will be renewed for the third time in succession.

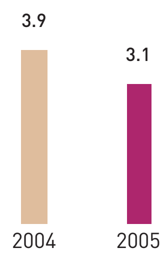
A recognised commitment

In view of all these ongoing efforts, L'Oréal is included in most of the international sustainable development stock market indexes (ASPI Eurozone, FTSE4Good Indexes and Ethibel Sustainability Index).

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

	2004	2005	**Change**
Litre/finished product Water consumption	0.750	0.717	**–4.4%**
kWh/1,000 finished products Energy consumption	188	186	**–1.0%**
In % Waste reuse and recycling index	89.3%	89.2%	**–0.1%**

CHANGE IN ENVIRONMENTAL INDICATORS
(group factories and distribution centres)



WORK ACCIDENTS PER MILLION HOURS WORKED

In one year, the work injury frequency rate (number of accidents resulting in sick leave/1 million hours worked) of the group's industrial sites and distribution centres has fallen by 20.5%.

Françoise Rivière, General sub-manager of Unesco and Jean-Jacques Lebel, President Professional Products of L'Oréal.

Hairdressers of the World against AIDS

On May 3rd 2005, Unesco and L'Oréal's Professional Products Division launched the preventive education programme "Hairdressers of the World against AIDS" through the group's network of hair salon professionals. This programme is continuing the work begun by the programme set up by L'Oréal South Africa and SoftSheen·Carson in 2003. Under this scheme, more than 200,000 days of training were provided to hairdressers from two countries in Sub-Saharan Africa and from South Africa.
The Professional Products Division has 115 technical training centres in more than 50 countries, with several thousand instructors committed to the success of this educational project. Aimed at 400,000 partner salons all over the world, the programme should reach more than two million professionals.
Training materials have been compiled in conjunction with Unesco. Up to now, pilot programmes adapted for the culture of each country have been launched in India, Brazil and France. Hairdressers, who are the ambassadors of the campaign, pass on their knowledge to the customers who frequent their salons, which are centres for the exchange of ideas and dialogue all over the world.

Dedicated to beauty in every distribution channel

PROFESSIONAL PRODUCTS

46

Partnership with hairdressers all over the world with products exclusively for salons.

L'ORÉAL PROFESSIONNEL
KÉRASTASE
REDKEN
MATRIX
MIZANI

CONSUMER PRODUCTS

52

Affordable products through mass-market retail channels.

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

LUXURY PRODUCTS

60

A selective presence with personalised advice in department stores, perfumeries, travel retail outlets and the group's own boutiques.

LANCÔME

BIOTHERM

HELENA RUBINSTEIN

GIORGIO ARMANI

RALPH LAUREN

CACHAREL

KIEHL'S

SHU UEMURA

VIKTOR & ROLF

ACTIVE COSMETICS

68

Dermocosmetic skincare products sold in pharmacies and prescribed by dermatologists.

VICHY

LA ROCHE-POSAY

INNÉOV

SKINCEUTICALS

PROFESSIONAL PRODUCTS

L'ORÉAL PROFESSIONNEL ▪ KÉRASTASE ▪ REDKEN ▪ MATRIX ▪ MIZANI

CHALLENGES & STRATEGY

JEAN-JACQUES LEBEL,
PRESIDENT
PROFESSIONAL PRODUCTS

"Our first challenge is to be the partner of the greatest number of hair salons around the world, and to strength our position as leader through an unrivalled portfolio of complementary brands.
The second challenge is to speed up the Division's roll-out in geographic areas where growth and development potential is significant, notably China, India, Latin America and Eastern Europe.
The third challenge forms part of our ongoing policy of development for the profession, through the creation of new products, services and through education, which will contribute to the rapid expansion and modernisation of the professional channel.
With 115 L'Oréal Academies worldwide, the Division confirmed its position as the world leader in hairdresser training in 2005.
The commitment with Unesco and the world's hairdressers to combat AIDS is also a core element of our sustainable development."

OUTSTRIPPING THE MARKET AND THE COMPETITION

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Like-for-like
Western Europe	951.1	960.1	46.6%	+0.9%	+1.0%
North America	594.4	649.6	31.5%	+9.3%	+7.8%
Rest of the World	375.0	451.2	21.9%	+20.3%	+15.8%
Total	**1,920.4**	**2,060.9**	**100%**	**+7.3%**	**+6.1%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

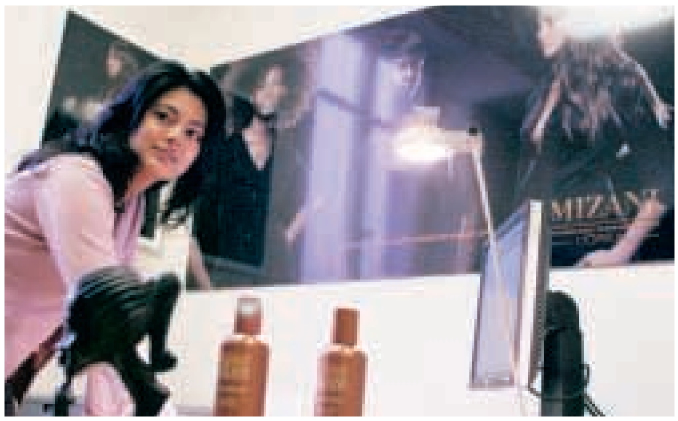
IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Like-for-like
Hair colourants	767.8	813.9	39.5%	+6.0%	+4.7%
Styling & waves	351.8	359.4	17.4%	+2.2%	+1.3%
Shampoos & haircare	800.8	887.6	43.1%	+10.8%	+9.5%
Total	**1,920.4**	**2,060.9**	**100%**	**+7.3%**	**+6.1%**

In 2005 for the sixth year running, the Professional Products Division grew ahead of the market and its main competitors. With a like-for-like growth rate of +6.1%, the Division gained market share on all continents.

Growth rates were +1% in Western Europe, +7.8% in North America, +30.2% in Eastern Europe (including +48.3% in the Russian Federation), +19.4% in Asia (excluding Japan), +17.1% in Latin America and +12.9% in the Rest of the World (including India with +58.2%).

2005 HIGHLIGHTS

- With a series of successful launches, KÉRASTASE significantly strengthened its position as a leader in the largest luxury hair salons all over the world.
- L'ORÉAL PROFESSIONNEL contributed very substantially to the dynamism of the professional market with three major innovations: Hi-Richesse colourant, Absolut Repair haircare and Play Ball styling products.
- REDKEN strengthened its position as a New York brand across the globe, reinventing the hairspray sector in the styling market.
- MATRIX extended again its geographic coverage during the year by successfully expanding into new countries, notably India and Brazil.



Committed teams, in the Professional Products Division, develop outstanding and innovative products to respond to hairdressers' requirements all over the world.

2006 OUTLOOK

Several favourable factors will support the sales of the Professional Products Division in 2006:
-the success of the main launches at the end of 2005, backed up by a very extensive product innovation programme in 2006, will have a positive impact,
-MATRIX is set to continue its global roll-out and step up sales in new and emerging markets,
-lastly, efforts in education will be continued, particularly in the new markets, with the opening of the first L'Oréal hairdressing school in Mumbai for example.

The Professional Products Division has a portfolio of unique and complementary brands. However mature the local professional market is, the Division is able to satisfy the needs of all categories of hair salons throughout the world. It develops services and provides products that correspond to hairdressers' expectations in terms of hair colourants, textures and hair care.

KÉRASTASE – France.

MATRIX – Brazil.

L'Oréal Professionnel

In 2005, L'ORÉAL PROFESSIONNEL strengthened its position, while boosting the hair salon market, by launching particularly innovative products and services:
- in colourants, the revamping and extension of the Richesse range have already proved extremely successful, winning the brand many new customers. The relaunch of the Majirel range enjoyed a favourable reception on all continents, and the new lightening paste Platinium, experienced strong demand from the most exclusive salons, enjoyed growing success,
- in haircare, the Absolut Repair range, with its star product Renew C featuring new AHA technology, enables instant in-depth repair of severely damaged hair,
- in styling, Play Ball will build up the Division's position in styling products for young, independent-minded trendsetters.

Kérastase

The brand's expansion continued with high growth rates in the United States (+30.7%), Asia (+26.7%) and Japan (+25.5%). These markets have exceptional growth potential, and are making a strong contribution to creating and enriching the KÉRASTASE institute brand concept.
Successful innovative launches drove the brand's rapid progress in all countries:
- the global launch of the Réflection range for coloured hair again proved highly successful, demonstrating its remarkable capacity to win the brand new customers,
- the launch of Volumactive haircare products, which add lasting body and volume to fine hair thanks to a technological innovation: Ampli ciment compound,
- building on the success of the Age Recharge mask for hair which lacks body, the brand launched Lipo-Recharge, an anti-ageing scalp treatment for healthier hair.

Redken

The brand achieved +9.3% growth in 2005, and saw its market share rise substantially in North America with high penetration in ultra-fashionable hair salons. REDKEN strengthened its position in hair colourants thanks to Color Fusion and Shades EQ, which achieved growth rates of +14% and +18.6% respectively. A series of successful launches also resulted in gains in the men's products, haircare and styling sectors. The new styling sprays launched at the end of the year, featuring "24 H humidity resistance" technology, are already proving a resounding success.

Matrix

Originally from America, MATRIX is targeted at a wider range of salons offering affordable prices and services. The brand's sales grew by +10.7% in 2005 with a very significant contribution from new and emerging markets such as Brazil, India, China and Eastern Europe. The year was notable for major product success stories such as the complete make-over for the Biolage haircare range featuring "Céra Repair" technology, the launch of the Color Smart haircare range, and the revamping of Vavoom styling products.

Mizani

This African American brand, drawing on the latest technologies from the Chicago-based laboratories, expanded its sales strongly in 2005, and kick started its global roll-out in the top multi-ethnic salons in Europe and South Africa.

WORLD LEADER IN EDUCATION

The new Academy, at 14 rue Royale in Paris, is the nerve centre of a network of 115 Academies across the world. This network makes L'Oréal the number one partner for hairdressers and the world leader in education.
3,000 instructors worldwide provide training courses aimed at everyone who works in the hair salon sector: apprentices, young hairdressers, colourant specialists, designers, and salon managers.
All aspects of hairdressing business are covered: techniques, aesthetics, human resource and managerial issues, using teaching methods specially devised for hairdressers which are adapted to suit the needs of each region in the world.
The design of our Academies —and especially the Academy at 14 rue Royale— reflects this teaching approach, and demonstrates L'Oréal's commitment to fostering the economic development of the profession.
The leading specialists in renovation, interior architecture, stage lighting and furniture creation have contributed to making the Academy at 14 rue Royale in Paris the largest training centre in the world.

L'Oréal Professionnel, Hi.Richesse
Ammonia-free, tone on tone colourant care.

L'Oréal Professionnel, Play Ball by Tecni.art
Styling for young people.

Kérastase, Volumactive
Haircare range for fine hair.

Redken, Hairspray
Styling hairsprays.

Matrix, Biolage
A complete range of haircare products.


RIDES
L'ORÉAL
PARIS

CONSUMER PRODUCTS

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

CHALLENGES & STRATEGY

PATRICK RABAIN,
PRESIDENT
CONSUMER PRODUCTS

"Three strategic ideas provide the inspiration for all our objectives:
- stepping up the pace of our geographic roll-out enables even faster progress in high growth markets (Eastern Europe, Asia, Latin America and North America). In 2005 for the first time, these markets accounted for 53% of our sales. But Western Europe can still contribute to our growth, as shown in the second half of 2005 through the increase in the value of units sold and targeted product initiatives,
- new products are at the heart of our growth strategy. Innovation, the quality of new formulations and the way new products are brought to market are all crucially important in adding to sales in a long-term perspective and in winning market share. Nutri-Gloss haircare products, UltraLift and RevitaLift anti-wrinkle products, Volume Shocking mascara and Dream Matte Mousse foundation have been spectacular successes wherever they have been launched, whatever the difficulties of specific local markets,
- tapping into new consumer categories can bring a new dynamism to markets in Western Europe and North America. In many segments, such as sun protection and anti-wrinkle skincare, penetration in the use of products essential for well-being and beauty remains astonishingly low. Furthermore, the increase in life expectancy and the new aspirations of the baby boom generation are leading to dynamic new consumption patterns for specific products. Lastly, men —already major consumers of haircare and hygiene products— will provide a substantial new source of growth in the facial skincare segment, as shown by the results of the Men Expert line."

SECOND HALF OF 2005 AUGURS WELL FOR 2006

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Growth 2005/2004 Like-for-like
Western Europe	3,525.0	3,520.1	46.9%	–0.1%	–0.1%
North America	1,901.5	2,077.1	27.7%	+9.2%	+7.5%
Rest of the World	1,623.6	1,902.2	25.4%	+17.2%	+10.8%
Total	**7,050.1**	**7,499.4**	**100%**	**+6.4%**	**+4.6%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Growth 2005/2004 Like-for-like
Hair colourants	1,480.6	1,543.2	20.6%	+4.2%	+1.9%
Haircare and styling	2,081.5	2,196.0	29.3%	+5.5%	+3.8%
Make-up	1,910.6	2,026.2	27.0%	+6.1%	+4.2%
Skincare	1,242.0	1,414.6	18.9%	+13.9%	+12.3%
Other	335.4	319.3	4.3%	–4.9%	–5.6%
Total	**7,050.1**	**7,499.4**	**100%**	**+6.4%**	**+4.6%**

In 2005, like-for-like sales in the Consumer Products Division increased by +4.6% and by +6.4% based on published figures. As well as very strong performance in North America (+7.5% like-for-like) and the Rest of the World, figures in Western Europe improved in the second half.

There was a key turnaround: after three consecutive half-years which saw a lack of dynamism in value terms, the second half of 2005 saw a sharp revival in average price per unit sold, which means the Division is starting 2006 with a positive pricing position.

2005 HIGHLIGHTS

- Strong growth in North America (+7.5%), Eastern Europe (+22.1%) and Latin America (+9.6%).
- After a negative first-half (–1.2%), Western Europe picked up in the second half (+1.1%) with strong pushes in haircare and skincare bringing market share gains from September onwards.
- For the first time, the non-haircare businesses accounted for 50% of the Division's sales, driven by skincare where sales have doubled over the last five years.
- Cost reduction programmes continued in 2005, speeding up cost savings and lowering expenses through the streamlining of organisational structures and the optimisation of media planning and purchasing with a new agency.

With their wide variety of backgrounds, the Consumer Products Division teams develop affordable products that combine high technology with strong added value.

2006 OUTLOOK

A number of factors should bolster the Division's growth in 2006:
- Western Europe: the Division should achieve positive growth as it capitalises on the gains in market share seen in the fourth quarter of 2005 in haircare, facial skincare and make-up. A major product initiative is also planned in the styling segment. In addition, 2006 is starting out with a more favourable price/quality mix than the beginning of 2005,
- North America: as in 2005, the Division should continue to achieve high growth, faster than the market rate, with contributions from several key product initiatives. GARNIER in particular, the spearhead of the growth in the United States, should continue its market success,
- Rest of the World: performance should be even better than in 2005, boosted by the L'ORÉAL PARIS brand, which is proving to be an inspiration, with products ideally suited to the newly developing middle classes who are eager for high quality goods. Sales in China, along with the Russian Federation, India and Brazil, should be outstanding.

The Consumer Products Division distributes its products through all mass-market channels. Its highly diversified brand portfolio offers consumers affordable products that combine high technology with strong added value.

L'ORÉAL PARIS – China.

GARNIER – United Kingdom.

L'Oréal Paris

In 2005 the brand achieved +4.5% like-for-like growth in sales.
Performance during the year was outstanding in skincare, very good in make-up and haircare, with more contrasting trends in hair colourants and styling. The world's number one cosmetics brand with sales of €4 billion, L'ORÉAL PARIS targets extremely demanding consumers looking for effective products with strong technological added value. Through this strategy, which places its products in a premium position, L'ORÉAL PARIS is positioned at the upper end of the mass-market cosmetics sector.
In 2005, star actresses Scarlett Johannsson and Penelope Cruz joined the dream team of ambassadors of all origins, who represent beauty in its many forms at all ages, which underpins the brand's appeal.
After originally specialising in haircare, in recent years, L'ORÉAL PARIS has achieved dominant positions in the make-up and skincare sectors, particularly men's skincare.
In 2005, L'ORÉAL PARIS continued to launch strongly innovative higher-value products:
- in skincare, the RevitaLift Double Lifting aimed at women over 50 owes its success to its unique twin-level action: immediate smoothing of the skin, and in-depth wrinkle treatment and firmness enhancement. Its double pump packaging concept has no equivalent in the market.
Another big success story, Collagen Filler, the first intense anti-wrinkle skin treatment, is aimed at consumers looking for high technology products using ingredients favoured by dermatologists such as collagen.
Men Expert, the first anti-ageing skincare range for men was launched at the end of 2004 and has proved an unprecedented success by ranking first or second in men's markets in both Europe and America.
Lastly, L'ORÉAL PARIS confirmed in 2005 its number one position in products that promote smoother skin with Perfect Slim and self-tanning skincare with the Sublim' Bronze range,
- in make-up, the brand continued its success story with two major product triumphs, each number one in its sector: the long-lasting foundation Infaillible and Volume Shocking mascara, which doubles eyelash volume with a unique formulation and packaging concept, protected by a total of 16 patents. The success of Volume Shocking, sold at twice the average market price, again demonstrates the ability of L'ORÉAL PARIS to win over women with high-value products,
- in haircare, Elsève benefited from the success of its Nutri-Gloss shampoo. Aimed at young people aged 18-35, Nutri-Gloss lines up alongside the brand's other flagship products, such as number one shampoo Elsève Color Vive for coloured hair,
- in hair colourants, Excellence —with its unique "triple protection" positioning— has confirmed its strength and has recorded strong growth in all regions.

Garnier

In 2005, GARNIER sales increased by +8.4% like-for-like. Continuing its growth in Western Europe, the brand increased the pace of its development in the United States and new and emerging markets (Eastern Europe, India, South-East Asia and Latin America).
GARNIER offers affordable products of proven efficacy which mainly use natural active ingredients. Always close to its consumers, GARNIER implements its strategy by incorporating a local dimension to appeal to the sensibilities of a region's varied cultures.
In the haircare market, GARNIER again achieved double-digit growth thanks to the success of the Fructis range in the United States, with flagship products such as Sleek and Shine shampoos with micro-oils, for haircare and smoothing ideally suited to Hispanic hair. In the North American market, Fructis Style has risen to second place only two years after its launch.
In hair colourants, Nutrisse once again achieved double-digit growth thanks to strong expansion in Western Europe, the United States and Latin America, where the brand is now number one in Mexico and Brazil. Color Naturals has continued to prove an outstanding success in Eastern Europe, particularly in the Russian Federation, and in India, confirming GARNIER's position as the affordable quality brand for new and emerging markets. Thanks to all these initiatives, GARNIER took, in 2005, the number two spot worldwide in hair colourants, just behind L'ORÉAL PARIS.
The brand also stepped up its growth in facial skincare, particularly in Western Europe, where Garnier Skin Naturals scored the highest market growth, but also in Eastern Europe and the Russian Federation in particular, where GARNIER is already the number one international brand. This success has been achieved through successful relaunches of products such as the Ultra Lift anti-wrinkle range, and the promising start made by the newly launched Nutritionist range.

L'Oréal Paris – Germany.

L'Oréal Paris, RevitaLift Double Lifting
An intense firming gel is combined with an anti-wrinkle cream for in-depth long-lasting active treatment.

L'Oréal Paris, Infaillible
A perfecting foundation which helps the skin resist signs of fatigue.

L'Oréal Paris, Collagen Filler
The first intensive wrinkle reducing skincare product with collagen biospheres.

Garnier, Nutritionist
A regenerative moisturiser with Omega 3 and 6 active cellular concentrate.

L'Oréal Paris, Elsève Nutri-Gloss
A pearl-protein shampoo that penetrates the hair fibre to deliver targeted nutritive effects.

Garnier, Oil Repair Fructis
The first strengthening programme featuring nutritive fruit micro-oils.

GARNIER has also made progress in bodycare with its Bodytonic and Bodyrepair lines, and in sun protection with Ambre Solaire and Clear Protect sprays which ensure a high level of protection while avoiding white traces. Confident of its position in this market of the future, in 2006 GARNIER will be boosted by the acquisition of the Delial brand, which is market leader in Spain.

MAYBELLINE – Spain.

SOFTSHEEN·CARSON – South Africa.

Maybelline New York

MAYBELLINE NEW YORK, the world's number one make-up brand, sold in 90 countries, achieved like-for-like growth of +2.9% in 2005. While sales in Western Europe remained stable, they are steadily advancing in the rest of the world, particularly in the Russian Federation, Poland, India and Mexico.
MAYBELLINE is positioned as a universally appealing American brand, which is trendy, urban and affordable, but is now also developing a growing number of products and formulations tailored for different regions of the world.
Market share for MAYBELLINE has been boosted amongst its traditional target group of young people, while its offering has been extended to also include older customers, an especially important market in the United States, notably with Instant Age Rewind foundation for mature skin.
Following the success of Dream Matte Mousse foundation, MAYBELLINE has extended the range with the launch of Dream Mousse Blush.
In eye make-up, the brand has continued to develop XXL Length + Volume mascara with a new variant, XXL Intense, for dramatically long lashes and maximum volume. 2005 was also notable for the launch of Unstoppable, a 100% ultra-lengthening mascara which does not run but can be removed with water. These launches have bolstered the number one position of MAYBELLINE in the mascara segment, bringing record results.
Finally, in the lipstick market, the brand has seen sales increase, thanks in particular to the launch of Hydra Extrême, with its extreme moisturising capacity. In Japan, the world's second-largest cosmetics market, Water Shine lipstick has become one of the segment leaders.

SoftSheen·Carson

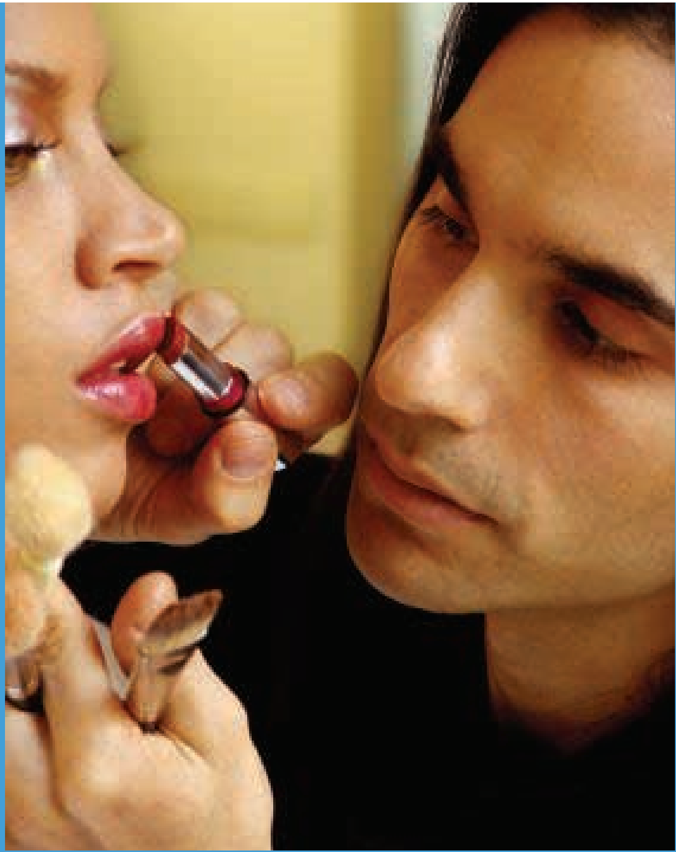
The world leader in haircare for consumers of African origin, SOFTSHEEN·CARSON achieved positive growth in the United States, but the environment was more difficult in South Africa, with a reorganisation of the brand's production facilities.
However, thanks to the relaunch of Dark and Lovely at the end of 2004, sales of hair straightening products have continued to increase, boosting the brand's position as world leader in this sector.

CCB-Club des Créateurs de Beauté

For cosmetics mail order and Internet sales company CCB, jointly owned 50/50 by L'Oréal and 3 SUISSES, 2005 was a year of contrasts, with a good performance in Asian markets, particularly in Taiwan, but slower sales in France and a difficult situation in Germany. Internet sales are continuing to forge ahead with +57% growth with around a quarter of CCB sales in France now made via the Internet, rising to 33% in December 2005. The success of this sales channel was also illustrated when the Internet site ccb-paris.com was voted the best cosmetics site in France (Direct panel survey 2005).

Yue-Sai

YUE-SAI, the Chinese cosmetics brand acquired by the group in 2004, achieved like-for-like growth of +13.7% in 2005, thanks to the success of a new lipstick and a new foundation. The exclusivity of YUE-SAI was stepped up, by reducing the number of sales outlets and ensuring quality standards were met, enabling the brand to focus more strongly on its objective: to be the number one Chinese luxury brand.



PARTNERSHIP

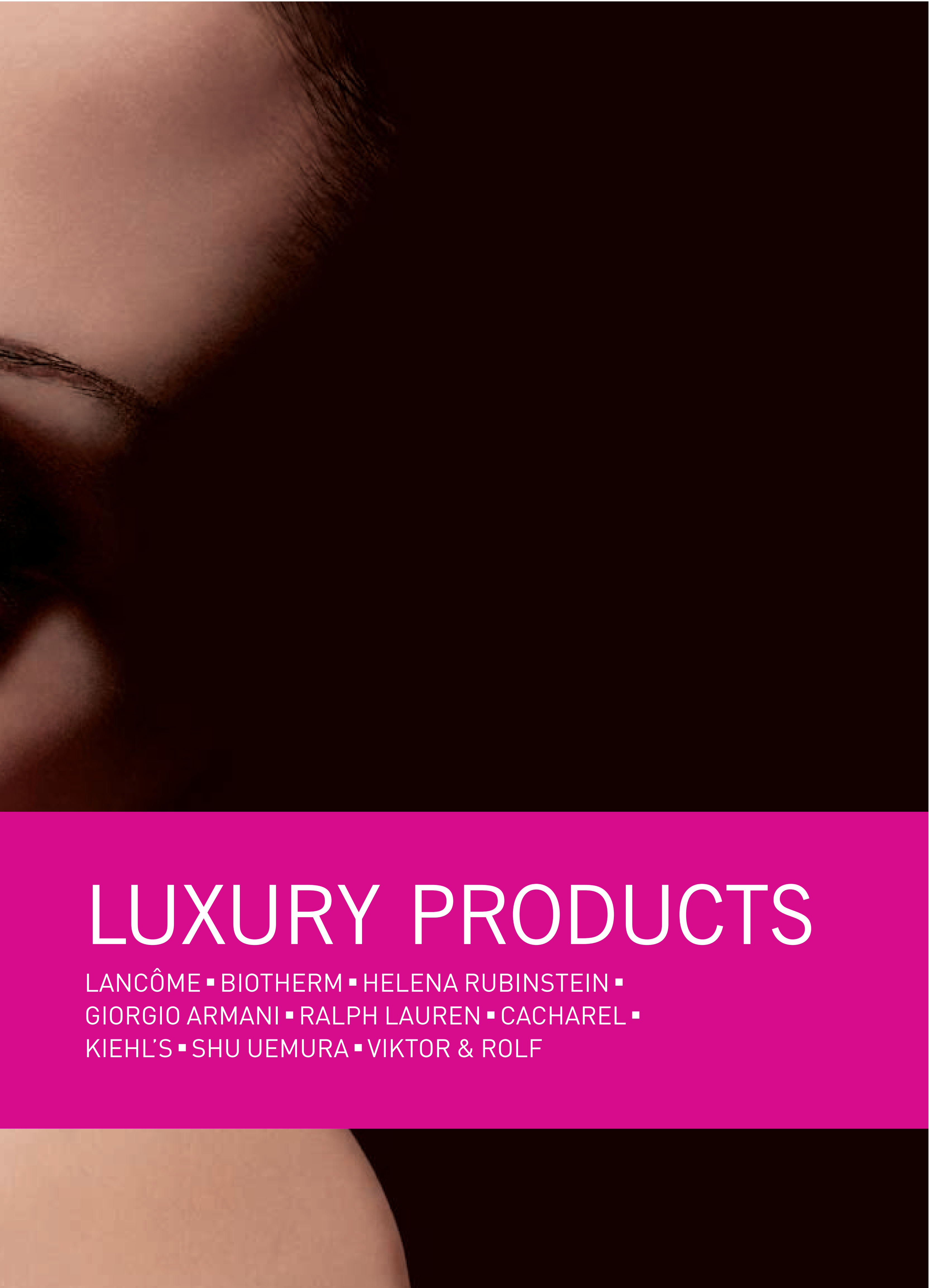
JAMES KALIARDOS,
INTERNATIONAL
MAKE-UP ARTIST
FOR L'ORÉAL PARIS

"I work closely with the L'Oréal Paris team not only to find new products and new colours, but also to improve existing make-up ranges and to precisely obtain the desired textures and colours. The technical advances made by L'Oréal Paris are truly outstanding. We obtain not only the right colour, but also formulations at the cutting edge of scientific research. We are currently working on products that will really change the way we use make-up. The make-up of the future for example will be increasingly invisible, reflecting the richness and diversity of skin types. We are also working on a process which will offer women the possibility of obtaining a perfect look by applying discreet make-up. I would really like to develop products which would give a transparent colour or texture and dissolve into the surface of the skin."

Maybelline New York, Dream Mousse Blush
A unique foam texture that melts into the skin, with a light, microaerated effect.

SoftSheen-Carson, Optimum Oil Therapy
A shampoo range that reconstitutes essential oils, prevents hair breakage and protects hair against heat damage.

Maybelline New York, Moisture Extreme
Lipstick enriched with allantoin and shea butter.



LUXURY PRODUCTS

LANCÔME ▪ BIOTHERM ▪ HELENA RUBINSTEIN ▪
GIORGIO ARMANI ▪ RALPH LAUREN ▪ CACHAREL ▪
KIEHL'S ▪ SHU UEMURA ▪ VIKTOR & ROLF

CHALLENGES & STRATEGY

MARC MENESGUEN,
PRESIDENT
LUXURY PRODUCTS

"Vitality at the selective market is underpinned by the demands of its consumers for new products and a growing customer base on every continent. The Luxury Products Division's portfolio of diverse but complementary brands enables to respond with tailored products and services, while applying a clearly defined strategy.
The strategy consists of:
- high technology, value-added product initiatives for the Division's global brands, exploiting to the full the latest scientific advances made by L'Oréal in both skincare and make-up,
- in the universe of women's and men's fragrances, launches in existing brands (such as LANCÔME, CACHAREL and ARMANI), and the addition of new brands such as VIKTOR & ROLF,
- the geographic expansion of emerging brands: KIEHL'S in Asia and Europe, and GIORGIO ARMANI COSMETICS and SHU UEMURA in North America and Europe,
- constant efforts to control costs and increase the productivity of the Division's structures to improve efficiency and responsiveness.
The strategy is designed to enable the Division to generate sustainable growth and win new market share over the coming years."

FASTER GROWTH IN THE SECOND HALF-YEAR

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Like-for-like
Western Europe	1,581.4	1,545.7	43.1%	−2.3%	−2.2%
North America	1,027.4	1,072.3	29.9%	+4.4%	+2.9%
Rest of the World	840.8	964.4	26.9%	+14.7%	+11.6%
Total	**3,449.6**	**3,582.4**	**100%**	**+3.9%**	**+2.7%**

CONSOLIDATED SALES BY BUSINESS SEGMENT

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Like-for-like
Skincare	1,253.6	1,319.8	36.8%	+5.3%	+3.9%
Perfumes	1,327.6	1,372.3	38.3%	+3.4%	+2.3%
Make-up	868.4	890.3	24.9%	+2.5%	+1.7%
Total	**3,449.6**	**3,582.4**	**100%**	**+3.9%**	**+2.7%**

Following a first half-year which saw significant destocking in retail channels in Western Europe, the Division's sales recovered strongly in the second half-year thanks to a series of product launches. In skincare, the Division returned to an offensive strategy with high technology, value-added new products, which generated significant market share gains. It also strengthened its position in the men's products market (perfumes and cosmetics) which is proving an outstanding dynamism.

International expansion continued this year in Eastern Europe (with the opening of a subsidiary in the Russian Federation), in Asia (+8.4%, including China +55%), in Latin America (Mexico +12.9%, Argentina +26.5%), and in the Middle East (+10.6%).
In Europe and North America, restructuring in the retail sector had a negative impact on these markets, even though the brands recorded good results.

2005 HIGHLIGHTS

- The Division continued to conquer new markets, with the opening of a subsidiary in the Russian Federation.
- Launch of Hypnôse by Lancôme, women fragrance which was a bestseller in all European markets at the end of the year.
- The first fragrance from Viktor & Rolf, Flowerbomb, turned out to be an immense success in Europe and the United States immediately on its launch.
- Biotherm confirmed its leadership in men's skincare with two major success stories: Line Peel for Men and Age Refirm.
- Cacharel completed its product range with the new fragrance, Promesse.
- Kiehl's continued its international expansion with the opening in Hamburg of its first German boutique.
- Giorgio Armani reinforced its position as world number one in men's fragrances on every continent with the resounding success of Armani Code, both in Europe and the United States, and the launch of Emporio City Glam.

The highest requirements, in terms of quality and services, are the constant concern of the Luxury Products Division's teams.

2006 OUTLOOK

The worldwide outlook is favourable for the luxury products market. New and emerging markets are starting to become significant, and the prospects are becoming clearer in retailing in Europe and North America. In this worldwide competition, the variety of the Division's brand portfolio is clearly a major asset, enabling it to strengthen its position in each geographic area with the range best suited to local customers' aspirations. The wealth and diversity of the Division's talent and the widely acknowledged know-how and expertise of its employees, together with the scale of its commercial operations, enable it to orchestrate and amplify the successes of the innovations offered by the brands. Finally, the efforts made to improve the Division's industrial and administrative organisation will enable it to generate the resources needed for its continuing development, while steadily improving its results.

All over the world, the Luxury Products Division develops prestigious brands, each with specific roots, and its own history and expertise. Sold in upmarket retail outlets that offer added value service and advice (department stores, perfumeries, airports, boutiques), each brand meets the highly exacting requirements of its customers with outstanding products and services.

Lancôme

Lancôme, the world's number one luxury cosmetics brand, achieved particularly strong growth in Asia, especially in China (+43%), in Eastern Europe and in Latin America, including Argentina (+24.5%). In Europe, the fourth quarter proved very dynamic both in terms of launches and growth.

The remarkable success of its new products enabled Lancôme to win market share in facial skincare. With the launch of Rénergie Morpholift, the Rénergie franchise saw sales rebound sharply. At the end of the year, the launch of Platinéum, a comprehensive re-densifying product that uses the latest calcium discoveries, aimed at women over 60 received a very warm welcome both from the scientific community and from consumers. The good performance of lightening products specifically developed for Asia, which make a major contribution to establishing the brand's legitimacy on this continent, is also worth noting.

In make-up, Lancôme consolidated its positions in each segment: the relaunch of Rouge Absolu enabled Lancôme to resume its drive in the lipstick sector, and the launch of L'Extrême, a lash-lengthening mascara, completes the product range in this area. Finally, with Teint Idole Ultra, the brand is reinforcing its positions in the foundation sector.

The launch of the new women's fragrance Hypnôse was the highlight of the end of the year. A magnificent bottle design, reflecting the rich heritage of Lancôme perfumes, and a very modern, woody Oriental fragrance took Hypnôse into the hit parade of best-selling products in all European countries immediately on its launch.

Biotherm

Biotherm, the well-known skincare brand, is developing a range of products specially designed for young people. Consumer response was very positive in all the new countries. The brand's worldwide growth rate was +5.8%, with particularly strong growth in Eastern Europe, in the local markets of Asia (+14%) and Latin America (+12.6%), and in the travel retail channel (+21%).

The brand performed well in facial skincare thanks to the strength of its traditional products (such as Age Fitness and Aquasource), and also to the continuing success of the anti-wrinkle skincare product Line Peel. In a very challenging, competitive environment, Biotherm strengthened its world number one position in men's skincare in each country, thanks to two anti-ageing initiatives: Age Refirm, a firming product with pure silicon, designed to reinforce the structure of the skin of men over 45, and Line Peel for Men, an anti-wrinkle skincare line which draws on the latest technology and rejuvenates the appearance of the skin.

In make-up, efforts were focused on foundations, with the introduction of Matte Soufflé, whose astonishing texture won the brand many new customers. Looping, a mascara with an intense lash-curving effect, also proved extremely successful with new consumers.

Helena Rubinstein

The brand continued to move upmarket, with uniquely innovative high quality product initiatives. In skincare, the major innovation was Gold Future, the first-ever energising skincare product with microactive gold, which uses the therapeutic benefits of gold as prescribed by Chinese medicine to extend the vitality and brightness of the skin. The response to this skincare product, which completes the premium offering of the brand alongside Prodigy and Life Pearl, was excellent. The positive momentum of Collagenist Intense Fill, launched in 2004, enabled the brand to maintain its strong positions in the anti-ageing segment.

The renewal of the make-up range continued, with the emphasis firmly on modernity and prestige, as reflected in the new lipstick Wanted Rouge, the first skincare lipstick with royal jelly elixir. The brand's position was strengthened in mascaras, with the new volume mascara Lash Queen, and in foundations with the continuing success of Color Clone.

Helena Rubinstein – Mexico.

Lancôme – China.

Giorgio Armani – United States.

Biotherm, Age Refirm
Firming and wrinkle corrector men's care enriched with pure silicon.

Lancôme, Hypnôse
A woody oriental fragrance combined with notes of passion flower, Vanilla and Vetiver concentrated in a luxurious bottle with elegant curves.

Helena Rubinstein, Lash Queen
A mascara to help maximizing length and volume of lashes.

Helena Rubinstein, Wanted Rouge
The first skincare lipstick with royal jelly elixir, for vibrant colours.

Giorgio Armani

The brand achieved a global growth up by +12.5% and consolidated its position as world number one in men's fragrances on all continents with the continuing success of Acqua di Gio, now backed up by Armani Code, which was equally successful in product hit parades.

The Emporio line was extended with the arrival of City Glam, targeted at smart young urban consumers, which is proving a great success in Europe, particularly in the United Kingdom, Germany and Italy.

The ultra-exclusive high quality make-up line Giorgio Armani Cosmetics maintained its growth momentum, and again recorded excellent scores in the United States (+32%) and Asia excluding Japan (+31%).

Ralph Lauren – United States.

Kiehl's – China, Hong Kong.

Ralph Lauren

2005 was a year of consolidation for the brand, which returned to a high growth rate in the second half-year thanks to the success of Polo Black. This fragrance won leading hit parade positions immediately after its launch in the United States and in several European countries (including Germany and the United Kingdom).

The women's fragrance Pure Turquoise, an extremely prestigious initiative, sold in the United States in the most exclusive "specialty" stores, also recorded extremely encouraging sales.

Cacharel

Thanks to its powerful dynamism, the brand grew particularly in France, Spain and Italy. Promesse, a new fragrance launched in the autumn in Europe and the United States, enjoyed enormous success, and has extended the range of the brand alongside Amor Amor and Anaïs Anaïs, a timeless classic which benefited from a new bottle design introduced this year.

Kiehl's

The brand's development gathered pace in the United States with the opening of new boutiques in Los Angeles, Chicago and Palo Alto. Sales grew by +49.9%, reflecting the increasing pace of the brand's globalisation, as new boutiques were opened in Hamburg and Hong Kong.

Shu Uemura

The brand's international expansion (excluding Japan) continued with strong growth of +27.5%. Sales in the United States were particularly dynamic (+66.7%), and all the newly opened points of sale proved highly successful.

The brand continued its winning ways in skincare. The launch of Fresh Cleansing Oil, designed for young people's skin, proved an immediate success. The lightening product range White Recovery EX was revamped with the same target market in mind.

In make-up, Shu Uemura strengthened its position in the eye segment with the Tokyo lash bar initiative, and the introduction of new eye shadows and Fiber Extension mascara.

Viktor & Rolf

The first women's fragrance Flowerbomb was launched in spring in both Europe and the United States, in exclusive, high quality retailing channels. Hailed by the press for its originality and quality, Flowerbomb generated exceptional excitement in all its markets, claiming leading positions in each country's sales rankings.

PARTNERSHIP

DANBY CHAN,
MANAGER,
LANCÔME CONCEPT SHOP
IN HONG KONG (CHINA)

"LANCÔME opened in 2005 its third concept shop in Hong Kong with great success. Based in the commercial gallery of the IFC (International Financial Center), a new complex in the prestigious Central district, it benefits from one of the most important showcases for luxury brands in Asia.

The unique atmosphere and innovative concept were created through an association with the famous designer Jean-Marie Massaud. This unique shopping experience has been acclaimed by the LANCÔME clientele.

This concept shop not only offers the full range of products, but also provides unique services such as expert skincare diagnosis (thanks to Le Diagnôs Expert tool), make-up consultations and treatment room facials.

These complementary services represent a significant proportion of the activity and have enabled the brand to recruit new consumers who do not usually shop in department stores.

This direct, alternative distribution helps LANCÔME to understand and respond to the needs of its consumers and to have greater control over its image and services. It is also a powerful tool to trial new marketing and retail concepts for the longer term.

This initiative has strengthened the position of LANCÔME Hong Kong both in terms of image and market share and is paving the way for further concept shops in Hong Kong and in the rest of Asia."

Ralph Lauren, Polo Black
A woody fragrance for a mysterious and exquisitely daring perfume.

Giorgio Armani, Armani Code
An oriental, sophisticated, enfolding and glamorous fragrance for elegant and sensual men.

Cacharel, Promesse
A bright, fruity, intense, romantic and delicate floral fragrance.

Viktor & Rolf, Flower Bomb
A floral, daring and strong fragrance, built on a duality: on one side the sweetness of flowers, the femininity, the elegance, the dream and on the other side the danger of bomb, the intensity, the strength of the imaginative world.

ACTIVE COSMETICS

VICHY ▪ LA ROCHE-POSAY ▪ INNÉOV ▪ SKINCEUTICALS

CHALLENGES & STRATEGY

BRIGITTE LIBERMAN, MANAGING DIRECTOR ACTIVE COSMETICS

"The development of Active Cosmetics is based on three major strategic pillars:
- increasingly rapid international expansion of its brands, particularly in high-growth zones such as Asia, Latin America and Eastern Europe. The roll-out of VICHY in China in 2005 illustrates this trend, and represents a decisive step in the development of this affordable skincare brand, which offers Chinese consumers a full range of products in more than 1,000 pharmacies,
- the modernisation of the pharmacy channel, and the provision of new point-of-sale services for consumers, with the partnership of pharmacists and dermatologists,
- and lastly, brand diversification and product innovation, which remain key challenges in terms of covering the full spectrum of health and beauty consumer trends."

ANOTHER YEAR OF DOUBLE-DIGIT GROWTH

CONSOLIDATED SALES BY GEOGRAPHIC ZONE

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Growth 2005/2004 Like-for-like
Western Europe	601.3	649.7	65.9%	+8.0%	+7.7%
North America	44.5	69.3	7.0%	+55.6%	+19.0%
Rest of the World	195.1	266.9	27.1%	+36.8%	+28.9%
Total	**840.9**	**985.9**	**100%**	**+17.2%**	**+13.5%**

Active Cosmetics produced another year of strong like-for-like growth with sales up by +13.5%. 2005 was notable for the sustained growth of all the brands in all regions of the world.

CONSOLIDATED SALES BY BUSINESS SEGMENT

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Growth 2005/2004 Like-for-like
Skincare	648.0	755.8	76.7%	+16.6%	+12.4%
Haircare	66.5	88.4	9.0%	+33.1%	+30.8%
Make-up	72.9	78.6	8.0%	+7.7%	+6.9%
Other	53.5	63.1	6.4%	+17.9%	+14.2%
Total	**840.9**	**985.9**	**100%**	**+17.2%**	**+13.5%**

The powerful momentum in Western Europe and North America, and the outstanding success in new and emerging markets brought market share gains both in skincare and haircare.

2005 HIGHLIGHTS

- Thanks to the outstanding success of its major launches and relaunches, Vichy again demonstrated its leadership in the pharmacy channel.
- La Roche-Posay speeded up its growth in emerging markets both in Asia and in Latin America.
- Innéov achieved strong growth in the cosmetic nutritional supplement market in the sectors in which the brand operates.
- Active Cosmetics acquired the SkinCeuticals brand, a key player in the United States market for exclusive skincare products sold by professionals (spas, dermatologists, plastic surgeons).

The safety and efficacy of dermocosmetic products are the main concerns for Active Cosmetics teams.

2006 OUTLOOK

The geographical roll-out and the diversification of the brand portfolio are both key for sustaining strong growth. The planned initiatives, particularly in skincare —one of the most dynamic, added value sectors— will help strengthen the Active Cosmetics' worldwide position. Looking further ahead, the growth of the dermocosmetics market, the modernisation of the pharmacy channel around the world and the driving role of dermatologists in the skincare field will help bolster the brands' success.

The world leader in the dermocosmetic skincare market, Active Cosmetics has a portfolio of unique and complementary brands to meet the growing health and skincare needs of consumers. All over the world, it offers effective and safe products, backed up by advice from pharmacists and dermatologists' recommendations.

VICHY – Thailand.

LA ROCHE-POSAY – Russia.

Vichy

VICHY is committed to helping everyone achieve optimum skin health through products sold in pharmacies which combine efficacy with safety.

For the third year running, VICHY achieved double-digit sales growth (+13%), due to:

- continuing growth in Western Europe (+7.9%) and Eastern Europe (+19.2%) and extremely strong growth in Asia (+50.8%) and Latin America (+32.8%),
- successful relaunches of well-established products. LiftActiv Pro, the anti-wrinkle firmness product, became number one in the anti-ageing market in European pharmacies[1]. Aminexil SP 94, hair loss treatment, won a larger market share[1]. Bi-White Advanced, a whitening skincare product, doubled in China and consolidated its leadership,
- moves to enter lucrative new markets such as footcare with the Podexine range, and sensitive skin bodycare with the Physio 5.5 range,
- dynamic range extensions, with Oligo Yeux eye-stick and the corrective foundation Dermablend.

VICHY thus confirmed its leadership position in the pharmacy channel.

Furthermore, the brand continued its educational focus in 2005 by rolling out its Skin Health Centres which are open to the general public in 22 countries, in conjunction with local dermatologists' and pharmacists' associations.

La Roche-Posay

The brand develops daily skincare and make-up products, for all skin types, including sensitive skin, recommended by dermatologists and pharmacies, as well as products for professional use by dermatologists.

In 2005, LA ROCHE-POSAY sales grew by +12.9%, bolstered by the dynamism of new and emerging markets: +51.2% in Asia (driven by China), +31.9% in Latin America, and +30.6% in Eastern Europe. The brand is continuing to expand in Western Europe (+6.7%) and North America (+19.7%).

The year brought a number of product success stories in well-established segments such as skin imperfections with Effaclar, and sun protection, where Anthélios strengthened its expertise in children's products following the launch of Dermo Pediatrics.

LA ROCHE-POSAY strengthened its range with innovative products in three lucrative markets:

- anti-dandruff, with the launch of Kérium shampoo,
- scarring, with Cicaplast skin repair accelerator,
- anti-ageing, with Redermic, an anti-wrinkle firmness skincare product which has been welcomed by the press because of the remarkable results achieved in clinical trials.

In 2005, the brand also created two new La Roche-Posay Foundations (in Latin America and North America) to support dermatological research and thus continue to boost its global reputation as the "number one dermatologist's brand".

Innéov

In 2005, Laboratoires Innéov, a joint venture between L'Oréal and Nestlé in nutritional cosmetics which aimed beauty, continued to progress in this new market. In a highly competitive sector, Innéov Firmness, the first facial and body strengthening skincare range, increased its lead in the anti-ageing market in Europe[2].

Innéov Hair Mass, the first volumising hair loss treatment, made progress by taking second position in Europe in the largest sector of the nutritional cosmetics market[3].

Its global roll-out continued, particularly in the Russian Federation and Turkey. Furthermore, the skincare range has been extended with Innéov Dry Skin, the first nutritional supplement which nourishes the body and face.

SkinCeuticals

The acquisition in June 2005 of SKINCEUTICALS, the major player in the United States market for skincare products sold in exclusive spas, and by dermatologists and plastic surgeons, brought strong growth prospects.

In 2005, SKINCEUTICALS achieved like-for-like sales growth of +45.7%, thanks to the success of CE Ferulic serum, which combines powerful anti-oxidants with scientifically proven properties. This product has also strengthened the leadership of SKINCEUTICALS in the professional anti-ageing skincare market.

(1) Source: IMS November 2005 – val. Europe 7.
(2) Source: IMS November 2005 – val. Europe 7 – anti-ageing, moisturising, haircare segment.
(3) Source: IMS November 2005 – val. Europe 6.

PARTNERSHIP

CHARLES NEY DE SIQUEIRA,
PHARMACIST
IN RIO DE JANEIRO (BRAZIL)

"In December 2004, after a meeting with the commercial team of Active Cosmetics, I realised that I had a lot to gain from providing a dermocosmetics brand. The team convinced me that with La Roche-Posay and Vichy, there was a unique opportunity to boost my sales by winning more customers and increasing their loyalty. A comprehensive merchandising programme was then very quickly put in place. In order to maximise sales, all the employees received training, and I hired a skin advisor. It has been a genuine success story: customer traffic has grown by 15% and customers spend longer in my pharmacy. The result: sales have increased by 43%. Why? Thanks to the partnership established with the Active Cosmetics team, their expertise and our mutual confidence. Thanks to the visibility of the brands, which have enabled me to win new customers. And finally, thanks to the quality of the advice that we provide today. This is what has enabled us to become more competitive compared with other distribution channels, such as door-to-door selling."

Vichy, LiftActiv Pro
A fibre-strengthening, anti-wrinkle and firming skincare product, number one in the European pharmacy anti-ageing segment.

La Roche-Posay, Cicaplast
A skin repair accelerator, developed to supply what the skin needs after dermatological treatment.

Vichy, Podexine
Four exclusive podological formulations tested by chiropodists.

Innéov Dry Skin
Moisturises and smoothes dry skin, making it more comfortable.

Galderma, committed to the future of dermatology

To offer innovative therapeutic solutions that improve the quality of life of dermatology patients is the mission of Galderma created as a joint venture between L'Oréal and Nestlé in 1981, and today the number one dermatology company.

The mission of Galderma is to understand and anticipate dermatology patients' needs.

As the world leader in the topical dermatology prescription product market, Galderma devotes its research, development and marketing efforts exclusively to helping people with skin problems.

In a complex economic and regulatory environment, Galderma has advanced from 3rd position in 2004 to become the number one dermatology company at the end of Q3 2005 (IMS Health source, D class – 33 countries), with reported sales of €635.6 million, an increase of +6.3% over 2004 on a like-for-like basis and of +8.3% on a published basis. Sales are significantly ahead of the overall performance of the "D" drug class, which grew by +3.1% during the same period.

To anticipate and respond to patient needs in a changing market, Galderma has decided to broaden its scope of action by going beyond drug-based treatments to focus on patient quality of life. This means finding new therapeutic solutions by investigating such procedures as photodynamic therapy, and offering assistance with patient compliance.

In the fast-growing onychomycosis segment (fungal nail infection), our antifungal drug Loceryl® grew exceptionally strong in Europe and in Asia, to post global growth of +22.8%. Tri-Luma®, acknowledged as the most efficient melasma (hyperpigmentation) treatment, continues its success story. Introduced in several countries in Latin America and Asia in 2005, the product has maintained its leading position with spectacular growth (+357%).
Metrogel® 1%, a rosacea treatment, was launched in the United States in July 2005. Prescriptions confirm the very strong performance of this new drug.
Metvix® PDT (photodynamic therapy), a new way of treating certain types of skin cancer, continued its expansion in Europe with successful launches in the Netherlands, Spain, Portugal and Italy.

Metrogel® 1%
A new pattern for rosacea treatment.

CONSOLIDATED SALES BY GEOGRAPHIC ZONE[1]

IFRS € millions	2004	2005	% of 2005 sales	Growth 2005/2004 Published figures	Growth 2005/2004 Like-for-like
Western Europe	145.3	160.6	25.3%	+10.5%	+10.8%
North America	358.9	367.4	57.8%	+2.3%	+1.3%
Rest of the World	82.6	107.6	16.9%	+30.4%	+19.2%
Total	**586.8**	**635.6**	**100%**	**+8.3%**	**+6.3%**

(1) 100% of Galderma's sales.

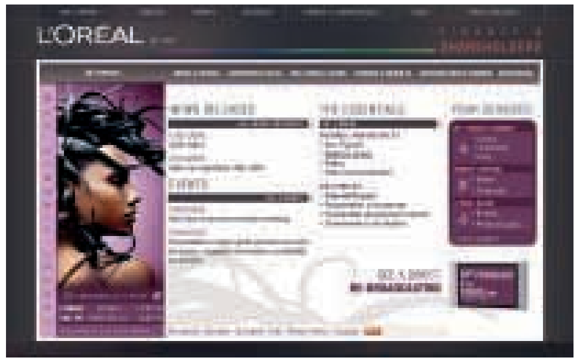
2006 OUTLOOK

After Clobex® Lotion and Shampoo, an innovative and powerful line of topical treatments for psoriasis, Galderma launched Clobex® Spray in the United States in January 2006. Clobex® Spray is the only super-high potency corticosteroid formulation that couples the clinically proven strengths of clobetasol in an advanced, convenient, non-aerosol spray formulation. Clobex® Shampoo will further be deployed in Latin America and Asia in 2006.

Increasingly transparent financial information

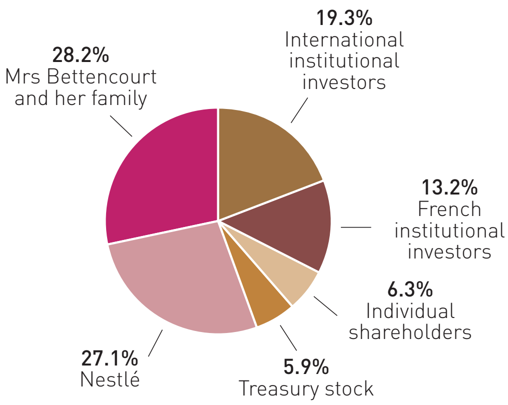
Attentive to the needs of its shareholders and the financial community, including individual and institutional investors inside and outside France, L'Oréal constantly strives to meet their expectations and improve the quality of its financial information.
In 2005, accounting and regulatory issues were particularly important in the group's financial communications, with the introduction of IFRS, the new presentation of the profit and loss account by destination, and the presentation for the first time of profitability by division.
Eager to maintain regular contacts with its shareholders and respond to their concerns, L'Oréal participated in several shareholders' meetings in 2005 organised by the Cliff[1] and the FFCI[2] in major French provincial cities. The group also took part in the shareholder information event Actionaria, held on November 18th and 19th, 2005 in Paris (France).
The Investor Relations Department organises regular meetings with financial analysts and institutional investors in all the world's major cities.
Two meetings of the rolling shareholder panel enabled dozens of shareholders to contribute to reflection by the International Financial Information Direction, with a view to preparing for the Annual General Meeting and assessing the 2004 Annual Report.
The Annual Report, the Reference Document, the Letters to Shareholders and the interactive financial Internet site (www.loreal-finance.com) are the regularly issued information media made available by L'Oréal to its shareholders.

(1) Cliff: Society of Investor Relation Managers in France.
(2) FFCI: French Investment Club Federation.

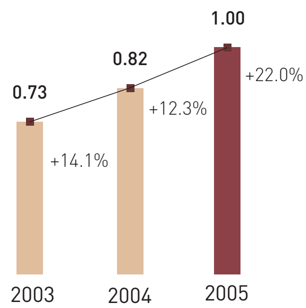


www.loreal-finance.com

BREAKDOWN OF SHARE OWNERSHIP AS AT DECEMBER 31ST, 2005



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



FINANCIAL INFORMATION CALENDAR FOR 2006

Friday, January 13th
2005 annual sales release

Thursday, Febuary 16th
Release of the 2005 results and annual financial information meeting

April
First quarter 2006 sales release

Tuesday, April 25th
Annual General Meeting of Shareholders at the Carrousel du Louvre (Paris, France)

July
First half 2006 sales release

Thursday, August 31th
Release of the first half 2006 results

October
First nine months 2006 sales release

Friday 17th and saturday 18th, November
Actionaria

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2

2005 financial statements
Management Report of the Board of Directors
Additional information for the Reference Document

L'ORÉAL

Contents of the 2005 Reference Document

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

- a general brochure "2005 Annual Report",
- the 2005 financial statements, the Management Report of the Board of Directors plus additional information as required by law, available prior to the Annual General Meeting convened for Tuesday, April 25th, 2006.

2005 Consolidated financial statements

2005 Management Report of the Board of Directors

Notes to the Management Report

2005 Parent company financial statements

2006 Annual General Meeting

Additional information

Reports and declaration

Consolidated financial statements

2004-2005 COMPARED CONSOLIDATED PROFIT AND LOSS ACCOUNTS (IFRS)

€ millions

	12.31.2005	12.31.2004 pro forma [1]	12.31.2004
Net sales (note 3)	**14,532.5**	**13,641.3**	**13,641.3**
Cost of sales	–4,347.3	–4,101.1	–4,101.1
Gross profit	**10,185.2**	**9,540.2**	**9,540.2**
Research and development	–496.2	–466.6	–466.6
Advertising and promotion	–4,367.2	–4,176.9	–4,176.9
Selling, general and administrative expenses	–3,009.3	–2,844.3	–2,844.3
Operating profit before foreign exchange gains and losses	**2,312.5**	**2,052.4**	**2,052.4**
Foreign exchange gains and losses	–46.5	36.5	36.5
Operating profit	**2,266.0**	**2,088.9**	**2,088.9**
Other income and expenses (note 5)	9.3	–126.2	2,728.3
Operational profit	**2,275.3**	**1,962.7**	**4,817.2**
Finance costs (note 6)	–63.8	–43.1	–43.1
Other financial income (expense)	–3.3	–3.9	–3.9
Sanofi-Aventis dividends	171.6	145.9	–
Share in net profit equity affiliates	–0.7	–1.2	292.3
Profit before tax and minority interests	**2,379.1**	**2,060.4**	**5,062.5**
Income tax (note 7)	–405.9	–618.6	– 1,089.7
Net profit	**1,973.2**	**1,441.8**	**3,972.8**
Attributable to:			
• group share	**1,972.3**	**1,438.7**	**3,969.7**
• minority interests	**0.9**	**3.1**	**3.1**
Net profit after minority interests per share (euros)	3.13	2.22	6.13
Diluted profit after minority interests per share (euros)	3.13	2.21	6.11
Net profit before non-recurrent items after minority interests per share (euros) (note 8)	2.60	2.29	–
Diluted profit before non-recurrent items after minority interests per share (euros) (note 8)	2.60	2.29	–

(1) For comparison purposes, pro-forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million;
- and by neutralizing the net of tax dilution capital gain relating to these shares, gross value: €2,854.5 million and tax: €471.1 million.

COMPARED CONSOLIDATED BALANCE SHEETS (IFRS)

€ millions

Assets	12.31.2005	12.31.2004
Non-current assets	**18,686.0**	**15,734.0**
Goodwill (note 9)	3,837.1	3,513.8
Other intangible assets (note 10)	1,201.0	1,064.9
Tangible assets (note 11)	2,466.0	2,185.0
Non-current financial assets (note 12)	10,757.1	8,542.4
Deferred tax assets (note 7)	424.8	427.9
Current assets	**5,200.1**	**4,651.2**
Inventories (note 13)	1,261.8	1,123.4
Trade accounts receivable (note 14)	2,379.7	2,063.4
Other current assets (note 15)	829.0	831.0
Current tax assets	66.4	57.2
Cash and cash equivalents (note 16)	663.2	576.2
TOTAL ASSETS	**23,886.1**	**20,385.2**

€ millions

Liabilities	12.31.2005	12.31.2004
Shareholders' equity (note 17)	**14,657.2**	**11,825.4**
Capital stock	131.7	135.2
Additional paid-in capital	953.9	953.5
Other reserves	8,824.8	6,325.6
Items directly recognised in equity	5,197.2	3,031.0
Cumulative translation adjustments	214.0	–139.9
Treasury stock	–2,638.2	–2,450.9
Net profit after minority interests	1,972.3	3,969.7
Shareholders' equity excluding minority interests	**14,655.7**	**11,824.2**
Minority interests	1.5	1.2
Non-current liabilities	**2,460.5**	**3,218.8**
Provisions for employee retirement obligation and related benefits (note 18)	960.6	995.6
Provisions for liabilities and charges (note 19)	157.0	188.0
Deferred tax liabilities (note 7)	914.7	1,322.2
Non-current borrowings and debts (note 20)	428.2	713.0
Current liabilities	**6,768.4**	**5,341.0**
Trade accounts payable	2,276.5	2,108.7
Other current liabilities (note 22)	1,812.5	1,597.5
Current tax liabilities	227.3	203.6
Current borrowings and debts (note 20)	2,452.1	1,431.2
TOTAL LIABILITIES	**23,886.1**	**20,385.2**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (IFRS) (PRO FORMA 2004)

€ millions

	Common shares outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjusments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
At 12.31.2003	**649,575,760**	**135.2**	**953.4**	**6,773.6**	**73.7**	**–1,792.6**		**6,143.3**	**8.3**	**6,151.6**
Pro-forma restatement[1]				2,531.0	2,800.1			5,331.1		5,331.1
At 12.31.2003 pro forma	**649,575,760**	**135.2**	**953.4**	**9,304.6**	**2,873.8**	**–1,792.6**		**11,474.4**	**8.3**	**11,482.7**
Dividends paid (not paid on treasury stock)				–513.8				–513.8	–6.0	–519.8
Cumulative translation adjustments							*–139.9*	*–139.9*	*–0.3*	*–140.2*
Financial assets available for sale					*174.0*			*174.0*		*174.0*
Cash flows hedging					*–16.8*			*–16.8*	*–0.3*	*–17.1*
Items directly recognised in equity					157.2		–139.9	17.3	–0.6	16.7
Consolidated net income of the period				1,438.7				1,438.7	3.1	1,441.8
Deferred share-based payment				20.4				20.4		20.4
Net changes in treasury stock	–11,301,400					–658.3		–658.3		–658.3
Other movements[2]			0.1	45.4				45.5	–3.7	41.8
At 12.31.2004	**638,274,360**	**135.2**	**953.5**	**10,295.3**	**3,031.0**	**–2,450.9**	**–139.9**	**11,824.2**	**1.2**	**11,825.4**
Capital increase	7,500	0.0	0.4					0.4		0.4
Cancellation of treasury stocks		–3.5		–980.9		984.4				
Dividends paid (not paid on treasury stock)				–518.8				–518.8	–0.6	–519.4
Cumulative translation adjustments							*353.9*	*353.9*	*0.2*	*354.1*
Financial assets available for sale					*2,255.8*			*2,255.8*		*2,255.8*
Cash flows hedging					*–89.6*			*–89.6*	*–0.1*	*–89.7*
Items directly recognised in equity					2,166.2		353.9	2,520.1	0.1	2,520.2
Consolidated net income of the period				1,972.3				1,972.3	0.9	1,973.2
Deferred share-based payment				29.9				29.9		29.9
Net changes in treasury stock	–18,308,250			–0.9		–1,171.7		–1,172.6		–1,172.6
Other movements				0.2				0.2	–0.1	0.1
At 12.31.2005	**619,973,610**	**131.7**	**953.9**	**10,797.1**	**5,197.2**	**–2,638.2**	**214.0**	**14,655.7**	**1.5**	**14,657.2**

(1) For comparison purpose, the pro forma shareholders' equity at December 31st, 2003 is restated in order to reflect the deconsolidation of Sanofi-Synthélabo at this date.
(2) Other movements mainly relate to adjustments linked to Sanofi-Synthélabo transition to IFRS standards as well as for 2004 to a reversal of provision for risks relating to pension plans initially accounted for through equity (€36.9 million).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (IFRS)

€ millions

	Common shares outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjusments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
At 12.31.2003	**649,575,760**	**135.2**	**953.4**	**6,773.6**	**73.7**	**–1,792.6**		**6,143.3**	**8.3**	**6,151.6**
Dividends paid (not paid on treasury stock)				–513.8				–513.8	–6.0	–519.8
Cumulative translation adjustments							*–139.9*	*–139.9*	*–0.3*	*–140.2*
Financial assets available for sale					*2,974.1*			*2,974.1*		*2,974.1*
Cash flows hedging					*–16.8*			*–16.8*	*–0.3*	*–17.1*
Items directly recognised in equity					2,957.3		–139.9	2,817.4	–0.6	2,816.8
Consolidated net income of the period				3,969.7				3,969.7	3.1	3,972.8
Deferred share-based payment				20.4				20.4		20.4
Net changes in treasury stock	–11,301,400					–658.3		–658.3		–658.3
Other movements[1]			0.1	45.4				45.5	–3.7	41.8
At 12.31.2004	**638,274,360**	**135.2**	**953.5**	**10,295.3**	**3,031.0**	**–2,450.9**	**–139.9**	**11,824.2**	**1.2**	**11,825.4**
Capital increase	7,500	0.0	0.4					0.4		0.4
Cancellation of treasury stock		–3.5		–980.9		984.4				
Dividends paid (not paid on treasury stock)				–518.8				–518.8	–0.6	–519.4
Cumulative translation adjustments							*353.9*	*353.9*	*0.2*	*354.1*
Financial assets available for sale					*2,255.8*			*2,255.8*		*2,255.8*
Cash flows hedging					*–89.6*			*–89.6*	*–0.1*	*–89.7*
Items directly recognised in equity					2,166.2		353.9	2,520.1	0.1	2,520.2
Consolidated net income of the period				1,972.3				1,972.3	0.9	1,973.2
Deferred share-based payment				29.9				29.9		29.9
Net changes in treasury stock	–18,308,250			–0.9		–1,171.7		–1,172.6		–1,172.6
Other movements				0.2				0.2	–0.1	0.1
At 12.31.2005	**619,973,610**	**131.7**	**953.9**	**10,797.1**	**5,197.2**	**–2,638.2**	**214.0**	**14,655.7**	**1.5**	**14,657.2**

(1) Other movements mainly relate to adjustments linked to Sanofi-Synthélabo transition to IFRS standards as well as for 2004 to a reversal of provision for risks relating to pension plans initially accounted for through equity (€36.9 million).

COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS (IFRS)

€ millions

	12.31.2005	12.31.2004 pro forma[1]	12.31.2004
Cash flows from operating activities			
Net profit after minority interests	1,972.3	1,438.7	3,969.7
Minority interests	0.9	3.1	3.1
Elimination of expenses and income with no impact on cash flows:			
• depreciation and charges to provisions	426.9	413.2	413.2
• changes in deferred taxes	–290.1	–19.2	451.9
• share-based payment	29.9	20.4	20.4
• capital gains and losses	–11.4	62.7	62.7
• Sanofi-Aventis dilution capital gain	–		–2,854.5
• share in net income of equity affiliates net of dividend received	0.7	1.3	–146.3
• other non-cash movements	0.4	2.5	2.5
Gross cash flow	**2,129.6**	**1,922.8**	**1,922.8**
Cash used for working capital (note 24)	–35.7	–76.4	–76.4
Net cash provided by operating activities (A)	**2,093.9**	**1,846.4**	**1,846.4**
Cash flows from investing activities			
Investments in tangible and intangible assets	–662.3	–677.1	–677.1
Disposals of tangible and intangible assets	11.9	32.2	32.2
Changes in other financial assets (including investments in non-consolidated companies)	–37.7	–11.6	–11.6
Effect of changes in the scope of consolidation (note 25)	–181.7	–465.4	–465.4
Net cash used by investing activities (B)	**–869.8**	**–1,121.9**	**–1,121.9**
Cash flows from financing activities			
Dividends paid	–563.3	–542.9	–542.9
Capital increase of the parent company	0.4		
Disposal (acquisition) of treasury stock	–1,193.9	–637.0	–637.0
Issuance (repayment) of short-term loans	582.0	382.9	382.9
Issuance of long-term borrowings	100.0	50.0	50.0
Repayment of long-term borrowings	–85.0	–111.9	–111.9
Net cash used by financing activities (C)	**–1,159.8**	**–858.9**	**–858.9**
Net effect of exchange rate changes and fair value changes (D)	22.7	–8.8	–8.8
Change in cash and cash equivalents (A+B+C+D)	**87.0**	**–143.2**	**–143.2**
Cash and cash equivalents at beginning of the year (E)	**576.2**	**719.4**	**719.4**
Cash and cash equivalents at end of the year (A+B+C+D+E)	**663.2**	**576.2**	**576.2**

(1) For comparison purposes, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1st, 2004:
- by replacing the share in net income of Sanofi-Synthélabo, €293.5 million, by the received dividends, €145.9 million;
- and by neutralizing the net of tax dilution capital gain relating to these shares, gross value: €2,854.5 million and tax: €471.1 million.

Income taxes paid amount to €688.3 million and €644.3 million respectively for years 2005 and 2004.
Interests paid amount to €82.5 million and €69.3 million respectively for years 2005 and 2004.
Dividends received amount to €171.6 million and €145.9 million respectively for years 2005 and 2004.

NOTE 1 - ACCOUNTING PRINCIPLES

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") published for 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union on December 31st, 2005.

On February 15th, 2006 the Board of Directors closed the consolidated financial statements at December 31st, 2005. These financial statements will not become definitive until they have been approved by the Annual General Meeting of Shareholders to be held on April 25th, 2006.

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") published prior to 2005, were prepared from January 1st, 2000 onwards 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.

The IFRS standards have been applied retroactively 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 opening equity at January 1st, 2004,
• cumulative translation adjustments at January 1st, 2004 merged with consolidated reserves,
• no revaluation of tangible assets at January 1st, 2004,
• no recognition of share purchase or subscription options plans prior to November 7th, 2002.

Furthermore, standards IAS 32 and 39 relating to financial instruments have been applied from January 1st, 2004 onwards for purposes of comparison.

The amendment to IAS39 "Recognition of the hedging of future financial flows relating to intra-group transactions", which is compulsory from January 1st, 2006 onwards, has been applied retrospectively to the 2004 and 2005 financial statements. No other retrospective application of accounting standards or amendments to existing standards at December 31st, 2005 whose effective application date is subsequent to January 1st, 2006, has been carried out.

Statements of reconciliation between the consolidated results for 2004 and the consolidated shareholders' equity at January 1st, 2004 and December 31st, 2004 in accordance with IFRS standards and those prepared using the previously used French standards are presented in note 27.
The details of the main reclassifications carried out for the cash flows statements for 2004 are also presented in note 27.

The consolidated financial statements for 2004 and 2003 prepared in accordance with French accounting standards are available in the group's 2004 Reference Document which is registered with the "Autorité des Marchés Financiers".

a - Scope and methods 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.

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.

b - 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.
Assets and liabilities denominated in foreign currencies have been translated using exchange rates effective at closing date. Unrealised exchange gains and losses impact the profit and loss account.

With regard to exchange risks, long-term contracts and options are negotiated to cover commercial transactions recorded on the balance sheet as fair value hedges and cash flows on future commercial transactions, recorded as cash flow hedges, whose completion is considered to be highly probable.
All hedging instruments are recorded on the balance sheet at their market value, including those which relate to purchases and sales in the next accounting period. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, the variation in the fair value of these hedging instruments is recorded as follows:
• the part of the market value linked to variations in the time value is recorded in the profit and loss account, and this also applies to option premiums,
• the part of market value linked to variations in the spot rate between the inception of the hedge and the closing date is charged directly to shareholders' equity, and impacts the profit and loss account at the date on which the transactions hedged are completed. Any ineffective part is charged directly to the profit and loss account.

In application of the hedging accounting, unrealised exchange gains and losses relating to unsold inventories are deferred to the inventories item in the balance sheet. In the same way, if fixed assets purchased with foreign exchange are covered by a hedge, they are valued in the balance sheet on the basis of the hedging rate.

The group may decide to cover certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated shareholders' equity, under the item *Cumulative translation adjustments*.

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.

The resulting translation difference is entered directly under shareholders' equity under the item *Cumulative translation adjustments*, for the group's share, and under the *Minority interests* item, for the minority interests. This difference does not impact the profit and loss account other than at the time of the disposal of the company.

3 · Valuation of goodwill in foreign currencies
Goodwill generated on foreign companies are considered to be assets and liabilities of the foreign company, and are therefore expressed in the currency in which the entity operates, and are translated using exchange rates effective at closing date. Goodwill recorded before January 1st, 2004 has been kept in euros, at the historic exchange rate.

c - Net sales

Net sales are recognised when the risks and benefits inherent in ownership of the assets have been transferred to the customer.

Sales incentives, cash discounts and product returns are deducted from sales, as are incentives granted to distributors or consumers, resulting in a cash out flow, such as commercial cooperation, coupons, discounts and loyalty programmes.

Sales incentives, cash discounts, provisions for returns and incentives granted to customers are recorded simultaneously to the recognition of the sales, if they can be estimated in a reasonably reliable manner, based on statistics compiled from past experience and contractual conditions.

d - Cost of sales

The cost of goods sold consists mainly of the industrial production cost of the products sold, the cost of distributing products to customers including the freight and delivery costs, either directly or indirectly through depots, inventory depreciation costs, and royalties paid to third parties.

e - Research and development expenditure

Expenditure during the research phase is charged to the profit and loss account of the financial year during which it is incurred.

The expenses incurred during the development phase are recognised as *Intangible assets* only if they meet all the following criteria, in accordance with standard IAS 38:
• the project is clearly defined and the related costs are separately identified and reliably measured,
• the technical feasibility of the project has been demonstrated,
• the intention and ability to complete the project and to use or sell the products resulting from the project have been demonstrated,
• the resources necessary to complete the project and to use or sell it are available,
• the group can demonstrate that the project will generate probable future economic advantages, as the existence of a potential market for the production resulting from the project, or its internal usefulness has been demonstrated.

In view of the very large number of development projects and the uncertainties concerning the decision to launch the products relating to the project, L'Oréal considers that some of these capitalisation criteria are not met.

The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades giving rise to additional functions are also capitalised.
The capitalised development costs are amortised from the date on which the software is made available in the entity concerned, over the probable useful life span, which is in most cases between 5 to 7 years.

f - Advertising and promotion expenses

These expenses consist mainly of expenses relating to the advertisement and promotion of products to customers and consumers. They are charged to the profit and loss account of the financial year when they are incurred.

g - Selling, general and administrative expenses

These expenses relate mainly to sales forces and their management, marketing teams, administrative services, as well as general expenses and stock option charges.

h - Exchange gains and losses

The exchange gains and losses included in this item correspond to gains and losses recorded on operating expenses and income in foreign currency valued at the rate effective on the day of the transaction and the rate applied for the settlement, after allowing for hedging derivatives. Furthermore, the variation in the time value of hedging derivatives is systematically charged to the profit and loss account, and this also applies to option premiums (note 1-b p. 13).

i - Operating profit

Operating profit consists of gross profit, after deducting research and development expenses, advertising and promoting expenses, selling, general and administrative expenses, and exchange gains and losses on commercial transactions.

j - Other income and expenses

The *Other income and expenses* item includes capital gains and losses on disposals of tangible and intangible assets, impairment of assets and restructuring costs.

k - Provisions for restructuring

The cost of restructuring operations is fully provisioned if it results from a group obligation towards a third party originating from the decision taken by the competent body and giving rise before the closing date to the announcement of this decision to the third parties concerned. This cost consists mainly of severance payments, early retirement payments, the cost of notice periods not worked, and the costs of training terminated employees and other costs relating to the site closures. The write-offs of fixed assets, depreciation of inventories and other assets, linked directly to the restructuring measures, are also recorded as restructuring costs.

l - Operational profit

Operational profit is calculated from operating profit, and includes other income and expenses, such as capital gains and losses on disposals of tangible and intangible assets, impairment of assets, and restructuring costs.

m - Finance costs

Net financial debt consists of all current and non-current financial borrowings and debts, after deducting cash and cash equivalents.

The cost of the net financial debt consists of the expenses and income generated by the items constituting the net financial debt during the accounting period, including the related results of interest rate and exchange rate hedging.

n - 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 whenever temporary differences occur between the tax base and the consolidated base of assets and liabilities, using a balance sheet approach and the liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

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 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.

o - Assets

1 · Intangible assets

Goodwill
Business combinations are accounted for by the purchase method. The assets and liabilities of the company acquired are valued on the fair value basis. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition over the share of the group in the fair value of the identified assets and liabilities is recorded as *Goodwill*.

Goodwill generated at the acquisition of an equity affiliate is presented in the *Investments in equity affiliates* line.

Goodwill is no longer amortised in accordance with the standard IFRS 3 "Business combinations". It is subjected to an impairment test if an unfavourable event occurs, and at least once a year, during the fourth quarter.

Impairment tests consist of comparing net asset values including goodwill and the recoverable value of each Cash Generating Unit. A Cash Generating Unit corresponds to one or more worldwide brands. Recoverable values are determined on the basis of discounted operating cash flows over a period of 10 years (the period considered necessary for the strategic positioning of an acquisition) and a terminal value. The discount rate used for these calculations is the weighted average cost of capital (WACC), which amounts to 7.2% for 2005 and 8.15% for 2004, adjusted by applying a country risk premium if necessary. The discount rates are rates after tax applied to cash flows after tax. Their use leads to the determination of recoverable values identical to those obtained by using rates before tax with non-fiscalised cash flows. The hypotheses adopted in terms of growth of sales and terminal values are reasonable and in line with the available market data. The depreciation of goodwill is not reversible.

Other 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, product ranges, formulas and patents.

The newly acquired assets are valued by an independent expert. With regard to trademarks, the use of the discounted cash flow method is preferred 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 trademark, compared with the future flows that the activity could generate without the trademark,
• royalty-based approach: this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks, based on sales forecasts drawn up by the group.

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

A trademark may have a finite or an indefinite life span.

Local trademarks, which are to be gradually replaced by an international trademark already existing inside the group are trademarks with a finite life span.
They are depreciated over a life span, which is estimated at the date of acquisition.
International trademarks are trademarks with an indefinite life span. They are subjected to impairment tests if an unfavourable event occurs, and at least once a year, during the fourth quarter.
The impairment test consists of calculating the recoverable value of the trademark based on the model adopted when the acquisition takes place.
As for product ranges, this concept covers all items which constitute a franchise: product concept, complementary name in addition to the trademark, formulas and patents used, packaging, logos, advertising trademark, etc.

The life span of a product range is limited: a range reaches the end of its life span when the main underlying elements, such as packaging, name, formulas and patents, are no longer used. For this reason, product ranges are depreciated over their remaining life span, estimated at the date of acquisition.

The group may decide to identify and value patents and formulas that it wishes to develop.
The value of a patent or a formula is evaluated on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.
The depreciation period of patents corresponds to the period of legal protection. Formulas, which are not protected by legal means, are depreciated over a maximum period of 5 years.

Market shares and business value accounted for in the consolidated financial statements prepared in accordance with French accounting methods do not correspond to the definition of a separable intangible asset and have been reclassified under *Goodwill*.

2 · Tangible assets

Tangible assets are recorded on the balance sheet at purchase price. They are not revalued.

Significant capital assets financed through capital leases, which essentially transfer to the group the risks and rewards inherent in their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded as *Borrowings and debts* on the balance sheet.

Investment subsidies are recorded as liabilities under *Other current liabilities*.

The components of a tangible asset are recorded separately if their estimated useful life spans, and therefore their depreciation periods, are materially different.

Tangible assets are depreciated using the straight-line method, over the following economic life spans:

Buildings	10/40 years
Industrial materials	5/15 years
Point-of-sales advertising, stands and displays	3/5 years
Other tangible assets	3/10 years

Amortisation and depreciation are recorded in the profit and loss account according to the destination of the tangible asset.

In view of the typology indicated in the above table, the tangible assets are considered to have zero value at the end of the economic life spans indicated.

p - Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and other debtors maturing after more than twelve months.
Investments in non-consolidated companies are considered to be financial assets available for sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line *Items directly recognised in equity*.
Their fair value is determined on the basis of the share price at the closing date for listed securities. For unlisted securities, if the fair value cannot be reliably established, they are valued at cost.
If the unrealised loss accounted for through equity is representative of a lasting decline, this loss is recorded in the profit and loss account.
Long-term loans and other debtors are considered to be assets generated by the activity. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

q - Inventories

Inventories are valued at the lower of cost or net realisable value.
Cost is calculated using the weighted average cost or the "first in, first out" formula.
A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and provisional data.

r - Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value.

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

s - Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with no risk of change in value, and whose realisation date at the date of acquisition is less than three months away.

Investments in shares and cash, which is held in a blocked account for more than three months, cannot be recorded under cash, and are presented under *Other current assets*.

Bank overdrafts considered to be assimilated to a financing activity, are presented in *Current borrowings and debts*.

Units of unit trusts are considered to be assets available for sale. As such, they are valued in the balance sheet at their market value at the closing date. The unrealised gains thus generated are accounted for directly through equity on the line *Items directly recognised in equity*.

The book value of bank deposits is a reasonable approximation of their fair value.

t - Treasury stock

Treasury stock is recorded at acquisition cost and deducted from shareholders' equity. Capital gains/losses on disposal of this stock net of tax are charged directly to shareholders' equity and do not contribute to the income for the financial year.

u - Stock options

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

In accordance with the requirements of standard IFRS 2 "Share-based payment", the value of the options granted calculated at the grant date is charged to the profit and loss account over the vesting period, which is generally 5 years.

Stock options fair value is determined using the Black & Scholes model. This model allows for the characteristics of the plan such as exercise price and exercise period, market data at the acquisition date such as the risk-free rate, share price, volatility, expected dividends and behavioural factors of beneficiaries.

Only options issued after November 7th, 2002 and not fully vested at January 1st, 2005 are accounted for in accordance with standard IFRS 2.

The impact on the result of the period of application of standard IFRS 2 is booked on the *Selling, general and administrative expenses* line of the profit and loss account at group level, and is not allocated to the divisions or to geographic zones.

v - Provisions for employee retirement obligation and related benefits

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

For basic schemes and other defined-contribution schemes, the group charges to the profit and loss account the contributions to be paid when they are due and no provision has been set aside, with the group's commitment not exceeding the amount of contributions paid. For defined benefit schemes, the characteristics of the schemes in force inside the group 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 during the year 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.

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 (such as inflation rate and discount 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 assets (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 liability corresponding to the company's net commitment for personnel is entered on the balance sheet, on the *Provisions for employee retirement obligation and related benefits* line.

w - Provisions for liabilities and charges

Provisions for liabilities and charges are set up to cover potential outflows for the benefit of third parties without 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 social risks.

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

Provisions for liabilities and charges are recorded either as *Non-current liabilities* or as *Current liabilities*, depending on their nature. Provisions for liabilities or litigation, which must be settled within twelve months of the closing date, and those linked to the normal operating cycle (such as product returns) are recorded as *Current liabilities*. The other provisions for liabilities and charges are recorded as *Non-current liabilities*.

x - Borrowings and debts

Borrowings and debts are valued at the amortised cost based on an effective interest rate.

In accordance with the principle of recording fair value hedges, fixed rate borrowings and debts swapped at a variable rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance cost and are offset by changes in the value of the attached interest rate swaps.

The fair value of fixed rate debts is determined by the discounted cash flow method at the closing date, allowing for the spread corresponding to the group's risk class.

The book value of the variable rate debts is a reasonable approximation of their fair value.

Medium and long-term borrowings and debts are recorded under *Non-current liabilities*. Short-term borrowings and debts, and the part of medium and long-term borrowings and debts, which is repayable in less than one year, are presented under *Current liabilities*.

y - Financial derivatives

In accordance with group financial management policies, none of L'Oréal's consolidated companies conduct any market transactions for speculative reasons. As a result, all derivative instruments concluded by group companies are only for hedging purposes, and are thus carried out in accordance with the principle of hedge accounting.

With regard to exchange rate risk, the applicable accounting principles are set out in detail in note 1-b p.13.

With regard to interest rate risk, the fixed-rate debts and financial loans covered by interest rate swaps are valued in the balance sheet at their market value. Changes in the fair value of these debts are recorded as finance cost, and are offset by the recording of adjustments in the fair value of the attached hedging derivatives. Variable interest rate debts and financial loans are valued at cost, which corresponds to their market value. The swaps or caps which hedge them are valued in the balance sheet at their market value, and changes in value are recorded directly through equity on the *Items directly recognised in equity* line.

The fair value of interest rate derivative instruments is their market value. The market value is calculated by the discounted cash flow method at the interest rate effective at the closing date.

z - Earnings per share

Net earnings per share are calculated in accordance with the rules set out in IAS 33.
Net earnings per share are obtained from the weighted average number of shares outstanding during the year, after deducting the number of treasury stock which are deducted from shareholders' equity.

Diluted net earnings per share allow where applicable for stock options with a dilutive effect in accordance with the "treasury stock method": the sums collected during the exercise or purchase are assumed to be allocated primarily to share buybacks at market price.

NOTE 2 - CHANGES IN THE SCOPE OF CONSOLIDATION

a - 2005

In May 2005, the L'Oréal group increased its stake in Le Club des Créateurs de Beauté Japon to 50%. This company, previously consolidated by the equity method, has therefore been consolidated by the proportional method from July 1st, 2005 onwards.

In June 2005, the L'Oréal group finalised the acquisition of SkinCeuticals, an unlisted company which is one of the leading players in the US market for upmarket skincare products sold by professionals. The sales of SkinCeuticals amounted to USD 35 million in 2004.

At the end of August 2005, the L'Oréal group acquired the sun protection brand Delial, one of the leading brands in this business in Europe. The sales of Delial amounted to €20 million in 2004.

The total cost of these new acquisitions amounted to some €180 million. The total amount of goodwill and other intangible assets resulting from these acquisitions amounted to €128 million and €60 million respectively.

b - 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 proportionally 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 held 10.41% of the capital and 17.23% of the voting rights of the new Sanofi-Aventis group. As a result, L'Oréal deconsolidated its stake in Sanofi-Synthélabo on August 12th, 2004, generating a €2.9 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.

NOTE 3 - SEGMENT INFORMATION

a - Segment information

The Cosmetics branch is organised into four sectors, each one operating with specific distribution channels:
• Professional Products Division: products used and sold in hair salons,
• Consumer Products Division: products sold in mass-market retail channels,
• Luxury Products Division: products sold in selective retail outlets, i.e. department stores, perfumeries, travel retail and the group's own boutiques,
• Active Cosmetics Department: dermocosmetic skincare products sold in pharmacies and specialist sections of drugstores.

The "Other Cosmetics" heading consists mainly of remote sales of cosmetics products.

The "non-allocated" item contains the expenses of the functional divisions, fundamental research and the costs of stock options not allocated to the cosmetics divisions. It also includes activities that are auxiliary to the group's core businesses, such as insurance, reinsurance and banking.

The Dermatology branch, consisting of Galderma, a joint venture between L'Oréal and Nestlé, meets the needs of dermatologists and their patients.

The data by branch and by division are established using the same accounting principles as those used for the preparation of the consolidated financial statements, and which are described in note 1.

The performance of each branch and division is measured by the *operating profit*.

€ millions 2005	Sales	Operating profit	Operational assets [1]	Operational liabilities [2]	Investments in tangible and intangible assets	Depreciation and provisions
Professional Products	2,060.9	405.8	1,802.5	554.7	64.1	63.2
Consumer Products	7,499.4	1,290.4	5,460.7	2,064.5	369.5	321.9
Luxury Products	3,582.4	723.5	2,570.0	1,053.7	143.5	131.8
Active Cosmetics	985.9	187.0	719.8	247.6	22.4	31.5
Other cosmetics	86.2	1.9	27.0	34.2	1.6	4.0
Cosmetics divisions total	**14,214.7**	**2,608.6**	**10,580.0**	**3,954.8**	**601.2**	**552.3**
Non-allocated		–396.4	326.3	549.4	57.3	46.2
Cosmetics branch	**14,214.7**	**2,212.2**	**10,906.3**	**4,504.2**	**658.4**	**598.5**
Dermatology branch	**317.8**	**53.8**	**359.1**	**73.6**	**15.5**	**26.7**
Group	**14,532.5**	**2,266.0**	**11,265.5**	**4,577.8**	**673.9**	**625.3**

€ millions 2004	Sales	Operating profit	Operational assets [1]	Operational liabilities [2]	Investments in tangible and intangible assets	Depreciation and provisions
Professional Products	1,920.4	365.4	1,654.1	523.1	77.9	57.1
Consumer Products	7,050.1	1,186.6	4,876.1	1,887.5	332.1	270.5
Luxury Products	3,449.6	693.6	2,361.9	1,026.9	116.0	123.4
Active Cosmetics	840.9	156.8	512.2	210.5	37.5	19.2
Other cosmetics	86.8	4.0	29.5	37.7	3.6	7.3
Cosmetics divisions total	**13,347.9**	**2,406.3**	**9,433.7**	**3,685.7**	**567.1**	**477.4**
Non-allocated		–368.0	298.5	588.7	74.4	48.2
Cosmetics branch	**13,347.9**	**2,038.3**	**9,732.2**	**4,274.3**	**641.4**	**525.6**
Dermatology branch	**293.4**	**50.6**	**333.6**	**66.4**	**31.5**	**19.9**
Group	**13,641.3**	**2,088.9**	**10,065.8**	**4,340.7**	**672.9**	**545.6**

(1) Operational assets include goodwill, intangible and tangible assets, trade accounts receivable, inventories, samples, and point-of-sales advertising recorded in advance.
(2) Operational liabilities include provisions for liabilities and charges (excluding provisions for tax and restructuring), provisions for employee retirement obligation, trade accounts payable, social accounts payable and creditors.

Operational assets and operational liabilities can be reconciled to the 2005 and 2004 balance sheets as follows:

€ millions	2005	2004		2005	2004
Operational assets	**11,265.5**	**10,065.8**	**Operational liabilities**	**4,577.8**	**4,340.7**
Non-current financial assets	10,757.1	8,542.4	Shareholders' equity	14,657.2	11,825.4
			Non-current borrowings and loans	428.2	713.0
Deferred tax assets	424.8	427.9	Provision for liabilities and charges	113.1	107.4
			Current borrowings and loans	2,452.1	1,431.2
Other currents assets	775.5	772.8	Deferred tax liabilities	914.7	1,322.2
Cash and cash equivalents	663.2	576.2	Other current liabilities	743.0	645.3
Non-allocated assets	**12,620.6**	**10,319.4**	**Non-allocated liabilities**	**19,308.4**	**16,044.5**
Total assets	**23,886.1**	**20,385.2**	**Total liabilities**	**23,886.1**	**20,385.2**

b - Information by geographic zone - Group

All information is presented on the basis of geographic location of the subsidiaries, except for the breakdown of sales by destination, which is based on the geographic location of the customer.

1 · Consolidated sales by geographic zone

	2005		Growth (%)		2004	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total
Western Europe	6,822.4	46.9	0.2	0.3	6,805.5	49.9
North America	4,051.9	27.9	8.1	6.4	3,750.0	27.5
Rest of the World	3,658.2	25.2	18.5	13.4	3,085.9	22.6
Group	**14,532.5**	**100.0**	**6.5**	**5.0**	**13,641.3**	**100.0**

2 · Consolidated sales by geographic zone by destination

The breakdown of sales for each geographic zone by destination for 2005 and 2004 is as follows:
- Western Europe: 45.8% and 48.5%,
- Nord America: 27.4% and 27.1%,
- Rest of the World: 26.8% and 24.4%.

3 · Cosmetics sales by geographic zone

	2005		Growth (%)		2004	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total
Western Europe	6,742.1	47.4	0.1	0.2	6,732.8	50.4
North America	3,868.2	27.2	8.3	6.7	3,570.5	26.7
Rest of the World	3,604.4	25.4	18.4	13.3	3,044.6	22.8
Group	**14,214.7**	**100.0**	**6.5**	**5.0**	**13,347.9**	**100.0**

4 · Breakdown of operating profit of cosmetics branch by geographic zone

€ millions	2005	2004
Western Europe	1,415.1	1,362.9
North America	708.0	632.0
Rest of the World	485.5	411.4
Cosmetics division total	**2,608.6**	**2,406.3**
Non-allocated	–396.4	–368.0
Cosmetics branch	**2,212.2**	**2,038.3**

5 · Breakdown of operational assets and consolidated investments by geographic zone

€ millions	2005		2004	
	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets
Western Europe	5,512.6	269.2	5,746.4	274.0
North America	3,289.8	206.1	2,594.5	204.1
Rest of the World	2,136.7	141.4	1,426.5	120.4
Non-allocated	326.3	57.3	298.5	74.4
Group	**11,265.5**	**673.9**	**10,065.8**	**672.9**

NOTE 4 - PERSONNEL COSTS AND NUMBER OF EMPLOYEES

a - Number of employees[1]

	12.31.2005	12.31.2004
Western Europe	23,903	24,237
North America	9,622	9,077
Rest of the World	18,878	18,767
Total	**52,403**	**52,081**

(1) Including companies consolidated by the proportional method.

b - Personnel costs

€ millions	2005	2004
Personnel costs (including welfare contributions)	**2,851.7**	**2,719.0**

Personnel costs include remuneration linked to stock options and taxes on remuneration.

c - Compensation of directors and management

The costs recorded under compensation and assimilated benefits granted to the Management Committee and the Board of Directors may be analysed as follows:

€ millions	2005	2004
Directors' fees	0.9	0.9
Salaries and benefits including employer welfare contributions	23.4	20.5
Employee retirement obligation charges	14.5	12.8
Stock option charges	9.1	7.5

NOTE 5 - OTHER INCOME AND EXPENSES

This item may be divided into the following:

€ millions	2005	2004 pro forma	2004
Capital gains or losses on disposals of tangible and intangible assets	11.5	–62.7	–62.7
Depreciation of tangible and intangible assets	–	–24.0	–24.0
Restructuring costs	–2.2	–39.5	–39.5
Sanofi-Aventis dilution capital	–		2,854.5
Total	**9.3**	**–126.2**	**2,728.3**

NOTE 6 - FINANCE COSTS

This item may be divided into the following:

€ millions	2005	2004
Financial interests related to the gross debt	–84.3	–64.6
Financial interests related to cash and cash equivalents	20.5	21.5
Finance costs	**–63.8**	**–43.1**

NOTE 7 - INCOME TAX

a - Detailed breakdown of income tax

€ millions	2005	2004 pro forma	2004
Current tax	696.0	640.7	636.8
Deferred tax	–290.1	–22.1	452.9
Income tax	**405.9**	**618.6**	**1,089.7**

b - Analysis of tax charge

The income tax charge may be analysed as follows:

€ millions	2005	2004
Pre-tax income of consolidated companies	**2,379.8**	**4,770.2**
Theoretical tax rate	32.28%	34.62%
Expected tax charge	**768.2**	**1,651.6**
Impact of permanent differences	37.0	117.5
Impact of tax rate differences	–398.3	–108.9
Change in non-recorded deferred taxes	12.6	1.6
Impact on Sanofi-Aventis dilution capital gains(1)	–	–564.8
Other(2)	–13.6	–7.3
Group tax charge	**405.9**	**1,089.7**

(1) Capital gain calculated at 15.72% on the tax base corresponding to the cost of the shares held.
(2) Including tax credits, tax reassessments and provisions for tax liabilities.

The expected tax charge is the total for each country of the pre-tax income multiplied by the normal taxation rate. The theoretical tax rate is the total expected tax charge as a percentage of the pre-tax income of consolidated companies.

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, 2003	**439.6**
Balance of deferred tax liabilities at December 31st, 2003	**–287.6**
Profit and loss effect	–452.9
Translation differences	–0.3
Sanofi-Aventis restatement	–555.0
Other effects	–38.0
Balance of deferred tax assets at December 31st, 2004	**427.9**
Balance of deferred tax liabilities at December 31st, 2004	**–1,322.2**
Profit and loss effect	290.1
Translation differences	–0.8
Other effects	115.1
Balance of deferred tax asset at December 31st, 2005	**424.8**
Balance of deferred tax liabilities at December 31st, 2005	**–914.7**

Deferred tax assets and liabilities recorded in the balance sheet may be breakdown as follows:

€ millions	12.31.2005		12.31.2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	416.9	82.7	419.2	80.7
Deferred tax liability on Sanofi-Aventis restatement		832.0		1,241.5
Tax credits and tax loss carry-forwards	7.9		8.7	
Deferred tax total	**424.8**	**914.7**	**427.9**	**1,322.2**

Deferred tax relative to temporary differences mainly concerns provisions for pensions and early retirement (€298.7 million and €303.9 million at the end of 2005 and 2004 respectively), and provisions for liabilities and charges (€102.7 million and €106.6 million at the end of 2005 and 2004 respectively).

The increase in deferred tax liabilities in 2004 is primarily due to the deferred tax liability on capital gains linked to the Sanofi-Aventis dilution (15.72%): in this regard, standard IAS 12 governing income tax 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 2005 and at the end of 2004 for the coming financial year, i.e. 8% and 15% respectively.

As a result of this position, it recorded a deferred tax liability of €450.4 million on the profit and loss account at December 31st, 2004.

The maintenance of L'Oréal's stake in Sanofi-Aventis at December 31st, 2005 led to a €325.8 million write-back in connection with the deferred tax liability in 2005.

The maintenance of L'Oréal's stake in Sanofi-Aventis through to January 1st, 2007 would lead to a €285.6 million write-back in connection with the deferred tax liability in 2006.

Deferred tax assets whose recovery is not considered probable are not recorded in the financial statements; such assets amount to €81.3 million at December 31st, 2005, compared with €61.6 million at December 31st, 2004.

NOTE 8 - NET PROFIT BEFORE NON-RECURRENT ITEMS AFTER MINORITY INTERESTS – NET EARNINGS PER SHARE

a - Reconciliation with net profit

The net profit before non-recurrent items after minority interests is reconciled as follows with the net profit after minority interests:

€ millions	2005	2004 pro forma
Net profit after minority interests	**1,972.3**	**1,438.7**
Capital gains and losses on tangible and intangible asset disposals	–11.5	62.7
Tangible and intangible assets depreciation	–	24.0
Restructuring cost	2.2	39.5
Tax effect on non-recurrent items	1.3	–18.5
Effect of change in tax rate on Sanofi-Aventis deferred tax liability	–325.8	–60.3
Minority interests	–	–0.2
Net profit before non-recurrent items after minority interests	**1,638.5**	**1,485.9**

b - Net profit per share

The tables below set out the net earnings after minority interests per share:

2005	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit per share	1,972.3	629,508,822	3.13
Stock options plan		1,383,648	
Diluted net profit per share	**1,972.3**	**630,892,470**	**3.13**

2004 pro forma	Net profit after minority interests (€ millions)	Number of shares	Net profit (group share) per share (€)
Net profit per share	1,438.7	647,677,982	2.22
Stock options plan		1,920,422	
Diluted net profit per share	**1,438.7**	**649,598,404**	**2.21**

2004	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit per share	3,969.7	647,677,982	6.13
Stock options plan		1,920,422	
Diluted net profit per share	**3,969.7**	**649,598,404**	**6.11**

c - Net profit before non-recurrent items per share

The tables below set out in detail the net earnings before non-recurrent items after minority interests per share:

2005	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests per share (€)
Net profit before non-recurrent items per share	1,638.5	629,508,822	2.60
Stock options plan		1,383,648	
Diluted net profit before non-recurrent items per share	**1,638.5**	**630,892,470**	**2.60**

2004 pro forma	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests per share (€)
Net profit before non-recurrent items per share	1,485.9	647,677,982	2.29
Stock options plan		1,920,422	
Diluted net profit before non-recurrent items per share	**1,485.9**	**649,598,404**	**2.29**

NOTE 9 - GOODWILL

Goodwill is allocated by Cash Generating Unit or by groups of Cash Generating Units. A Cash Generating Unit consists of one or more worldwide trademarks. The methodology of impairment tests is described in note 1.

€ millions 2005	12.31.2004	Acquisitions Disposals	Other movements	12.31.2005
L'Oréal Professionnel/Kérastase	300.2	–	16.5	316.6
Matrix	175.8	–	19.9	195.7
Redken	107.2	–	–5.8	101.4
Professionnal Products Total	**583.2**	**-**	**30.5**	**613.7**
L'Oréal Paris	735.3	0.1	13.5	749.0
Maybelline/Garnier	952.6	29.5	111.3	1,093.4
SoftSheen·Carson	127.9	–	16.3	144.3
Consumer Products Total	**1,815.8**	**29.7**	**141.1**	**1,986.6**
Lancôme	559.0	0.1	8.2	567.3
Shu Uemura	120.3	–	3.8	124.0
Other	190.8	–	4.9	195.7
Luxury Products Total	**870.0**	**0.1**	**16.9**	**887.0**
Vichy/Dermablend	201.9	–	2.9	204.8
Other	42.3	97.4	3.3	142.9
Active Cosmetics Total	**244.2**	**97.4**	**6.2**	**347.7**
Other cosmetics	0.6	1.5	–	2.1
Group Total	**3,513.8**	**128.7**	**194.7**	**3,837.1**

The acquisitions in 2005 involved SkinCeuticals, Delial and le Club des Créateurs de Beauté Japon.
The other movements consisted mainly of changes in exchange rates during the period.

€ millions 2004	12.31.2003	Acquisitions Disposals	Other movements	12.31.2004
L'Oréal Professionnel/Kérastase	308.0	–	–7.9	300.2
Matrix	184.7	–	–8.9	175.8
Redken	107.2	–	–	107.2
Professional Products Total	**600.0**	**-**	**–16.8**	**583.2**
L'Oréal Paris	663.3	72.6	–0.6	735.3
Maybelline/Garnier	863.8	140.4	–51.7	952.6
SoftSheen·Carson	157.5	–	–29.6	127.9
Consumer Products Total	**1,684.6**	**213.0**	**–81.8**	**1,815.8**
Lancôme	497.6	77.6	–16.3	559.0
Shu Uemura	85.6	54.0	–19.3	120.3
Other	158.3	33.0	–0.5	190.8
Luxury Products Total	**741.5**	**164.7**	**–36.1**	**870.0**
Vichy/Dermablend	191.1	12.2	–1.4	201.9
Other	41.5	1.0	–0.2	42.3
Active Cosmetics Total	**232.6**	**13.2**	**–1.7**	**244.2**
Other cosmetics	0.6	–	–	0.6
Group total	**3,259.3**	**390.9**	**–136.4**	**3,513.8**

The acquisitions in 2004 mainly concerned Mininurse, Yue-Sai and Shu Uemura. The other movements consisted mainly of changes in exchange rates over the period and a €24 million write-off for SoftSheen·Carson.

NOTE 10 - OTHER INTANGIBLE ASSETS

€ millions 2005	12.31.2004	Acquisitions Amortisation	Disposals Takeovers	Other mouvements [1]	12.31.2005
Brands with an indefinite life span[2]	618.5	0.1	–	88.8	707.4
Depreciable brands and product ranges	28.5	0.2	–	13.7	42.4
Licences and patents	453.6	5.9	–1.7	4.8	462.6
Other	184.0	67.4	–8.3	33.6	276.6
Gross value	**1,284.6**	**73.5**	**–9.9**	**140.9**	**1,489.0**
Brands with an indefinite life span	–	–	–	–	–
Depreciable brands and product ranges	1.8	13.0	–	1.6	16.5
Licences and patents	107.4	22.2	–1.6	3.1	131.0
Other	110.5	35.8	–7.8	2.1	140.6
Amortisation and provisions	**219.7**	**70.9**	**–9.4**	**6.8**	**288.0**
Other intangible assets – net	**1,064.9**	**2.6**	**–0.5**	**134.1**	**1,201.0**

(1) This item consists mainly of changes in the scope of consolidation (SkinCeuticals and Delial brands) and exchange rate fluctuations.
(2) At December 31st, 2005, the brands with an indefinite life span consist mainly of the brands Matrix (€302.2 million), Kiehl's (€134.0 million) and Shu Uemura (€101.8 million).

€ millions 2004	12.31.2003	Acquisitions Amortisation	Disposals Takeovers	Other movements [1]	12.31.2004
Brands with an indefinite life span[2]	559.3	–	–	59.3	618.5
Depreciable brands and product ranges	3.5	–	–0.3	25.3	28.5
Licences and patents	495.7	20.6	–60.9	–1.9	453.6
Other	160.0	34.2	–13.4	3.2	184.0
Gross value	**1,218.4**	**54.8**	**–74.6**	**85.9**	**1,284.6**
Brands with an indefinite life span	–	–	–	–	–
Depreciable brands and product ranges	0.2	1.1	–	0.5	1.8
Licences and patents	91.7	25.6	–9.2	–0.6	107.4
Other	90.1	31.3	–13.1	2.1	110.5
Amortisation and provisions	**182.0**	**58.0**	**–22.3**	**2.0**	**219.7**
Other intangible assets – net	**1,036.4**	**–3.2**	**–52.3**	**83.9**	**1,064.9**

(1) This item consists mainly of changes in the scope of consolidation (Yue-Sai, Mininurse, Shu Uemura) and exchange rate fluctuations.
(2) At December 31st, 2004, the brands with an indefinite life span consist mainly of the brands Matrix (€270.6 million), Kiehl's (€121.4 million) and Shu Uemura (101,4 million).

NOTE 11 - TANGIBLE ASSETS

€ millions 2005	12.31.2004	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements [1]	12.31.2005
Land and buildings	1,296.2	23.5	–17.4	55.2	21.5	1,379.0
Machinery and equipment	1,880.9	155.3	–89.7	115.6	78.4	2,140.5
POS, stands and displays	635.6	168.0	–147.2	57.4	9.1	722.9
Other tangible assets and work-in-progress	921.9	253.6	–67.4	78.2	–129.9	1,056.4
Gross value	**4,734.6**	**600.4**	**–321.7**	**306.4**	**–20.9**	**5,298.8**
Land and buildings	581.6	62.6	–14.3	16.8	–2.9	643.8
Machinery and equipment	1,110.8	167.9	–88.2	62.7	–22.1	1,231.1
POS, stands and displays	401.6	161.3	–146.9	34.9	–4.1	446.8
Other tangible assets and work-in-progress	455.5	78.9	–65.0	35.3	6.4	511.1
Depreciation and provisions	**2,549.6**	**470.7**	**–314.4**	**149.7**	**–22.7**	**2,832.9**
Tangible assets – net	**2,185.0**	**129.7**	**–7.3**	**156.7**	**1.8**	**2,466.0**

(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.

€ millions 2004	12.31.2003	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements [1]	12.31.2004
Land and buildings	1,228.8	57.3	–34.6	–12.8	57.5	1,296.2
Machinery and equipment	1,755.4	145.1	–52.4	–40.5	73.4	1,880.9
POS, stands and displays	536.1	194.0	–83.3	–17.0	5.6	635.6
Other tangible assets and work-in-progress	877.3	237.7	–43.0	–26.0	–124.2	921.9
Gross value	**4,397.6**	**634.1**	**–213.3**	**–96.2**	**12.4**	**4,734.6**
Land and buildings	547.8	55.5	–21.8	–4.7	4.8	581.6
Machinery and equipment	1,034.9	146.6	–45.2	–23.6	–1.9	1,110.8
POS, stands and displays	336.1	140.8	–85.0	–9.7	19.4	401.6
Other tangible assets and work-in-progress	429.9	72.0	–38.8	–11.9	4.4	455.5
Depreciation and provisions	**2,348.7**	**414.9**	**–190.8**	**–49.8**	**26.7**	**2,549.6**
Tangible assets – net	**2,048.9**	**219.2**	**–22.4**	**–46.4**	**–14.3**	**2,185.0**

(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	12.31.2005	12.31.2004
Land and buildings	167.5	170.5
Machinery and equipment	6.2	6.5
Other tangible assets and work-in-progress	21.6	12.2
Gross value	**195.3**	**189.2**
Depreciation	98.0	92.9
Net value	**97.3**	**96.3**

NOTE 12 - NON-CURRENT FINANCIAL ASSETS

€ millions	12.31.2005		12.31.2004	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Investments in non-consolidated companies				
Sanofi-Aventis[1]	10,585.0	4,880.1	8,410.8	4,880.1
Unlisted securities[2]	4.4	4.4	4.0	4.0
Non-current loans and receivables	167.7	167.7	127.6	127.5
Total	**10,757.1**	**5,052.2**	**8,542.4**	**5,011.6**

(1) Sanofi-Aventis was deconsolidated on August 12th, 2004 (see note b p.19). The balance sheet value at December 31st, 2004 and December 31st, 2005, of €8,410.8 million and €10,585 million respectively, corresponds to the market value of the shares based on the closing price on December 31st, 2004 and 2005 respectively of €58.80 and €74.00.
(2) As their fair value cannot be reliably determined, they are stated at cost.

NOTE 13 - INVENTORIES

€ millions	12.31.2005	12.31.2004
Finished products and consumables	1,147.3	1,005.9
Raw materials, packaging end semi-finished products	289.9	290.8
Gross value	**1,437.2**	**1,296.7**
Valuation allowance	175.4	173.3
Inventories – net	**1,261.8**	**1,123.4**

NOTE 14 - TRADE ACCOUNTS RECEIVABLE

€ millions	12.31.2005	12.31.2004
Gross value	2,422.8	2,115.2
Valuation allowance	43.2	51.8
Net value	**2,379.7**	**2,063.4**

Trade accounts receivable are due within one year.

NOTE 15 - OTHER CURRENT ASSETS

€ millions	12.31.2005	12.31.2004
Fiscal and social accounts receivable (excluding income tax)	198.4	173.0
Prepaid expenses	163.7	128.3
Point of sales advertising	119.8	115.5
Derivatives	73.3	183.3
Other current assets	273.8	230.9
Total	**829.0**	**831.0**

NOTE 16 - CASH AND CASH EQUIVALENTS

€ millions	12.31.2005		12.31.2004	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Marketable securities	142.7	136.6	180.4	170.9
Bank accounts and other cash and cash equivalents	520.5	520.5	395.8	395.8
Total	**663.2**	**657.1**	**576.2**	**566.7**

The marketable securities consist mainly of money-market SICAV investment funds and unit trusts (on which the return is based on EONIA) and short-term investments.

Unrealised gains recorded over the period amount to €6.1 million compared with €9.5 million in 2004 and are recorded directly through shareholders' equity.

NOTE 17 - SHAREHOLDERS' EQUITY

a - Share capital and additional paid-in capital

The share capital consists of 658,769,660 shares with a par value of €0.20 at December 31st, 2005 following the decision made by the Board of Directors on April 26th, 2005 to cancel 17,300,000 shares and the exercise of subscription options for 7,500 shares.
It consisted of 676,062,160 shares with a par value of €0.20 at December 31st, 2004.

b - Treasury stock

A L'Oréal share buyback programme was authorised by the Annual General Meetings of Shareholders on May 29th, 2002, May 22nd, 2003, April 29th, 2004 and April 26th, 2005. These shares are deducted from consolidated shareholders' equity. Capital gains or losses relating to these shares net of tax are also 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.

In 2005, L'Oréal purchased 20,000,000 shares for €1,224.6 million. In view of the 17,300,000 shares cancelled in April 2005, 15,040,000 shares are held at December 31st, 2005 for €932.0 million, of which 1,800,000 shares are allocated to the share option plan of November 30th, 2005.

Furthermore, the L'Oréal shares acquired as part of employee share purchase option plans, which are now deducted from consolidated shareholders' equity, amounted to 25,447,800 shares at December 31st, 2004 for an acquisition price of €1,759.1 million. At December 31st, 2005 these shares amounted to 23,756,050 for an acquisition price of €1,706.2 million.
In 2004, no shares were bought or sold for this purpose, and options relating to 1,038,600 shares were exercised.
In 2005, no shares were bought or sold for this purpose, and options relating to 1,691,750 shares were exercised.

c - Share subscription or purchase options

The Board of Directors at its meetings on June 29th, 2005, November 30th, 2005, March 24th, 2004 and December 1st, 2004 decided to introduce share subscription option plans relating of 400,000, 4,200,000, 2,000,000 and 4,000,000 shares respectively, with an exercise price of €60.17, €61.37, €64.69 and €55.54. The Board of Directors at its meeting on November 30th, 2005 also decided to introduce a share purchase option plan, with an exercise price of €62.94. All these plans have an exercise period of 5 years and do not stipulate any performance conditions.

The table below sets out the data concerning option plans issued after November 7th, 2002 and in force at December 31st, 2005.

Allocation date	Number of options	Number of options not yet exercised	Exercice period from	Exercice period to	Exercice price
December 3rd, 2003	2,500,000	2,497,500	12.04.2008	12.03.2013	63.02
December 3rd, 2003	2,500,000	2,500,000	12.04.2008	12.03.2013	71.90
March 24th, 2004	2,000,000	2,000,000	03.25.2009	03.24.2014	64.69
December 1st, 2004	4,000,000	3,995,000	12.02.2009	12.01.2014	55.54
June 29th, 2005	400,000	400,000	06.30.2010	06.29.2015	60.17
November 30th, 2005	4,200,000	4,200,000	12.01.2010	11.30.2015	61.37
November 30th, 2005	1,800,000	1,800,000	12.01.2010	11.30.2015	62.94

The fair value of options is determined using the Black & Scholes method based on the following hypotheses:

	Purchase options		Subscription options				
	December 2003	November 2005	December 2003	March 2004	December 2004	June 2005	November 2005
Risk-free rate of return	4.22%	3.16%	3.92%	3.39%	3.17%	2.63%	3.16%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17%	21%
Expected dividends	1%	1.35%	1%	1.20%	1.34%	1.38%	1.35%
Share price	63.45	61.30	63.45	60.60	54.60	59.40	61.30
Exercise price	71.90	62.94	63.02	64.69	55.54	60.17	61.37
Fair value	15.24	12.30	15.66	14.67	10.15	9.45	12.88

Expected volatility is equal to the implicit volatility of the options listed on the MONEP at the grant dates. The expected life span has been adjusted to match as closely as possible the behavioural hypotheses of the beneficiaries.

Data concerning all share option plans during fiscal years 2004 and 2005 are set out below:

	2005		2004	
	Number of options	Weighted average price for year	Number of options	Weighted average price for year
Number of options not exercised at beginning of period	33,947,800	66.70	28,986,400	67.13
• Options granted	6,400,000	61.74	6,000,000	58.59
• Options exercised	–1,699,250	30.59	–1,038,600	31.85
Number of options not exercised at end of period	38,648,550	67.47	33,947,800	66.70
Of which: number of exercisable options at end of period	11,043,800	65.06	7,404,050	46.50
expired options at end of period	2,667,500		1,688,250	

The average weighted price of the share amounted to €60.91 and €60.28 respectively for 2005 and 2004.
The total charge recorded in 2005 and 2004 amounted to €29.9 million and €20.4 million respectively.

d - Items directly recognised in equity

The following tables indicate movements on the various types of item:

€ millions	12.31.2005	12.31.2004
Financial assets available for sale		
Reserve at opening date	3,540.2	12.0
Changes in fair value over period	2,176.8	3,533.2
Loss of value recorded in profit and loss account	–	–
Changes in fair value recorded in profit and loss account on disposal	–6.0	–5.0
Reserve at closing date	**5,711.0**	**3,540.2**

€ millions	12.31.2005	12.31.2004
Cash flows hedge – exchange		
Reserve at opening date	68.8	98.2
Changes in fair value over period	–105.9	43.8
Changes in fair value recorded in profit and loss account	–10.5	–73.2
Reserve at closing date	–47.6	**68.8**

€ millions	12.31.2005	12.31.2004
Cash flows hedge – interest rates		
Reserve at opening date	–2.2	–4.1
Changes in fair value over period	+2.8	–1.4
Changes in fair value recorded in profit and loss account	–0.6	+3.3
Reserve at closing date	**–**	**–2.2**

€ millions	12.31.2005	12.31.2004
Total items directly recognised in equity		
Gross reserve	5,663.4	3,606.8
Associated tax effect	–466.2	–575.8
Reserve net of tax	**5,197.2**	**3,031.0**

NOTE 18 - 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).

a - 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).

b - 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:

	12.31.2005	12.31.2004
Discount rate	4.5%	5.0%
Salary increase	4.5%	4.6%
Long-term return on assets	5.4%	5.8%

	12.31.2005			12.31.2004		
	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate
Expected rate of health care inflation	7.4%	4.7%	2011	8.1%	4.1%	2011

The variations during 2005 and 2004 are set out below:

€ millions	Projected pension obligations	Assets	Unrealised gains and losses	Net provisions
Balance at December 31st, 2003	**1,993.3**	**883.7**	**–20.4**	**1,130.0**
Net charge for the year:				
• Service cost	94.8			94.8
• Interest cost	98.1			98.1
• Expected return on assets		57.2		–57.2
• Amortisation of unrealised gains and losses			–	–
• Reversal of provisions(1)	–34.4		1.2	–35.6
Benefits paid	–86.9	–51.5		–35.4
Contribution paid	6.6	142.6		–136.0
Unrealised gains and losses	193.1	24.4	168.7	
Translation differences	–32.8	–23.3	–2.7	–6.8
Other movements	–54.1	2.4	–0.2	–56.3
Balance at December 31st, 2004	**2,177.7**	**1,035.5**	**146.6**	**995.6**
Net charge for the year:				
• Service cost	107.2			107.2
• Interest cost	109.8			109.8
• Expected return on assets		66.6		–66.6
• Amortisation of unrealised gains and losses	–12.0		3.6	–15.6
• Reversal of provisions(1)	–0.6			–0.6
Benefits paid	–97.1	–57.1		–40.0
Contribution paid	6.8	156.6		–149.8
Unrealised gains and losses	166.8	43.4	123.5	–0.1
Translation differences	81.2	57.0	6.3	17.9
Other movements	2.8			2.8
Balance at December 31st, 2005	**2,542.6**	**1,302.0**	**280.0**	**960.6**

(1) In 2004, 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.

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

€ millions	12.31.2005	12.31.2004
Service cost	107.2	94.8
Interest cost	109.8	98.1
Expected return on assets	–66.6	–57.2
Amortisation of unrealised gains and losses	–15.6	–
Reversal of provisions[1]	–0.6	–35.6
Total	**134.2**	**100.1**

(1) In 2004, 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 19 - PROVISIONS FOR LIABILITIES AND CHARGES

a - Balances at closing date

€ millions	12.31.2005	12.31.2004
Other non-current provisions for liabilities and charges	**157.0**	**188.0**
Provisions for restructuring	2.8	3.7
Other non-current provisions[1]	154.2	184.3
Current provisions for liabilities and charges[2]	**289.3**	**286.6**
Provisions for restructuring	32.2	44.0
Other current provisions[1]	257.1	242.6
Total	**446.3**	**474.6**

(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.
(2) Recorded on balance sheet as *Other current liabilities*.

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

€ millions	12.31.2004	Charges [2]	Reversals (used) [2]	Reversals (not used) [2]	Impact of change in scope/ exchange rate/ other [1]	12.31.2005
Other provisions for liabilities and charges	426.9	109.8	–95.1	–60.2	29.9	411.3
Provisions for restructuring	47.7	5.3	–15.2	–3.5	0.7	35.0
Total	**474.6**	**115.1**	**–110.3**	**–63.7**	**30.6**	**446.3**

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

€ millions	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	5.3	–15.2	–3.5
• Operating profit	106.0	–87.2	–41.4
• Income tax	3.8	–7.9	–18.8

NOTE 20 - 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.

a - Debt by type

€ millions	12.31.2005		12.31.2004	
	Non-current	Current	Non-current	Current
Short-term paper		1,795.9		1,109.8
MLT bank loans	339.3	359.4	606.0	70.9
Perpetual loan	8.0	13.0	22.9	11.6
Debts on capital lease contracts	53.9	14.5	60.1	11.0
Overdrafts		51.0		69.3
Other borrowings and debts	27.0	218.3	24.0	158.6
Total	**428.2**	**2,452.1**	**713.0**	**1,431.2**

b - Debt by maturity date

€ millions	12.31.2005	12.31.2004
Under 1 year	2,452.1	1,431.2
1 to 5 years	385.1	665.8
Over 5 years	43.1	47.2
Total	**2,880.3**	**2,144.2**

c - Debt by currency (after allowing for currency hedging instruments)

€ millions	12.31.2005	12.31.2004
Euro (EUR)	1,772.3	1,280.5
US dollar (USD)	808.9	589.6
Yuan (CNY)	57.4	6.2
Canadian dollar (CAD)	56.0	36.3
Yen (JPY)	32.8	39.1
Others	152.9	192.5
Total	**2,880.3**	**2,144.2**

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

€ millions	12.31.2005	12.31.2004
Floating rate	2,592.7	1,888.5
Fixed rate	287.6	255.7
Total	**2,880.3**	**2,144.2**

e - Effective interest rates

The effective debt interest rates, after allowing for hedging instruments, were 2.40% in 2004 and 3.10% in 2005 for short-term paper, and 2.23% in 2004 and 2.56% in 2005 for bank loans.

f - Average debt interest rates

The average debt interest rates, after allowing for hedging instruments, were 2.17% in 2004 and 2.18% in 2005 for the euro, and 1.85% in 2004 and 3.31% in 2005 for the US dollar.

g - Fair value of borrowings and debts

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, 2005, the fair value of the debt amounts to €2,884.9 million. At December 31st, 2004, it amounted to €2,151.1 million.

h - Debts covered by collateral

There were no significant debts covered by collateral as at December 31st, 2005 and at December 31st, 2004.

i - Confirmed credit lines

At December 31st, 2005, L'Oréal and its subsidiaries have €2,625 million of credit lines confirmed but not used, compared with €2,268 million at December 31st, 2004.

NOTE 21 - 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.

a - Hedging of currency risk

The group is exposed to currency risk from commercial transactions recorded on the balance sheet and 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 forward contracts 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 (the group's bank) 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, all of which originally have a maturity of less than 18 months, are held for currency risk hedging purposes:

€ millions	Nominal		Market value	
	12.31.2005	12.31.2004	12.31.2005	12.31.2004
Currency futures				
Purchase EURO/currency	**1,563.0**	**1,097.6**	**–71.4**	**38.8**
EUR/USD	523.4	387.5	–38.0	30.7
EUR/GBP	160.5	151.4	–0.8	2.7
EUR/RUB	123.7	86.6	–5.7	3.3
EUR/CHF	110.3	91.2	0.4	0.2
EUR/CAD	101.1	76.1	–6.9	2.6
EUR/West European currencies	101.6	106.9	0.5	–0.5
EUR/East European currencies	72.8	56.5	–1.8	–2.7
EUR/Asian currencies	166.4	34.0	–4.5	1.9
EUR/Latin American currencies	81.9	18.7	–9.0	0.7
EUR/Other currencies	121.3	88.8	–5.6	–0.1
Purchase USD/currencies	**174.9**	**261.8**	**0.8**	**–10.4**
USD/CNY	80.4	–	0.6	–
USD/Other Asian currencies	18.5	122.7	–0.1	–2.1
USD/Latin American currencies	56.2	68.3	–0.4	–3.7
USD/Other currencies	19.8	70.8	0.7	–4.7
Sale USD/CHF	**–58.6**	**–92.3**	**–1.2**	**1.6**
Other currency pairs	**87.3**	**67.0**	**–0.4**	**–0.3**
Currency futures total	**1,766.5**	**1,334.1**	**–72.2**	**29.8**
Currency options				
EUR/USD	136.2	438.8	2.5	41.5
EUR/GBP	75.3	130.7	1.4	7.4
EUR/RUB	21.9	65.2	0.4	4.3
EUR/BRL	24.8	37.0	–0.2	0.8
EUR/MXN	19.2	36.9	0.4	2.4
EUR/Other currencies	86.1	119.1	1.3	3.3
USD/CHF	115.5	–	5.3	–
USD/RUB	17.9	–	0.2	–
Other currency pairs	**30.0**	**23.2**	**0.9**	**0.3**
Currency options total	**526.9**	**850.8**	**12.2**	**60.0**
Of which: call options total	599.0	1,062.2	12.6	71.3
put options total	–72.1	–221.4	–0.4	–11.3
Total	**2,293.4**	**2,184.9**	**–60.0**	**89.8**

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 market values by type of hedging are as follows:

	2005	2004
Fair value hedges	–6.7	8.8
Cash flow hedges	–47.8	71.3
Net foreign investment hedges	–5.5	9.7
Total	**–60.0**	**89.8**

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.

b - 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	12.31.2005	12.31.2004	12.31.2005	12.31.2004
Cash flow hedges				
Borrowing fixed interest-rate swaps				
EUR Euribor/fixed rate	21.0	21.7	–2.3	–2.0
USD Libor/fixed rate	212.0	183.6	2.3	–0.4
CAD Libcad/fixed rate	–	5.3	–	–0.2
Purchases caps				
EUR Euribor	–	300.0	–	–
Fair value hedges				
Borrowing floating interest-rate swaps				
EUR Euribor/fixed rate	309.6	325.5	13.3	22.0
Non-designated derivatives				
Floating/floating interest-rate swaps				
EUR Euribor/Euribor	210.2	286.2	0.1	0.6
Total	**752.8**	**1,122.3**	**13.4**	**20.1**

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.

The maturities of the derivatives broken down by type of hedge are as follows:

€ millions	Nominal by maturity							
	12.31.2005				12.31.2004			
	< 1 year	1 to 5 years	> 5 years	Total	< 1 year	1 to 5 years	> 5 years	Total
Cash flow hedges								
Borrowing fixed interest-rate swaps	0.7	218.0	14.3	233.0	189.6	5.7	15.3	210.6
Purchases caps	–	–	–	–	300.0	–	–	300.0
Fair value hedges								
Borrowing floating interest-rate swaps	174.0	135.5	–	309.5	16.0	309.5	–	325.5
Non-designated derivatives								
Floating/floating interest-rate swaps	196.4	13.8	–	210.2	76.0	210.2	–	286.2
Total	**371.2**	**367.3**	**14.3**	**752.8**	**581.6**	**525.4**	**15.3**	**1,122.3**

c - 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 €19.4 million at December 31st, 2005, after allowing for cash, cash equivalents and derivatives, and assuming that total net debt remains stable and that the fixed rate debts at maturity date are replaced by floating rate debt.

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 €5.7 million at December 31st, 2005.

d - 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.

e - Share risk

No cash has been invested in shares.
The available cash is invested, with financial organisations of unquestionable reputation, in the form of non-speculative instruments which can be drawn in very short periods.

NOTE 22 - OTHER CURRENT LIABILITIES

€ millions	12.31.2005	12.31.2004
Social and fiscal accounts payable (excluding income tax)	722.4	657.7
Provisions for current liabilities and charges	289.3	286.6
Creditors	473.9	359.1
Debts on fixed assets	120.4	128.6
Derivatives	124.6	85.8
Other current liabilities	81.9	79.7
Total	**1,812.5**	**1,597.5**

NOTE 23 - OFF-BALANCE SHEET COMMITMENTS

a - Operating lease commitments

They amount to €1,362.8 million at December 31st, 2005, compared with €1,326.0 million at December 31st, 2004, of which:
- €248.6 million is due in under one year at December 31st, 2005, compared with €226.9 million at December 31st, 2004,
- €584.9 million is due in 1 to 5 years at December 31st, 2005, compared with €668.8 million at December 31st, 2004,
- €529.3 million is due in over 5 years at December 31st, 2005, compared with €430.3 million at December 31st, 2004.

b - Other off-balance sheet commitments

The confirmed credit lines are indicated in note 20.
The other off-balance sheet contingent liabilities are as follows:

€ millions	12.31.2005	12.31.2004
Commitments given[1]	45.3	38.1
Documentary credits	5.4	5.1
Commitments received	32.3	31.2
Investment orders	202.4	181.3

(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 24 - CASH USED FOR WORKING CAPITAL

This amounts to –€35.7 million and –€76.4 million respectively for 2005 and 2004, and can be analysed as follows:

€ millions	2005	2004
Inventories	–35.1	–56.0
Trade accounts receivable	–174.8	–91.5
Trade accounts payable	66.8	58.2
Other receivables and debts	107.4	12.9
Total	**–35.7**	**–76.4**

NOTE 25 - IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION

In 2005, this item mainly relates to the SkinCeuticals and Delial acquisitions.

In 2004, this item mainly related to the Mininurse and Yue-Sai acquisitions in China and the buyout of minority interests which took place during the year.

NOTE 26 - TRANSACTIONS BETWEEN RELATED PARTIES

a - Joint ventures

Transactions between the companies consolidated on a proportional basis are as follows:

€ millions	2005	2004
Sales of goods and services	11.6	19.3
Cost of sales	–0.7	–0.4
Financial expenses and income	0.8	0.7

The following debtors and creditors are recorded on the balance sheet for the related parties:

€ millions	2005	2004
Operating debtors	18.3	15.6
Creditors	–0.3	–6.8
Financial debtors	59.4	64.5

b - Related parties with a material influence on the group

No significant transactions have been concluded with a member of the senior management or a shareholder with a material influence on the group.

c - Equity affiliates

No significant transactions have taken place with an equity affiliate during 2005 and 2004, except for the dividends received from Sanofi-Aventis in 2004.

NOTE 27 - RECONCILIATION STATEMENTS BETWEEN FRENCH STANDARDS AND IFRS STANDARDS

a - Reconciliation of opening balance sheet at January 1st, 2004

Assets

€ millions

Published balance sheet at December 31st, 2003 French standards		Note	IFRS reclassification and restatement Assets/Assets	Assets/Liabilities	Opening balance sheet at January 1st, 2004 IFRS	
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	Non-current 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 current assets	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 French standards		Note	IFRS reclassification and restatement Liabilities/Liabilities	Assets/Liabilities	Opening balance sheet at January 1st, 2004 IFRS	
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	Future cash flow hedging reserve	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 obligations and related benefits	906.3	*9*	223.7	–	Provisions for employee retirement obligations and related benefits	1,130.0
Other provisions for liabilities and charges	492.5	*10*	–293.7	–	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 current 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 on 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 considered as identifiable intangible assets in application of IAS 38.

The goodwill relating to the 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 has been reclassified as *Other current Receivables*.

Note 5
The goodwill relating to the 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), and 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 portion of loans.

Note 7
This consists of the reclassification of treasury stock which is 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 mainly consists of the booking of actuarial gains and losses on pension obligations in accordance with the option stipulated in IFRS 1.

Note 10
The 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 has been recorded for the Sanofi-Synthélabo investment (€272.2 million) on the difference between the tax value of the shares and their book 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), 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.

b – Reconciliation of shareholders' equity at January 1st, 2004

Note 15
The adjustments of shareholders' equity at January 1st, 2004 are as follows:

€ millions	Note	IFRS reclassification and restatement Liabilities/Liabilities	Assets/Liabilities	Total
Shareholders' equity after minority interests				**8,124.3**
Minority interests				11.9
Published shareholders' equity at 12.31.2003 (based on French standards)				**8,136.2**
Reserves		**–1,755.4**	**257.8**	**–1,497.6**
Cancellation of depreciation on treasury stock	*7*		277.1	
Attached tax effect			–93.9	
Deferred tax liability on Sanofi-Synthélabo investment	*11*	–272.2		
Booking of actuarial gains and losses on pension obligations and other adjustments	*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	
Future cash flow hedging reserve		**–4.2**	**70.1**	**65.9**
Treasury stock			**–1,792.6**	**–1,792.6**
Reclassification of gross value from marketable securities to shareholders' equity	*7*		–1,792.6	
Minority interests		**–40.8**	**37.2**	**–3.6**
Minority interest buyback commitments		–40.8	36.7	
Effect of cash flow hedging			0.5	
Shareholders' equity at 01.01.2004 (IFRS)				**6,151.6**

c - Reconciliation of balance sheet at December 31st, 2004

Assets

€ millions

Published balance sheet at december 31st, 2004			IFRS reclassification and restatement		Balance sheet at December 31st, 2004	
French standards		Note	Assets/Assets	Assets/Liabilities	**IFRS**	
Fixed assets	**11,533.7**		**769.6**	**3,430.7**	**Non-current assets**	**15,734.0**
Goodwill	817.2	*1*	2,669.9	26.7	Goodwill	3,513.8
Intangible assets	3,739.7	*2*	−2,673.2	−1.6	Other intangible assets	1,064.9
Tangible assets	1,943.7	*3*	241.3	0.0	Tangible assets	2,185.0
Financial assets	5,033.1	*4*	−10.6	3,519.9	Non-current financial assets	8,542.4
		5	542.2	−114.3	Deferred tax assets	427.9
Current assets	**6,645.4**		**−769.6**	**−1,224.6**	**Current assets**	**4,651.2**
Inventories	1,126.1			−2.7	Inventories	1,123.4
Prepayments to suppliers	62.3		−62.3			–
Trade accounts receivable	2,063.6		−0.2		Trade accounts receivable	2,063.4
Other receivables and prepaid expenses	1,412.9	*5*	−674.5	92.6	Other current assets	831.0
			57.2		Current tax assets	57.2
Marketable securities	1,579.6	*6*	−255.6	−1,324.0		–
Cash and cash equivalents	400.9	*7*	165.8	9.5	Cash and cash equivalents	576.2
Total	**18,179.1**		**-**	**2,206.1**	**Total**	**20,385.2**

Liabilities

€ millions

Published balance sheet at december 31st, 2004			IFRS reclassification and restatement		Balance sheet at December 31st, 2004	
French standards		Note	Liabilities/Liabilities	Assets/Liabilities	**IFRS**	
Shareholders' equity(1)	**10,563.7**		**-904.0**	**2,165.7**	**Shareholders' equity**	**11,825.4**
Capital stock	135.2				Capital stock	135.2
Additional paid-in capital	953.5				Additional paid-in capital	953.5
Reserves	11,430.7		−1,542.1	406.7	Reserves	10,295.3
			−506.7	3,537.7	Items directly recognised in equity	3,031.0
Cumulative translation adjustments	−1,268.1		1,158.2	−30.0	Cumulative translation adjustments	−139.9
Treasury stock	−691.8		–	−1,759.1	Treasury stock	−2,450.9
					Shareholders' equity excluding minority interests	11,824.2
Minority interests	4.2		−13.4	10.4	Minority interests	1.2
Provisions for liabilities and charges	**1,921.6**		**606.3**	**−22.1**	**Non-current liabilities**	**3,218.8**
Provisions for employee retirement obligations and related benefits	787.1	*8*	208.5		Provisions for employee retirement obligations and related benefits	995.6
Other provisions for liabilities and charges	474.6	*9*	−286.6		Provisions for liabilities and charges	188.0
Deferred tax liabilities	659.9	*10*	684.4	−22.1	Deferred tax liabilities	1,322.2
Borrowings and debts	**2,174.7**	*11*	**−1,492.0**	**30.3**	Non-current borrowings and debts	713.0
Current liabilities	**3,519.1**		**1,789.7**	**32.2**	**Current liabilities**	**5,341.0**
Customers' deposits and advances	0.3		−0.3			
Trade accounts payable	2,108.0		−0.1	0.8	Trade accounts payable	2,108.7
		12	1,431.6	−0.4	Current borrowings and debts	1,431.2
Other liabilities	1,410.8	*13*	154.9	31.8	Other current liabilities	1,597.5
			203.6		Current tax assets	203.6
Total	**18,179.1**		**–**	**2,206.1**	**Total**	**20,385.2**

(1) Including minority interests.

Notes to the reconciliation of the balance sheet at December 31st, 2004

Assets

Notes 1 and 2
Business value (€2,564.6 million) and market share (€105.2 million) have been reclassified as goodwill as they cannot be considered as identifiable intangible assets as defined by IAS 38.

Note 3
Advertising materials which can be depreciated have been transferred from *Other receivables and prepaid expenses* to *Tangible assets* in an amount of €234.1 million (IAS 16 standard).

Note 4
The Sanofi-Aventis investment has been restated at its market value at December 31th, 2004 (€3,530.7 million); the current portion of loans has been reclassified as *Other current receivables*.

Note 5
This corresponds to the reclassification of deferred tax assets to a separate line in IFRS (€542.2 million), the reclassification of advertising materials which can be depreciated to tangible assets (€234.1 million), and various reclassifications for a net amount of €101.8 million corrresponding to *Prepayments to suppliers*, current tax assets, financial hedging instruments and the current portions of loans.

Note 6
This corresponds to the reclassification of treasury stock which is deducted from shareholders' equity (gross value: €1,759.1 million; depreciation: €435.1 million), the reclassification of SICAV investment funds and unit trusts without share risk as *Cash and cash equivalents* (€170.9 million) and the reclassification of financial hedging instruments (€84 million), in accordance with IAS 32.

Note 7
This corresponds to the reclassification of SICAV investment funds and unit trusts without share risk from *Marketable securities* to *Cash and cash equivalents*.

Liabilities

Note 8
This consists mainly of the booking actuarial gains and losses on pensions obligations in accordance with the option stipulated in IFRS 1.

Note 9
The provisions for liabilities and charges have been broken down into current liabilities (provisions relating to the operating cycle and/or whose realisation date is less than 12 months away) and non-current liabilities.

Note 10
A deferred tax liability has been recorded for the Sanofi-Synthélabo investment (€684.4 million) on the difference between the tax value of the shares and their book value in the consolidated financial statements in accordance with IAS 12.

Notes 11 and 12
Borrowings and debts have been broken down into current and non-current portions.

Note 13
This consists of the reclassification of current tax liabilities on a separate line (€203.6 million), the reclassification of the current portion of provisions for liabilities and charges (€286.6 million) and various reclassifications for a net amount of €71.9 million.

d - Reconciliation of shareholders' equity at December 31st, 2004

The adjustments to shareholders' equity at December 31st, 2004 are as follows:

€ millions	IFRS reclassification and restatement		Total
	Liabilities/Liabilities	Assets/Liabilities	
Shareholders' equity after minority interests			10,559.5
Minority interests			4.2
Published shareholders' equity at 12.31.2004 (based on French standards)			**10,563.7**
Reserves	**–1,542.1**	**406.7**	**–1,135.4**
Cancellation of depreciation on treasury stock		435.1	
Attached tax effect		–148.0	
Deferred tax liability on Sanofi-Aventis investment	–129.4		
IFRS impact on Sanofi-Aventis investment		–23.7	
Booking of actuarial gains and losses on pension obligations and other adjustments	–211.4		
Attached tax effect		73.0	
Cancellation of goodwill amortisation		57.3	
Reclassification of cumulative translation adjustments in reserves in 01.01.2004	–1,243.3		
Cancellation of 2004 cumulative translation adjustment recorded for Sanofi-Aventis deconsolidation	87.1		
Fair value hedging net of tax (interest rate)	19.2	–18.5	
Fair value hedging net of tax (exchange rate)	–64.3	38.3	
Other restatements		–6.8	
Items directly recognised in equity	**–506.7**	**3,537.7**	**3,031.0**
Cash flow hedging net of tax (exchange rate)	50.5		
Cash flow hedging net of tax (interest rate)	–2.2	0.8	
Revaluation at market value of Sanofi-Aventis shares		3,530.7	
Attached tax effect	–555.0		
Other		6.2	
Cumulative translation adjustments	**1,158.2**	**–30.0**	**1,128.2**
Reclassification of cumulative translation adjustments in reserves at 01.01.2004	1,243.3		
Exchange rate adjustement on 2004 goodwill in foreign currency		–34.2	
Cancellation of 2004 movement recorded for Sanofi-Aventis deconsolidation	–87.1		
Other	2.0	4.2	
Treasury stock		**–1,759.1**	**–1,759.1**
Reclassification of gross value of treasury stock		–1,759.1	
Minority interests	**–13.4**	**10.4**	**–3.0**
Minority interest buyback commitments	–13.7	6.1	
Overall re-estimate net of tax		4.3	
Other	0.3		
Shareholders' equity at 12.31.2004 (IFRS)			**11,825.4**

e - Transition from net income after minority interests at December 31st, 2004 in accordance with French standards to 2004 net income after minority interests in accordance with IFRS standards

2004 net income after minority interests based on French standards	**3,625.7**
Costs relating to stock option plans attributed 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 foreign exchange risk hedging instruments	–9.1
Other restatements	–0.2
Tax effect on above adjustments	–1.2
Deferred tax liability on equity method calculation of Sanofi-Aventis profit	–24.5
Cancellation of provision 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 – IFRS standards	**3,969.7**

(1) In accordance with IFRS 2 on share-based payments, the fair value of the stock options has been assessed using the Black & Scholes method and has been depreciated over the period of acquisition of rights.
(2) Including €107.0 million on the dilution capital gain and €60.3 million relating to the decline in the rate of taxation of long-term capital gains from 20.2% to 15.72%.

f - Reconciliation of consolidated statements cash flows for 2004

The various restatements made for the application of IFRS standards have no impact on the consolidated statement of cash flows. The restatements consist of the recording of costs linked to stock option plans, the elimination of the depreciation of actuarial gains and losses, the recording of derivatives at market value and the recording of the fair values of financial assets available for sale, and the elimination of goodwill depreciation and the treatment of the deferred tax on the Sanofi-Aventis investment.

The main impact on the various cash flow items concerns the following reclassifications:
- inclusion of dividends received from equity affiliates in gross cash flow: in an amount of €145.9 million for 2004,
- reclassification of advertising materials which can be depreciated from *Net cash provided by operating activities* to *Net cash used by investing activities*: in an amount of €178.3 million for 2004,
- reclassification of buybacks/disposals of treasury shares from *Cash flows from investing activities* to *Cash flows from financing activities* in an amount of €637 million for 2004,
- redefinition of *Cash and cash equivalents*, with reclassification of financial instruments to *Cash used for working capital*, in an amount of –€9.3 million for 2004, and of bank overdrafts to *Cash flows from financing activities* in an amount of –€54.5 million for 2004.

CONSOLIDATED COMPANIES AT DECEMBER 31ST, 2005

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 (Shanghai) 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	
Cosmelor KK	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		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	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 S.A. de CV	Mexico		100.00	
Garnier New Zealand Ltd	New Zealand		100.00	
Gemey Maybelline Garnier	France	339 419 962	100.00	
Gemey Paris – Maybelline New York	France	339 381 584	100.00	
Geral Inc.	United States		100.00	
Goldys International	France	337 844 914	100.00	
Helena Rubinstein	France	542 033 485	100.00	
Helena Rubinstein Italia Spa	Italy		100.00	
Holdial	France	324 084 698	100.00	

(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]
Kosmepol Sp Z.O.O	Poland		100.00	
L & J Re	France	413 178 740	100.00	
Laboratoire Garnier et Cie	France	572 186 047	100.00	
Lai Mei Cosmetics International Trading Co Ltd	China		100.00	
Lancarome A/S	Denmark		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		100.00	
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	Netherland		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		99.88	
L'Oréal Libramont	Belgium		100.00	
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		96.02	
L'Oréal Maroc	Morocco		50.00	100.00
L'Oréal Mexico S.A. de CV	Mexico		100.00	
L'Oréal Mexico Servicios S.A. de C.V.	Mexico		100.00	
L'Oréal Middle East Fze	United Arab Emirates		100.00	
L'Oréal Nederland BV	Netherlands		100.00	
L'Oréal New Zealand	New Zealand		100.00	
L'Oréal Norge A/S	Norway		100.00	
L'Oréal Österreich GmbH	Austria		100.00	

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

Companies	Head Office	N° Siren	% Interest	% Control[2]
L'Oréal Panama	Panama		100.00	
L'Oréal Peru SA	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		100.00	
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 Turkiye	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	
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	
Sicôs et Cie	France	687 020 214	100.00	
Sincos Pte Ltd	Singapore		100.00	
Socex de Expansao Mercantil em Cosmeticos	Brazil		99.00	

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

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

(1) Companies jointly owned with *Les Trois Suisses*.
(2) Companies jointly owned with Nestlé.
(3) Equivalent to the interest percentage except if specified.

Companies	Head Office	N° Siren	% Interest	% Control[3]
Innéov CZ s.r.o.	Czech Republic		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 Nutrikozmetik	Turkey		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	Russian Federation		50.00[2]	

(1) Companies jointly owned with *Les Trois Suisses*.
(2) Companies jointly owned with Nestlé.
(3) Equivalent to the interest percentage except if specified.

2005 Management Report of the Board of Directors

Notes to the Management Report

2005 Management Report of the Board of Directors

This Report reviews the activity of the company and its group in 2005. It also includes information on the company's social and environmental management, the structure of 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 and applied in the group.

The Board of Directors also prepares its Report to the Annual General Meeting, which is published with the notice to attend the Annual General Meeting. This Report sets out the reasons for the draft resolutions submitted for approval by shareholders' voting.

2005 CONSOLIDATED ECONOMIC AND FINANCIAL DATA

In the following, the Board of Directors reviews the development of the company in 2005 and the main economic and financial data. The data reflect the company's performances in innovation, product initiatives, the conquest of new markets and cost reductions in all fields.

The following economic and financial information was presented to the Board of Directors at its meeting on February 15th, 2006, before the Board had closed the financial statements and finalised its Management Report.

Overview of 2005 results and main indicators

At the end of December 2005, sales amounted to €14.53 billion, up by +6.5%, reflecting like-for-like growth of +4.8%. Operating profit before foreign exchange gains and losses amounted to €2,313 million, up by +12.7%. This result reflects a strong improvement in operating profitability before exchange gains and losses at 15.9% compared to 15.0% in 2004. There was a clear improvement in all operating items. After exchange losses of €47 million, operating profit at €2,266 million grew by +8.5%, representing 15.6% of sales. Net profit after minority interests, excluding non-recurrent items, amounted to €1,639 million, representing growth of +10.3%. Net earnings per share amounted to €2.60, up by +13.5%.
Net profit after minority interests at €1,972 million increased sharply by +37% compared with pro forma results for 2004[1].

Consolidated sales

€ millions	12.31.2004 IFRS	12.31.2004 IFRS pro forma[1]	12.31.2005 IFRS	% growth over pro forma 2004
Sales	13,641	13,641	14,533	+6.5
Operating profit before foreign exchange gains and losses	2,053	2,053	2,313	+12.7
Operating profit	2,089	2,089	2,266	+8.5
Pre-tax profit excluding non-recurrent items	2,334[1]	2,187	2,370	+8.4
Net profit after minority interests	3,970[1]	1,439	1,972	+37
Net profit excluding non-recurrent items[2]		1,486	1,639	+10.3
Net earnings per share[3] (in euros)		**2.29**	**2.60**	**+13.5**

(1) For the purpose of comparison, the pro forma profit and loss statement has been adjusted to take into account the deconsolidation of Sanofi-Synthélabo on January 1st, 2004:
- by replacing the share in the net profit of Sanofi-Synthélabo, i.e. €293.5 million, with the dividends received, i.e. €145.9 million,
- and by neutralising the dilution capital gain, net of tax, relating to these shares, i.e. €2,854.5 million gross and €471.1million tax.
(2) Net profit excluding non-recurrent items after minority interests does not include capital gains and losses on disposals of long-term assets, impairment of assets, restructuring costs, associated tax effects or minority interests.
(3) Net earnings per share: diluted net earnings per share based on the net profit excluding non-recurrent items after minority interests.

Cosmetics sales by operational division and geographic zone

12.31.2005[1]		Growth	
	€ millions	Like-for-like	Published figures
By operational division			
Professional Products	2,061	+6.1%	+7.3%
Consumer Products	7,499	+4.6%	+6.4%
Luxury Products	3,582	+2.7%	+3.9%
Active Cosmetics	986	+13.5%	+17.2%
Cosmetics total	**14,215**	**+4.8%**	**+6.5%**
By geographic zone			
Western Europe	6,742	+0.1%	+0.1%
North America	3,868	+6.4%	+8.3%
Rest of the World	3,605	+12.6%	+18.4%
Including: Asia	1,375	+7.4%	+10.6%
Latin America	861	+11.3%	+23.5%
Eastern Europe	682	+28.5%	+34.3%
Other Countries	687	+11.5%	+15.0%
Cosmetics total	**14,215**	**+4.8%**	**+6.5%**
Dermatology[2]	318	+6.3%	+8.3%
Group total	**14,533**	**+4.8%**	**+6.5%**

(1) All figures are expressed in accordance with IFRS.
(2) Group share, i.e. 50%

Sales of cosmetics divisions

With sales up by +8.5% in the fourth quarter, the **Professional Products Division** ended the year with like-for-like growth of +6.1%. The launch of the Kérastase Réflection range was a global success and the new VolumActive range got off to a very promising start. L'ORÉAL PROFESSIONNEL continued to grow with the new Majirel hair colourant and Platinium lightening paste. REDKEN successfully relaunched its range of hair styling products. MATRIX launched Color Smart, updated its Biolage range and strengthened its global presence.

Consumer Products Division sales grew by +4.6% like-for-like and +6.4% based on published figures. The GARNIER brand achieved strong growth, buoyed by the success of its UltraLift skincare range and Nutrisse hair colourants, along with the ongoing appeal of Fructis haircare products. The solid growth of L'ORÉAL PARIS continued with the launch of RevitaLift Double Lifting skincare products, Elsève Nutri-Gloss haircare products and Volume Shocking mascara, together with the success of the Men Expert range. MAYBELLINE make-up achieved strong growth with Dream Matte Mousse foundation and Moisture Extrême lipstick.

The **Luxury Products Division** achieved like-for-like annual sales growth of +2.7%, reflecting a very significant upturn of +5.2% in the last quarter. LANCÔME is making progress in skincare and make-up with the success of Platinéum skincare and L'Extrême mascara. Hypnôse fragance proved extremely successful, and was a bestseller in all European markets at the end of the year. The ARMANI brand achieved very strong growth and consolidated its position as the world leader in perfumes for men thanks to the continuing success of Armani Code and the good scores of Emporio City Glam. Lastly, Promesse by CACHAREL, Polo Black by RALPH LAUREN and Flowerbomb by VIKTOR & ROLF all achieved impressive performance in the fourth quarter of 2005.

Active Cosmetics, number one in the market for dermocosmetic skincare products sold in pharmacies, once again produced strong like-for-like growth, of +13.5%. This stems from the success of launches and relaunches such as LiftActiv Pro anti-wrinkle firmness skincare products from VICHY and Aminexil SP94 hair loss treatment. LA ROCHE-POSAY meanwhile benefited from the successful launch of Redermic, its first anti-ageing product, released in late 2005, while making an impressive breakthrough into markets for sun protection and facial blemish skincare products. INNÉOV maintained its strong sales growth.

Western Europe returns to growth

Professional Products made significant gains in the fourth quarter to end 2005 on a high note by strengthening its positions, particularly in haircare and hair colourants, with the success of Richesse colourants and REDKEN sprays. The second-half growth of the Consumer Products Division confirmed the success of its launches. New high value added products brought gains in market share, particularly in the fourth quarter, in skincare with RevitaLift Double Lifting, in haircare with Elsève Nutri-Gloss, and in make-up. Sales of Luxury Products were bolstered in the fourth quarter by resounding successes for newly launched products such as Platinéum skincare by LANCÔME and the fragances Hypnôse from LANCÔME and Polo Black by RALPH LAUREN. The Active Cosmetics sales trends are favourable, driven in particular by the successful relaunch of LiftActiv Pro by VICHY.

Strong sales trends continue in North America

Like-for-like sales in **North America** grew by +6.4%. There was strong growth in Consumer Products as Fructis by GARNIER continued to expand its share of the shampoo and styling market while Nutrisse increased its hair colourant market share. Make-up sales meanwhile were bolstered by successful product initiatives such as Infaillible foundation and Volume Shocking mascara by L'ORÉAL PARIS, and Moisture Extrême lipstick by MAYBELLINE. The Professional Products Division was boosted by the success of Color Smart and Biolage by MATRIX, and the breakthrough of REDKEN in the hair colourant market. Its performance was backed up by the very rapid and qualitative growth of KÉRASTASE. Although growth was held back by the announcement of a merger between the two leading department store operators, the Luxury Products Division scored spectacular successes with its launches: Rénergie Microlift skincare products and L'Extrême mascara by LANCÔME, and the successes of the men's fragrances Armani Code and Polo Black by RALPH LAUREN. Lastly, Active Cosmetics continued to progress, driven by the strong growth of SKINCEUTICALS, acquisition concluded in June 2005.

Strong growth in the other regions of the world

The **Asia** zone achieved like-for-like growth of +7.4%, bolstered by Greater China and Indonesia. South Korea was held back throughout the year by the crisis in specialised distribution. In Consumer Products, Watershine and Unstoppable mascara galvanised MAYBELLINE sales both in China and Japan. The success of White Perfect enabled L'ORÉAL PARIS to increase its share of the skincare market. Professional Products made gains in Japan through hair colourant and haircare initiatives by L'ORÉAL PROFESSIONNEL and KÉRASTASE. MATRIX products are now being rolled out in Greater China and the Philippines. In Luxury Products, BIOTHERM achieved strong growth thanks to Line Peel, particularly in Japan, and scored a real coup by creating the men's skincare market in China. SHU UEMURA is innovating with an extensive roll-out of its Tokyo Lash Bar concept. Active Cosmetics continued its rapid growth, by moving into new geographic areas and introducing strong product initiatives such as LiftActiv Pro by VICHY and Méla D by LA ROCHE-POSAY.

Sales in **Latin America** continued to make impressive progress, with like-for-like growth of +11.3%. Professional Products made rapid advances, up by +17%, notably thanks to the success of the Réflection range by KÉRASTASE and the growth of REDKEN. Brazil, Venezuela and Argentina achieved the most outstanding growth scores. Consumer Products benefited from the renewal of the Excellence hair colourant range, which has backed up the remarkable success of Nutrisse colourant in all countries in the zone. MAYBELLINE achieved rapid growth in Mexico and Argentina. In addition to the success of men's fragrances Armani Code and Cool by RALPH LAUREN, the Luxury Products Division was buoyed by the strong growth of BIOTHERM, which strengthened its leading position in the men's segment of the selective retail channel.

Lastly, Active Cosmetics continued to develop through strong growth in Brazil, Mexico, Argentina and Chile, driven by successful products such as Anthélios by LA ROCHE-POSAY, which now leads the market for sun protection in Brazil.

In 2005, **Eastern Europe** once again confirmed its very strong sales momentum , up by +28.5% like-for-like. A number of brands contributed to this success: MATRIX products have been rapidly rolled out in hair salons in Poland and the Russian Federation, while VICHY and LA ROCHE-POSAY are continuing to expand in pharmacies in the same countries. The success of Consumer Products draws on the solid progress of facial skincare and bodycare products by GARNIER, along with strong growth in Elsève shampoos and the Dermo-Expertise range by L'ORÉAL PARIS. Lastly, the recent, highly promising Hydra Extrême lipstick initiative by MAYBELLINE helped consolidate the already strong positions of the brand. At the start of 2005, our Russian subsidiary took over management of our major Luxury brands in the country. The zone also continued to expand geographically, with the opening of subsidiaries in Serbia and Ukraine.

The growth rate in the **Rest of the World** was once again very high, up by +11.5% like-for-like. India continued to reflect this strong sales growth trend, up by +46%, largely thanks to the outstanding success of Garnier Light facial skincare products, Color Natural hair colourants and Fructis shampoos by the same brand.

New prospects are opening up for L'Oréal, thanks to the combination of a large number of innovative launches, the rapid expansion in the countries of Eastern Europe, Asia and Latin America, the building of strong positions in North America, and a stronger momentum in Western Europe. The outlook for each of the group's Divisions is set out in the individual sections of the first volume of this Annual Report.

2005 consolidated financial statements, cash flows and debt situation

Consolidated profit and loss account

€ millions	12.31.2004 Pro forma	As % of sales	12.31.2005	As % of sales	Growth %
Sales	**13,641.3**	**100**	**14,532.5**	**100**	**+6.5**
Cost of sales	–4,101.1	30.1	–4,347.3	29.9	+6.0
Gross profit	**9,540.2**	**69.9**	**10,185.2**	**70.1**	**+6.8**
Research and development expenses	–466.5	3.4	–496.2	3.4	+6.4
Advertising and promotion expenses	–4,176.9	30.6	–4,367.2	30.1	+4.6
Selling, general and administrative expenses	–2,844.3	20.9	–3,009.2	20.7	+5.8
Operating profit before foreign exchange gains and losses	2,052.5	15.0	2,312.6	15.9	+12.7
Foreign exchange gains and losses	36.5	0.3	–46.6	0.3	
Operating profit	**2,088.9**	**15.3**	**2,266.0**	**15.6**	**+8.5**

Gross profit amounted to €10,185 million, up by +6.8%, representing 70.1% of sales, compared with 69.9% in 2004. This improvement stems in particular from the continuation of our industrial optimisation programmes and the strengthening of our purchasing organisation. Research and development expenses increased by +6.4% to €496 million, representing 3.4% of sales, exactly the same level as in 2004. Advertising and promotion expenses amounted to €4,367 million, representing 30.1% of sales. They were in fact slightly lower in 2005, partly because of better management of our promotional expenses, and partly because more favourable conditions were obtained. Sales, general and administrative expenses amounted to €3,009 million, representing 20.7% of sales; this is a clear improvement over 2004, when they accounted for 20.9% of annual sales. This improvement reflects the group's constant efforts to streamline organisation and control costs. Operating profit before foreign exchange gains and losses amounted to €2,313 million, that is 15.9% of sales, compared with 15.0% in 2004, reflecting another increase in 2005. Fluctuations in the main currencies against the euro led to the recording of a foreign exchange loss of €46.6 million, compared with a gain of €36.5 million recorded in 2004. After foreign exchange gains and losses, operating profit amounted to €2,266 million, that is 15.6% of sales, compared with 15.3% in 2004.

Operating profit by branch and division

	2004 IFRS Pro forma	2005 IFRS
By operational division		
Professional Products	19.0%	19.7%
Consumer Products	16.8%	17.2%
Luxury Products	20.1%	20.2%
Active Cosmetics	18.6%	19.0%
Cosmetics Divisions total	**18.0%**	**18.4%**
Non-allocated[1]	–2.8%	–2.8%
Cosmetics Branch	**15.3%**	**15.6%**
Dermatology Branch	**17.3%**	**16.9%**
Group	**15.3%**	**15.6%**

(1) "Non-allocated": group central expenses, fundamental research expenses, stock option costs and miscellaneous items.
It is expressed as a % of total sales.

Net financial expense amounted to €67.1 million. The share of dividends received from Sanofi-Aventis for 2004 was €171.6 million, up by +17.6%. Pre-tax profit before non-recurrent items amounted to €2,370 million, up by +8.4%. Tax on profit excluding non-recurrent items amounted to €730.5 million, up by +4.7%. Net profit before non-recurrent items stood at €1,639 million, up by +10.3%.

Net profit after allowing for non-recurrent items amounted to €1,972 million, up by +37% compared with the 2004 pro forma figure. This strong increase was mainly due to the restatement of deferred tax assets as a result of maintaining the position in Sanofi-Aventis.

Cash flow amounted to €2,130 million at December 31st, 2005, up by +10.7%.Thanks to the strict control of the working capital requirement and stable investments, the operational cash flow is up by +22.4%. Net group debt was €2,217 million at December 31st, 2005, representing 15.1% of shareholders' equity.

Risk management

The main risks to which L'Oréal is exposed through its activities, its organisation and its international situation, and the way these risks are managed, are set out in detail in the "Issuer Risks" chapter of the Reference Document, and in note 21 to the consolidated financial statements (pages 34 to 37).

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 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.

The group aims to foster dialogue and responsiveness, particularly at the Annual General Meeting, 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.

In 2005, accounting and regulatory issues played an important part in the group's financial communication calendar. Special news releases were issued for the introduction of the new accounting structure to comply with IFRS standards, new presentations of the profit and loss account by destination, and profitability by division. The Board of Directors has been involved in this process, particularly through the work of the Audit Committee.

Transition to IFRS standards

In 2005, before the publication of the first-half results, the Audit Committee devoted much of its work, in three of its meetings, reviewing the conversion of the 2004 financial statements and the preparation of the 2005 financial statements in accordance with IFRS standards. It reported on its work to the Board of Directors which was then able to approve the financial statements in accordance with the new standards. The only accounting references are now IFRS standards and the 2005 consolidated financial statements are the first to be prepared in accordance with these standards. The group's Accounting Unit continues to monitor new IFRS standards in preparation and any amendments.

The accounting principles applied in 2005 are set out in detail in note 1 to the consolidated financial statements (page 13).

Internal Control

In the process of preparing the data used as for financial information support, the Internal Control function at L'Oréal aims to ensure compliance with accounting regulations and the correct application of the principles on which the financial statements are prepared, the quality of the information transmission process and of its centralised treatment for the group and the control of the production of financial, accounting and management information.
In his Report on Internal Control, which forms part of this Management Report document, the Chairman considers these aspects of financial and accounting information control.

Important event since the start of 2006

In a news release dated Monday January 16th, 2006, L'Oréal announced the signing of a partnership agreement with Diesel, a cult brand for young people, for the launch of a range of fragrances.

"L'Oréal Luxury Products Division has just signed a licence agreement with Diesel, the cult brand founded in 1978 and developed by its charismatic president Renzo Rosso. The contract covers the creation of a line of fragrances. This partnership will build on the synergy between the expertise of L'Oréal, the world's leading cosmetics group and number one company in luxury fragrances, and the creative strength of Diesel, whose over 25 years of original and innovative style has created a group worth one billion euro. Diesel is a cult brand among 18-35 year-olds all over the world. Taking a highly original approach to jeans and high-end casualwear, Renzo Rosso, its founder, has invented something more than simple fashion: he has given birth to a unique lifestyle that is illustrated in an emblematic way through its groundbreaking advertising campaigns and unconventional marketing techniques. Diesel, an unlisted company based in Molvena (Italy), is present in 80 countries, through 5,000 sales outlets, over 300 of them directly owned. Its flagship stores, the first of which opened in New York in 1996 followed by all the major capitals, are always located in prime position trendy shopping districts, making Diesel products essential accessories of today's young and luxury wardrobe."

2005 PARENT COMPANY FINANCIAL STATEMENTS

The financial statements of L'Oréal parent company have been reviewed by the Audit Committee and the Board of Directors, and were then closed by the Board of Directors at its meeting on February 15th, 2006 in the presence of the Statutory Auditors.

Net sales

€ millions	2005	2004	Change in %
Net sales			
1st quarter	472.0	465.8	1.33
2nd quarter	486.1	472.5	2.88
3rd quarter	421.9	405.5	4.04
4th quarter	476.6	430.3	10.76
Total	**1,856.6**	**1,774.2**	**4.64**

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.

Balance sheet and profit and loss account

The balance sheet and profit and loss account of L'Oréal parent company are included in the appendix to this Management Report.

At December 31st, 2005, total assets amounted to €10,086.4 million, compared with €9,543.4 million at December 31st, 2004.

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

At December 31st, 2005, the share capital consisted of 658,769,660 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 results presented 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 the above amounts is taxed at a reduced rate.

The profit and loss accounts indicate a net income of €1,589.6 million compared with €1,230.1 million at December 31st, 2004.

The year-on-year change of profit level mainly represents a variation of €347.3 million in financial income (mainly changes in provisions for depreciation of treasury stock, and an increase in financial income).

The 2005 net income of €1,589.6 million is calculated:
• after the reversal of the provision for investments set aside in 2000 for the financial year 1999 amounting to €6.6 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 €17.1 million provisioned in 2004 for €17.6 million,
- and of a net charge to employee profit-sharing provisions for 2005 of €15.3 million,
• after raising a provision for investments, including the transfer made by the subsidiaries to the credit of L'Oréal parent company, by application of the derogatory profit-sharing agreement in an amount of €3.5 million, compared with €2.8 million in 2004.

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 euros,
• corresponding tax amount: 0.2 million euros.

Subsidiaries and holdings

Information concerning the activities of the subsidiaries is provided in the beginning of this report, in the description of the activities of the zone concerned, and in Volume 1 of the Reference Document. Financial data concerning them are also contained in the table of subsidiaries and holdings at December 31st, 2005, which forms part of the notes to the parent company financial statements.

In May 2005, the L'Oréal group increased its stake in Le Club des Créateurs de Beauté Japon to 50%. This company, which was previously consolidated by the equity method, has been consolidated by the proportional method since July 1st, 2005.

In June 2005, the L'Oréal group finalised the acquisition of SkinCeuticals, an unlisted company which is one of the main players in the US market for upmarket skincare products sold by professionals. The sales of SkinCeuticals amounted to USD 35 million in 2004.

At the end of August 2005, the L'Oréal group acquired the sun protection product brand Delial, one of the leading sun protection brands in Europe. Delial's sales reached €20 million in 2004.

Sanofi-Aventis
At December 31st, 2005, L'Oréal held a 10.21% stake and 17.51% of voting rights in Sanofi-Aventis.

In L'Oréal's financial statements, Sanofi-Aventis was deconsolidated on August 12th, 2004. Balance sheet value at December 31st, 2004 and December 31st, 2005 respectively amounted to €8,410.8 million and €10,585 million, corresponding to the market value of the shares on the basis of the share price at December 31st, 2004 and December 31st, 2005, of €58.80 and €74.00 respectively.

PRODUCTION AND TECHNOLOGY

Production optimisation continues

Continuing the policy of technological specialisation of factories has enabled further improvements in productivity. Meanwhile, equipment standardisation efforts again helped to reduce investments in factories.

Cost reduction

In view of the rising cost of raw materials, and oil in particular, L'Oréal's teams have worked in close collaboration with suppliers on all factors that can help cut costs (such as process analysis, market massification, value analysis and negotiations with suppliers). Furthermore, new opportunities for cost savings in purchasing were seized in 2005.

RESEARCH

Research expenditure represented 3.4% of consolidated sales in 2005.

Respect for diversity both cultural and environmental

Genuine innovation is impossible without a subtle blend of anticipation and respect for diversity in both cultures and environments. In 2005 once again, L'Oréal's Research and Development Unit put these principles, inseparable from all research activities, into practice.

In 2005, the opening in China of the Pudong research centre, dedicated to research into Chinese skin and hair, was a clear expression of the group's determination to anticipate the markets of the future.

Each time L'Oréal opens a research centre somewhere in the world, it aims to evaluate the specific features of skin and hair. Studying the impact of the group's products in the context in which they are used, and the associated everyday beauty care gestures and rituals, makes it possible to adapt and also to respect local diversities.

Opening up towards the scientific community at world level is also a key priority for L'Oréal. Research is eager to be involved in emerging technologies across the world, and in new scientific disciplines.

SUSTAINABLE DEVELOPMENT

Good citizenship and a sense of responsibility

In 2005 L'Oréal once again demonstrated its determination to link closely its economic growth with strong ethical principles and a genuine awareness of its responsibilities.

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 Sustainable Development Report, which is available on the Internet at any time. In the Report, the group describes the most significant advances made over the last few years and sets itself goals 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.

Fostering social dialogue and encouraging diversity

L'Oréal is committed to a constructive social dialogue through the various bodies that represent personnel in countries in which it operates. For example, in Europe, the aim of the L'Oréal European Works Council (IEDS) is to provide personnel representatives with information, and exchange ideas with them, about the group's situation and its economic, financial and social outlook. The IEDS is now made up of 30 members representing 15 countries, for whom economic and social training is provided.

L'Oréal aims also to encourage diversity, not only in products and distribution channels, but also in its teams, and has been a signatory of France's Diversity Charter since December 2004.

Protecting the environment and strengthening safety

In the field of Safety, Health and the Environment (SHE), L'Oréal set itself three priorities in 2005: to reduce the quantities of water and of electricity consumed to make each finished product, and to improve safety in all its activities. In addition to these priority goals, the group is determined to improve all its key performance indicators (KPI) in the fields of the environment and safety.

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 2005 it consisted mainly of the following items (annual data):

Transportable waste (tonnes)	2,771
Recycled waste (tonnes)	2,740
Recycling ratio (%)[1]	98.88
CO_2 (tonnes)	7,124
SO_2 (tonnes)	4
Discharge into ground	0
Water consumption (m^3)	187,142
Electricity consumption (MWh)	49,116
Gas consumption (MWh)	31,023
Fuel oil consumption (MWh)	401
Energy consumption (MWh)	80,540

(1) The recycling ratio of 98.88% represents total recycled waste as a percentage of transportable waste.

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 2, in the chapter on "Industrial and environmental risks".

HUMAN RESOURCES

Spotting the talents of tomorrow and encouraging diversity

With 52,403 employees in 58 countries, L'Oréal follows a human resources policy revolving around diversity. In 2005, L'Oréal stepped up its efforts in all countries to recruit the talents of the future and to foster their integration, to develop their skills and to provide a fast track for future business leaders.

Spotting the talents of tomorrow, facilitating and personalising integration, teaching the business, transmitting the corporate culture, developing skills and raising leaders' awareness of their responsibilities, with a long-term vision, are the major goals of the group's policy in managing human resources.

L'Oréal parent company social information

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, 2005

The total number of L'Oréal employees at December 31st, 2005 was 5,695. L'Oréal hired 287 persons on permanent contracts and 437 persons on fixed-term contracts. In addition, 386 persons were hired for the holiday period or for a single season.

New recruitment initiatives

L'Oréal does not encounter any difficulties in recruiting either executives or other categories of employee. The group currently has a recruitment drive under way for all its professions.

In 2005, L'Oréal strengthened its image as an employer by launching a new international recruitment campaign entitled *To Build Beauty, We Need Talent*.
In the 2005 Universum Europe survey of students at 100 top schools and universities in 19 European countries, L'Oréal came second in the rankings of Preferred Employers.

L'Oréal is continuing and strengthening its initiatives aimed at young graduates from business schools and universities, and from scientific, research and technical courses, by reorganising educational strategy, marketing and finance games (in 2005 L'Oréal e-Strat Challenge in 125 countries, L'Oréal Brandstorm in 31 countries, and L'Oréal Ingenius Contest in China and France).

In order to diversify its recruitment profiles, L'Oréal is also launching an international initiative entitled Creativity & Business, aimed at students with a creative profile, to encourage contacts between the creative universe and the professional environment.

Redundancies

In 2005, there were no redundancies for economic reasons. The number of employees made redundant for reasons specific to the person was 66, out of a total of 5,695 persons.

Overtime

L'Oréal makes little use of overtime in any professional category. The total number of paid overtime hours in 2005 was 12,817 hours corresponding to gross pay of €252.7 thousand, representing the equivalent of 8.06 persons, that is 0.14% of the total number of employees.

Temporary workers

L'Oréal makes little use of temporary workers, who represent 3.09% of the total number of employees, with an average monthly total of 178 temporary workers, and an average contract length of 11 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 2005.

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 444 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	2.25%
Travelling accidents	0.19%
Maternity	1.16%
Family events	0.49%
Other absences	0.02%
Total	**4.10%**

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.

In euros	2004			2005			
	Men	Women	All	Men	Women	All	Change
Executives	5,357	4,421	4,867	5,536	4,564	5,027	+3.29%
Supervisors and technical staff	2,637	2,617	2,622	2,691	2,672	2,676	+2.08%
Administrative staff	1,980	1,911	1,935	2,015	1,942	1,967	+1.64%
Manual workers	2,081	2,030	2,062	2,126	2,066	2,104	+2.05%
Sales representatives	3,819	3,259	3,645	3,955	3,419	3,789	+3.95%

Employer contributions

2005 annual total employer contribution:
€123.9 million.

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

Incentives

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	2002	2003	2004
	73,741	79,427	82,388
Of which the L'Oréal parent company	37,767	41,085	43,350

From 2001 onwards, L'Oréal has developed 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 2005 L'Oréal thus paid out €42.9 million for 2004 under the worldwide incentive system outside France.

Employee profit-sharing

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 incentive 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	2002	2003	2004
	33,625	29,536	31,465
Of which the L'Oréal parent company	17,881	15,791	17,075

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 R.442-12 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	2002	2003	2004
CSP and blocked current account	305,614	359,256	352,692

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 between the management, employees and their representatives.

Composition of Central Works Council by category

Number of representatives appointed by category	2005
Executives	2
Supervisors and technical staff	1
Administrative staff/Manual workers	1

Number of meetings of CWC and its commissions: 7

List of collective agreements

Dates of signing and objects of agreements signed in the company

04.13.2005	Additional clause no.3 to provident scheme agreement of 04.13.1995
09.14.2005	Agreement relating to the exceptional unblocking of the employee profit-sharing payment made in 2005
12.09.2005	2005 additional clause to the provident scheme agreement of 06.10.1993

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 54 in 2005.

Measures taken to improve safety

Preserving the health and safety of employees is a fundamental goal, which forms an integral part of the company's human resources and social policy. It is based on risk prevention, both at individual level, through medical screening tests which enables thorough individual monitoring of employees, and at collective level, by the evaluation and control of occupational risks:

- health and safety policy implemented on industrial and logistical sites for many years,
- safety management system in place on industrial sites, and currently being introduced in research. Almost all the group's factories are ISO 9001 certified, 37 are 14001 certified, and the implementation of the OHSAS 18001 certification procedure is under way,
- implementation of risk evaluation measures on all sites,
- management of specific risks in each sector of activity.

The health and safety programme forms part of an overall approach, implemented in close conjunction with occupational doctors, safety managers and the CHSCT (health, safety and working conditions committees).

Ergonomic improvements

Working conditions, and ergonomics in particular, are analysed not only on industrial and logistical sites but also on administrative sites, particularly for employees working on computer screens. These programmes are implemented by the safety departments, occupational doctors and the CHSCT.

They are based on working situation analysis (ergonomics audits), enabling the drawing up of a map of work stations.

The audits have enabled:

- the identification of corrective and preventive actions,
- the setting up of work organisation actions,
- the developing of training programmes for employees.

Training

Percentage of total salaries allocated to continuing education in 2005

Amount allocated for training (€ thousands)	12,080
% of total salaries	4.2%

Number of persons receiving training: 3,858

or 67.7% of the total number of employees at 12.31.2005.

Number of training units: 7,410

or two units of training per person trained.

Number of hours of training: 125,451 hours

From January 1st, 2005, in accordance with the Act of May 4th, 2005 on professional training throughout the career, and with the chemicals industry branch agreement signed on November 15th, 2004, L'Oréal employees with a minimum length of service of one year at December 31st of the previous year will have an Individual Training Entitlement (DIF). In 2005, 17 people took advantage of the DIF system. The L'Oréal human relations intranet site provides employees with full information about their rights with regard to professional training and Individual Training Entitlement.

Employment and job opportunities for workers with disabilities

The number of workers with disabilities in 2005 was 104, representing 1.8% of the total number of employees.

Subcontracting to Special Workshops and Occupational Therapy Centres amounted to €129,321.63.

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).

In 2005, L'Oréal stepped up its policy of employing people with disabilities as follows:

- the implementation of an audit on accessibility to group premises (22 sites) and the setting up of an action plan for 2006,
- the participation in information and recruitment forums aimed at people with disabilities: Vediorbis Disability Day on May 25th, Forums of the AFIJ (an association to promote job opportunities for young people with qualifications) on May 31st and October 6th, 2005, and ADAPT Jobdating on November 14th, 2005 as part of the Employment for Disabled People Week. The aim is to develop new sources of recruitment.

Job opportunities

For more than ten years, L'Oréal has been establishing a large number of partnerships with professionals providing job opportunities, such as associations, placement companies and local missions. L'Oréal draws on their expertise and their know-how (particularly in social monitoring) in joint projects to enhance the quality of the actions carried out and their long-term viability.

A few examples:

- Strengthening of the partnership between L'Oréal and the Sadakka local association at Aulnay-sous-Bois (93). While providing household services destinated to employees (ironing/dry cleaning/alterations) Sadakka has benefited from donations in kind and in cash from L'Oréal employees (the "Giving" campaign) and gifts of products from the company.
- Setting up of a local partnership between the Soproréal factory at Aulnay-sous-Bois (93) and the Aulnay Interim temporary employment agency as part of a programme to provide temporary job opportunities. This project has enabled the integration of 8 people on temporary job opportunity contracts, including the provision of packaging operator training programmes.
- Involvement of L'Oréal employees with the "Fondation de la 2e Chance", based on professional coaching for people who have experienced various types of life challenges, and who are determined to seize the opportunity offered to them. Since 1998, professional coaching has been provided for more than 80 people at four L'Oréal sites in France.
- In 2005, the Hair Care Applied Research and Development laboratories set up a partnership scheme with the Gouin Hospital in Clichy (92) to create a "Beauty Area" for hospitalised patients inside the establishment.

Since 1997, L'Oréal has made awards to the most innovative and exemplary job opportunity programmes implemented in the company for people with difficulties, 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	2005
Accommodation	
Payment to the "Housing 1%" fund	1,269
Transport	
Shuttles	153
Catering	
Company restaurant	6,319
Miscellaneous	
Social events for personnel	1,303
Total	**9,043**

Payment to the Central Works Council and the three L'Oréal works councils: €1,361 thousand

Importance of subcontracting

€ thousands	2005
Subcontracted work purchased	3,910
Special order work	247,942

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. Over the past three years on all these sites, L'Oréal has hired 2,211 people on permanent contracts and fixed-term contracts, and has thus contributed to regional development.

In 2005 L'Oréal paid €15,490 thousand in professional tax.

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. In 2005, 553 students joined L'Oréal under this type of internship scheme. L'Oréal also offers conferences, factory visits and L'Oréal case studies.

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

By signing the Apprenticeship Charter in May 2005, which covers all apprentices hired in France, L'Oréal reasserted its commitment to:
• raising awareness of the role played by apprentice masters, and assisting them by providing training,
• respecting the diversity of French society when recruiting apprentices, and its cultural and ethnic diversity in particular, at all levels of qualification,
• intensifying collaboration between training organisations and companies in order to improve young people's qualification levels.

Excellence in apprenticeship schemes facilitates access to employment, improves human resources management and promotes diversity. Since 1993, the group has worked with 2,224 apprentices in France, including 1,008 at L'Oréal parent company; 372 graduate apprentices have been hired since 1994, including 175 at L'Oréal parent company, representing 25% of the total number of graduate apprentices.

281 apprentices were working in the group at December 31st, 2005, including 144 at L'Oréal parent company, in cooperation with 93 apprentice training centres, including 55 for L'Oréal parent company. 91% of the apprentices are preparing for qualifications at "bac+2" level (equivalent to "A" levels +2 years) or higher. Their pass rate is 86%.

A qualitative assessment of the apprentice training centres is carried out each year.

Environmental protection associations
L'Oréal is continuing to demonstrate its commitment to protect the environment and improve occupational health and safety at work, 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 has developed programme for the self-training of employees concerning the environment in their workplace which draws on real-life examples. This e-learning module went online in February 2005.

L'Oréal is also a member of environmental protection associations at national level (e.g. Eco-Emballages), European level (e.g. European) and international level (e.g. World Business Council for Sustainable Development). L'Oréal is also 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 L'Oréal's business is at the heart of people's everyday lives and well-being, the group is closely involved with the communities in which its activities take place. L'Oréal is committed to demonstrating, through its behaviour, good citizenship and making a contribution to projects which are useful to the wider community.

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.

In the internal Safety Hygiene Environment competitions, prizes are awarded in recognition of the efforts made by a site (factory, distribution centre or administrative centre) which demonstrates its commitment, mobilisation and involvement in the community in which it operates. Awards are made to the best initiatives conducted each year in partnership with local authorities, residents and schools in the fields of solidarity, education or the environment.

By these initiatives, L'Oréal is eager to demonstrate its good citizenship, and ensuring that it is firmly rooted in respect and an ethical approach towards the surrounding community.

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'Oreal shares
On May 22nd, 2003, the Annual General Meeting authorised the Board of Directors to grant, to executives of the company and of those 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. This authorisation was granted for a period of 38 months, it gives the Board of Directors as much flexibility as possible in order to strengthen the motivation of beneficiaries, whatever the context. In 2005, the Board made new allocations. It should be noted that 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 who, by their abilities and their commitment, contribute most to the performances of the group. They also express the determination of L'Oréal to encourage and attract new talents.

Number of employees concerned
In 2005, on the proposal made by its Chairman and the "Management and Remuneration" Committee, the Board of Directors expressed its intention of giving again employees the opportunity of closer involvement in the development of the company.

In June and November 2005, L'Oréal allocated a total of 6,400,000 share purchase and subscription options to 773 beneficiaries. This means that, at December 31st, 2005, the number of beneficiaries of stock option plans since their inception is 3,063.

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.

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

The situation of L'Oréal's active stock option plans, including share purchase and subscription plans, as at December 31st, 2005, is as follows:

Date of allocation	10.17.1997	10.15.1998	12.08.1998	10.14.1999	12.07.1999	04.05.2000	09.28.2000	12.07.2000	03.28.2001
Number of options not exercised at 12.31.2005 *of which by*	2,500,000	1,400,000	1,100,000	2,250,000	1,500,000	1,200,000	3,800,000	450,000	2,500,000
Management Committee members[2]	*995,000*	*150,000*	–	*550,000*	*525,000*	–	*310,000*	–	*360,000*
Number of senior managers/ Total number of beneficiaries	8/102	2/70	0/110	8/133	6/200	0/234	7/707	0/109	4/521
Initial exercise date	10.18.2002	10.16.2003	12.09.2003	10.15.2004	12.08.2004	04.06.2005	09.29.2005	12.08.2005	03.29.2006
Number of options still to be exercised at 12.31.2005 *of which by*	1,004,400	606,900	701,500	1,975,000	1,424,500	1,157,000	3,737,000	437,500	2,500,000
Management Committee members[3]	*633,000*	*150,000*	–	*550,000*	*525,000*	–	*310,000*	–	*360,000*
Date of expiry	10.17.2007	10.15.2008	12.08.2008	10.15.2009	12.07.2009	04.05.2010	09.28.2010	12.07.2010	03.28.2011
Acquisition price per share(€)	34.01	39.41	48.46	57.60	61.00	65.90	83.00	89.90	79.60

Date of allocation	09.18.2001	10.08.2001	03.26.2002	09.04.2002	12.03.2003	03.24.2004	12.01.2004	06.29.2005	11.30.2005
Number of options not exercised at 12.31.2005 *of which by*	2,500,000	225,000	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000	400,000	6,000,000
Management Committee members[2]	*655,000*	–	*360,000*	*280,000*	*1,000,000*	*435,000*	*1,555,000*	*300,000*	*2,275,000*
Number of senior managers/ Total number of beneficiaries	7/441	0/109	8/410	6/394	1/693	6/257	10/274	2/3	10/771
Initial exercise date	09.19.2006	10.09.2006	03.27.2007	09.05.2007	12.04.2008	04.25.2009	12.02.2009	06.30.2010	12.01.2010
Number of options still to be exercised at 12.31.2005 *of which by*	2,493,500	218,750	2,500,000	2,500,000	4,997,500	2,000,000	3,995,000	400,000	6,000,000
Management Committee members[2]	*655,000*	–	*360,000*	*280,000*	*1,000,000*	*435,000*	*1,555,000*	*300,000*	*2,275,000*
Date of expiry	09.18.2011	10.08.2011	03.26.2012	09.04.2012	12.03.2013	03.24.2014	12.01.2014	06.29.2015	11.30.2015
Acquisition price per share (A) or subscription price per share (S) (€)	77.60 (A)	76.50 (A)	81.65 (A)	76.88 (A)	63.02 (S) 71.90 (A)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S) 62.94 (A)

(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 (A) per share. Each beneficiary has received an offer comprising a share subscription offer and a share purchase offer of equal amounts.
Stock option plan of November 30th, 2005: 70% of the plan consists of a subscription option offer at a price of €61.37 (S) per share, and 30% of the plan consists of a share purchase option offer at a price of €62.94 (A) per share. Each beneficiary has received an offer comprising a share purchase offer (70% of total) and a subscription offer (30% of total). There were no odd lots.
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 given to the Board of Directors in 2005 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 has proposed that it should be granted the possibility from 2005 onwards of using this new scheme. The aim once again is to enable the greatest possible flexibility in order to motivate the beneficiaries.

An authorisation was granted to the Board of Directors by the Annual General Meeting of April 26th, 2005, for a period of 15 months, so that its expiry date would coincide with that of the authorisations granted to allocate share purchase and subscription options by the Annual General Meeting of May 22nd, 2003 for a period of 38 months.

In 2005, the Board of Directors did not decide to carry out any free grants of existing shares or shares to be issued.

ORGANISATION OF THE BOARD OF DIRECTORS IN 2005

With regard to corporate governance, L'Oréal applies the recommendations of the AFEP and the MEDEF in the ways described in the Chairman's Report, which sets out how the work of the Board is prepared and organised. The Board adopts an organisational approach and a *modus operandi* which enables it to discharge its duties as effectively as possible.

The 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 Annual Report, in the chapter on Corporate Governance.

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 Internal Rules may be amended by the Board of Directors in the light of changes to laws and regulations, and also to its own *modus operandi*. If amended, the new Internal Rules are made public as soon as possible, for example on the website.

The L'Oréal Board of Directors comprised thirteen members at December 31st, 2005: three represent the family of Mrs Bettencourt, three represent Nestlé, the Chairman is also the Chief Executive Officer of L'Oréal, one is a former employee whose status as an employee ended more than 12 years ago, and five are external personalities.

The list of offices and directorships held in all companies, during 2005, by each of the corporate officers is included in the notes to the Management Report.

The Board has set up three internal review committees responsible for preparing its deliberations. The Committee for "Strategy and Implementation", the "Management and Remuneration" Committee, and the Audit Committee. The composition of those Committees is set out in the chapter on Corporate Governance in the Annual Report (Volume 1), their remits are set out in the Internal Rules of the Board of Directors, and their work in 2005 is set out in detail in the Chairman's Report attached to this Management Report. The Committees act within the framework of the powers delegated to them by the Board, and do not therefore have any decision-making powers.

Tribute to Mr François Dalle

Following the death of Mr François Dalle in August 2005, the Board paid tribute to him, recalling his long career with L'Oréal, his personal commitment to the company, and his very important role in the group's international development. After first joining L'Oréal in 1942, Mr Dalle's term of office as Chairman and Chief Executive Officer ended in 1984. Appointed as director in 1950, he did not wish to renew his tenure in April 2005.
At that time Mr Owen-Jones had regretfully informed the Board of Mr Dalle's decision.

In the introduction to this Annual Report (Volume 1), L'Oréal and the Board of Directors pay tribute to Mr François Dalle, emphasising the outstanding contribution he made to the group's construction, growth and international expansion.

Appointment of new directors in 2005

The Board proposed the appointment in 2005 of two new directors, subject to approval by shareholder voting at the Annual General Meeting: Mr Werner Bauer, General Manager of Nestlé SA, responsible for Research and Production, and Mr Louis Schweitzer, Chairman and Chief Executive Officer of Renault.

Mr Bauer (age 55), who has been with Nestlé since 1990, and has been General Manager since 2002, is a scientist, who also has extensive business experience, and takes a keen interest both in products and innovation.

Mr Schweitzer (age 63), joined Renault in 1986, and was Chairman and Chief Executive Officer from 1992 to 2005, is an eminent industrialist, whose strategic vision has been recognised worldwide.

On Tuesday April 26th, 2005, the Annual General Meeting appointed Mr Bauer and Mr Schweitzer directors of L'Oréal for a period of 4 years, up to the end of the Annual General Meeting called in 2009 to review the 2008 financial statements.

Renewal of the tenure of directors in 2005

The tenure as director of Mrs Françoise Bettencourt Meyers, Mr Peter Brabeck-Letmathe and Mr Jean-Pierre Meyers was renewed by the Annual General Meeting on Tuesday April 26th, 2005 for a period of 4 years, up to the end of the Annual General Meeting called in 2009 to review the 2008 financial statements.

Regulated agreements

No new regulated agreement was concluded and no regulated agreement continued in 2005.

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", met four times in 2005, on February 7th, April 11th, June 28th and November 30th, in the presence of all its members, except in the last of the four meetings, and in total independence.
The "Management and Remuneration" Committee 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 officer and by applying a simple rule 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 simple rule, 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 quality 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 previous 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 remuneration 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 remuneration 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 the 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 proposals without taking the share price into account, and is similarly careful to formulate option allocations without referring to the immediate short-term performance of the company.
At its final meeting in 2005, 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 2005 and fixed by the Board of Directors amounted to €7,358,343, including benefits and directors' fees, of which the fixed part amounted to €3,750,000, and the variable part amounted to €3,500,000, directors' fees €87,937 and benefits €20,406. The Chairman and Chief Executive Officer has a company car and chauffeur at his disposal.
The remunerations approved by the Board of Directors for 2005 and previous years are as follows:

€	2003	2004	2005
Remuneration items			
Fixed remuneration paid	3,000,000	3,500,000	3,750,000
Variable remuneration paid	3,500,000	3,000,000	3,500,000
Directors' fees due	76,184	75,874	87,937
Benefits	19,333	20,509	20,406
Annual remuneration	6,576,193	6,596,383	7,358,343
	+5%	+0,3%	+11,6%

Options allocated to the General Management

The Board of Directors granted to the Chairman and Chief Executive Officer, on November 30th, 2005, an allocation of 1,000,000 options, including 700,000 share subscription options, at a price of €61.37, and 300,000 share purchase options, at a price of €62.94, which can normally be exercised from December 1st, 2010 onwards.
On December 15th, 2005, the Chairman and Chief Executive Officer exercised 250,000 share purchase options out of the 500,000 options granted to him by the Board of Directors on October 17th, 1997 at a price of €34.01 per share.

The options allocated to him by the Board of Directors in 2005, and in previous years, are as follows:

Date of allocation by the Board of Directors	Number of options allocated	Possible initial exercice date	Date of expiry	Acquisition (A) or subscription (S) price (€)
10.17.1997	500,000	10.18.2002	10.17.2007	34.01 (A)
10.15.1998	100,000	10.16.2003	10.15.2008	39.41 (A)
12.08.1998	–	–	–	–
10.14.1999	200,000	10.15.2004	10.14.2009	57.60 (A)
12.07.1999	300,000	12.08.2004	12.07.2009	61.00 (A)
04.05.2000	–	–	–	–
09.28.2000	150,000	09.29.2005	09.28.2010	83.00 (A)
12.07.2000	–	–	–	–
03.28.2001	200,000	03.29.2006	03.28.2011	79.60 (A)
09.18.2001	300,000	09.19.2006	09.18.2011	77.60 (A)
10.08.2001	–	–	–	–
03.26.2002	–	–	–	–
09.04.2002	–	–	–	–
12.03.2003	1,000,000	12.04.2008	12.03.2013	63.02 (S) 71.90 (A)
03.24.2004	–	–	–	–
12.01.2004	1,000,000	12.02.2009	12.01.2014	55.54 (S)
06.29.2005	–	–	–	–
11.30.2005	1,000,000	12.01.2010	11.30.2015	61.37 (S) 62.94 (A)

Undertakings in relation to corporate officers[1]

The Board of Directors of L'Oréal applies a constant policy of considering corporate officers as equivalent to employees for matters which are linked to their remuneration. Corporate officers are therefore covered by the same benefits systems as senior executives of L'Oréal, particularly relating to pensions and provident schemes. In 2005, the Board made no specific undertakings in relation to them.

Attendance fees and other benefits

In accordance with chapter 5 of the Internal Rules of the Board of Directors concerning "Remuneration of directors", the directors of L'Oréal received attendance fees as follows for 2005:
• a sum of €30,000 as the fixed part for a full year,
• a sum of €15,000 as the additional fixed part allocated to Review Committee members for a full year,
• an additional sum of €15,000 for the Chairmen of the Review Committees,
• a sum of €5,000 per Board meeting which each director has attended.

(1) Pension scheme and further advantages commitments, for the senior executives of L'Oreal group, are contained in this Document (chapter "Additional information" p.129).

Thus, the amount paid for 2005 to the directors, making a total of €900,000, has been as follows, bearing in mind that:
• the Board of Directors met 5 times,
• Mr Bauer has been a director since the 2005 Annual General Meeting,
• Mr Brabeck-Letmathe has been a member of 2 of the Board's Review Committees since the Annual General Meeting,
• Mr Dalle was a director up to the Annual General Meeting,
• Mr Gut was a director and a member of 2 of the Board's Review Committees up to the Annual General Meeting,
• Mr Schweitzer has been a director since the Annual General Meeting.

Mr Werner Bauer	35,000 euros
Mrs Liliane Bettencourt	95,000 euros
Mrs Françoise Bettencourt Meyers	55,000 euros
Mr Peter Brabeck-Letmathe	70,000 euros
Mr Francisco Castañer Basco	85,000 euros
Mr François Dalle	20,000 euros
Mr Jean-Louis Dumas	55,000 euros
Mr Xavier Fontanet	85,000 euros
Mr Rainer E. Gut	35,000 euros
Mr Bernard Kasriel	70,000 euros
Mr Marc Ladreit de Lacharrière	55,000 euros
Mr Jean-Pierre Meyers	85,000 euros
Mr Lindsay Owen-Jones	85,000 euros
Mr Franck Riboud	45,000 euros
Mr Louis Schweitzer	25,000 euros

In 2005, a secretary, a car and a chauffeur were made available to the former Chairman of L'Oréal, representing an annual total amount of €263,549.

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

The total number of options allocated in 2005 to the ten employees who are not corporate officers who received the largest number of options was 1,600,000 share purchase or subscription options at an average price of €61.42 per share, of which 1,500,000 were granted to nine members of the Management Committee, at an average price of €61.51 per share.

The total number of options exercised, in 2005, by the ten employees who are not corporate officers who exercised the largest number of options was 556,500 share purchase options at an average price of €20.16 per share, of which 39,000 were exercised by a member of the Management Committee at an average price of €34.01 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 €131,753,932.00. It is divided into 658,769,660 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 2005
Capital increase by the issue of shares with the maintenance of preferential subscription right or by incorporation of premiums, reserves, income or other sums	April 26th, 2005 (12th resolution)	26 months	Authorisation to increase the share capital to a maximum amount of €200,000,000	None
Increase in share capital for the benefit of employees	April 26th, 2005 (13th resolution)	26 months	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 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 for a maximum period of 38 months.

Making use of this authorisation, the Board of Directors carried out five allocations of a total of 13,100,000 share subscription options:

Date of allocation	Number of options	Exercise period(1)
December 3rd, 2003	2,500,000	From December 4th, 2008 to December 3rd, 2013
March 24th, 2004	2,000,000	From March 25th, 2009 to March 24th, 2014
December 1st, 2004	4,000,000	From December 2nd, 2009 to December 1st, 2014
June 29th, 2005	400,000	From June 30th, 2010 to June 29th, 2015
November 30th, 2005	4,200,000	From December 1st, 2010 to November 30th, 2015
Total	**13,100,000**	

(1) Except exercise by beneficiaries prior to the appointed date in the event of non-voluntary departure from the group, in accordance with the conditions stipulated by the rules of the plans.

All these options can be exercised on the basis of one new share per option exercised, and therefore could lead to the issue of the same number of shares.

At December 31st, 12,888,750 options remained exercisable, so that the potential share capital of the company amounts to €134,331,682.00, divided into 671,658,410 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

In euros Date	Nature of the transaction	Amount of change	Additional paid-in capital	Share capital on completion of the transaction	Number of shares created or cancelled	Number shares on completion of the transaction
12.31.2001	–	–	–	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
04.26.2005	Cancellation of shares	–3,460,000	–	131,752,432	–17,300,000	658,762,160
06.16.2005	Exercise of subscription options	1,000	276,700	131,753,432	5,000	658,767,160
07.26.2005	Exercise of subscription options	500	157,050	131,753,932	2,500	658,769,660

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 SA, on the other hand, held at December 31st, 2005, 55.26% of the capital and 58.72% 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:

	12.31.2003		12.31.2004		12.31.2005	
	Number of shares	% of capital	Number of shares	% of capital	Number of shares	% of capital
Gesparal[1]	364,042,900	53.85%	–	–	–	–
Bettencourt Family[2]	–	–	185,661,879	27.46%	185,661,879	28.18%
Nestlé SA[2]	–	–	178,381,021	26.39%	178,381,021	27.08%
Public	285,532,860	42.23%	274,231,460	40.56%	255,930,710	38.85%
Treasury stock	26,486,400	3.92%	37,787,800	5.59%	38,796,050	5.89%
Total	**676,062,160**	**100.00%**	**676,062,160**	**100.00%**	**658,769,660**	**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 directly became shareholders of L'Oréal.
(2) The Bettencourt family and Nestlé SA 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 shares 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):

	12.31.2003		12.31.2004		12.31.2005	
	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	71.66%	–	–	–	–
Bettencourt Family	–	–	185,661,879	29.09%	185,661,879	29.95%
Nestlé SA	–	–	178,381,021	27.95%	178,381,021	28.77%
Public	287,554,426	28.34%	274,231,460	42.96%	255,930,710	41.28%
Total	**1,014,675,226**	**100.00%**	**638,274,360**	**100.00%**	**619,973,610**	**100.00%**

To the company's knowledge, at December 31st, 2005, the members of the Board of Directors and the Management Committee directly held less than 1% of the share capital.

Employee share ownership

The employees of the company and of its affiliates held 3,153,756 shares at December 31st, 2005, that is 0.48% of the share capital, through the unit trusts of the company savings plan.

Threshold passings declared to the company

During 2005, the company was notified of the following passings of legal thresholds of voting rights:

Declaration date	Date threshold passed	Declared by	Threshold passed	Passing direction	Holding after passing of threshold
December 13th, 2005	December 13th, 2005	Mrs Liliane Bettencourt	10% and 5% of voting rights	Downwards (–76,440,541 shares [1] under usufructuary rights)	5,633 shares and voting rights
December 13th, 2005	December 13th, 2005	Société Téthys (*société par actions simplifiée* controlled by Mrs Liliane Bettencourt)	20% and 25% of voting rights	Upwards (+76,440,541 shares [1] under usufructuary rights)	16.58% of capital and 29.29% of voting rights

(1) Mrs Françoise Bettencourt Meyers holds these shares in bare ownership.

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
May 20th, 2005	May 6th, 2005	Société Générale (on behalf of its group)	1% of capital	Upwards	1.29% of capital and 1.34% of voting rights
June 16th, 2005	June 3rd, 2005	Société Générale (on behalf of its group)	1% of capital	Downwards	0.98% of capital and 1.02% 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 concluded between the Bettencourt family and Nestlé on February 3rd, 2004.

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 6 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 operation.

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 provision

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 takeover 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 granted to the Board of Directors in 2005 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, expired at the Annual General Meeting held in April 2005. Although the authorisation has not been used, it was nevertheless proposed that it should be renewed. In application of the new regulations which are applicable in this matter, the length of the new authorisation, approved by the vote of the Annual General Meeting, which can be used on one or more occasions, was reduced to 26 months, and in view of this reduced length, it was decided that the maximum nominal amount beyond which the capital may not be raised should 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.

In 2005, the Board did not decide to carry out a capital increase under the conditions specified in this resolution.

Delegation of powers granted to the Board of Directors for the purpose of carrying out a capital increase reserved for employees

The Annual General Meeting of April 26th, 2005, in application of Article L.225-129-6 of the French Commercial Code, decided on a resolution for a capital increase reserved for employees, in that it has also delegated to the Board of Directors the powers to increase the capital of the Company if necessary.

The Annual General Meeting authorised 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 was granted for a period of 26 months from the date of the decision of the Annual General Meeting. The total number of shares that can 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 is set in accordance with the provisions of Article L.443-5 of the French Labour Code.

In 2005, the Board of Directors did not decide to carry out a capital increase reserved for employees.

BUYBACK OF ITS OWN SHARES BY THE COMPANY

The company is authorised to trade in the company's shares on the Stock Exchange or otherwise in accordance with Articles L.225-209 et seq. of the French Commercial Code, within the limits and in pursuit of the objectives defined in the authorisations granted to it by the Annual General Meeting.

At December 31st, 2005, the company held for this purpose 38,796,050 of its own shares (representing 5.89% of share capital, whose value calculated at the purchase price was €2,638.2 million), of which:
• 25,556,050 are allocated to cover existing plans for share purchase options allocated to group employees,
• 2,740,000 are to be cancelled, except for those likely to be allocated to future share purchase option plans for group employees,
• 10,500,000 are to be cancelled.

During the year, the company bought back 20,000,000 of its own shares, for a total amount of €1,224.6 million, as part of two successive programmes:
• the first was decided on by the Board of Directors on June 15th, 2004, and continued and was completed during the first half of the year; the 9,500,000 shares purchased under this programme, at an average purchase price of €58.73 per share, are to be cancelled, except for those likely to be allocated to stock option plans,
• the implementation of the second one was decided on by the Board of Directors on June 29th, 2005; this programme was in progress at the closing date; the 10,500,000 share purchased under this programme, for an average purchase price of €63.49 per share, are to be cancelled.

The negotiation fees corresponding to the above purchases amounted to a total of €2.51 million.

Detailed information about the carrying out of these share purchases is set out in the special report prepared in accordance with Article L.225-209 paragraph 2 of the French Commercial Code, and in the item entitled "Buybacks of its own shares by the company – Detailed information" of the Reference Document.

Furthermore, 1,038,600 shares purchased previously have been transferred to beneficiaries of share purchase options who have exercised their options.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

Following the facilitation of admission to the Annual General Meetings for registered shareholders in 2004, L'Oréal shareholders at the Extraordinary General Meeting held in April 2005 decided to amend Article 12 of the Articles of Association 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).

The Board of Directors

Notes to the Management Report

2005 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 are prepared and organised

The structure of the Board, its practices and its *modus operandi*, evaluated by directors on an annual basis since 1996 during the last meeting of the year, are dealt with in the Reference Document in the chapter on Corporate Governance (volume 1), in the Management Report, and in this Report of the Chairman of the Board of Directors (volume 2).

The L'Oréal Board of Directors carries out its work on a collective basis, in accordance with ethical principles and codes of good conduct. It assigns preparatory missions to special Review Committees made up of Board members.

A code of good conduct in accordance with legal requirements, regulations and recommendations

The Board conducts its work in accordance with Internal Rules designed to reflect legal, regulatory and statutory rules upheld by the Board as a whole and by each director individually. The Internal Rules define the operating procedures of the Board and its Review Committees, in accordance with the interests of the company and its shareholders.

The Board members, whose duty it is to supervise matters, again exercised their complete freedom of judgement in 2005. This freedom of judgement allowed them to act in all independence in taking collective decisions of the Board and, where applicable, conducting preparatory work and making proposals through the Committees.

With respect to the decisions taken, the director must be provided with all information required to ensure that the Board and its Committees can conduct their work effectively. In 2005, the directors noted progress in this area and proposed new improvements to be implemented at the start of 2006.

Best practices and ethical behaviour

The Board met five times in 2005, with an average Board member attendance figure of 88%. The directors make every effort to attend meetings and also take part in the Annual General Meeting of shareholders.

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.

The Board, in conjunction with the General Management, has contributed to the setting up of the Insider Trading Rules, and ensures they are regularly updated. 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. Such information is of a confidential nature, precise, and, if made public, could impact on the share price of the company. At L'Oréal, this privileged information may fall into one of three main categories: strategic, linked to the definition and application of the group's growth strategy; recurring, linked to the annual production schedule and publication of annual and intermediary accounts, regular releases or periodic meetings of a financial nature; exceptional, linked to a specific programme, a project or a financial transaction.

The Insider Trading Rules state that any person holding privileged information must proceed with the greatest caution when trading in or enabling others to trade in L'Oréal shares, and emphasise that any misconduct in this field may result in criminal proceedings.

The Internal Rules of the Board 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. Lastly, directors are required to notify the company of each transaction carried out by themselves or their relations relating to L'Oréal shares.

A Board that regularly assesses its structure, organisation and 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. Since 1996, the Board has, on an annual basis, officially reviewed its *modus operandi*, its organisation and its composition through interviews organised by the Secretary of the Board and based on regulations, recommendations and best market practices. Where applicable, the Board takes steps to make any required improvements.

Thus, in 2005, two new directors joined the Board, adding new knowledge and skills to those of the other members.

In 2005, the Board was impressed by the fact that more senior managers took part in meetings to present and discuss conditions under which, for example, countries and brands under their responsibility are developing. The Board aims to continue in this progressive way. Such an approach provides a better understanding of key players while allowing a more in-depth look at all aspects of group strategy.

Lastly, the Board has encouraged its Review Committees to report more regularly on their works, which are vital in fostering effective debate.

Review Committees actively preparing the Board's work

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 issues considered to be 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 five times in 2005.

In 2005, in addition to growth in sales and results for L'Oréal internationally, the Committee studied the situation of leading countries in term of performance, market share and positioning in relation to the competition.

The Committee also reviewed L'Oréal's stake in Sanofi-Aventis, along with potential external growth opportunities. 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.

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 to avoid the possibility of any impairment of the value of the company's assets.

To successfully carry out its work, the Audit Committee works with the Statutory Auditors and senior company managers responsible for drawing up financial statements and ensuring Internal Control. It examines principles and methods, programme and objectives, and the main conclusions of the Internal Audit missions.

The Audit Committee may be consulted on any question relating to procedures for controlling unusual risks, particularly when the Board or the General Management considers it appropriate to submit such question to it. Furthermore, if in the course of 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 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.

The Audit Committee met four times in 2005, in the presence of all its members and in complete independence. The main issues reviewed with managers in these areas were provisions, legal disputes, insurances and new accounting standards.

The Committee also received the Internal Audit. The Report of the Chairman concerning the Internal Audit was presented with respect to the broad distribution within the group of a document summarising the basic rules governing the Internal Control at L'Oréal. This provided a reminder that the objective of the Internal Control system is to protect and safeguard company assets, ensure reliable and coherent information, particularly that of a financial nature, uphold compliance with the laws and regulations in force, and improve performance.

In 2005, before the publication of first-half financial statements, the Committee spent much of its time reviewing the conversion of 2004 accounts and compliance of 2005 accounts with IFRS requirements. The work carried out by L'Oréal and the Statutory Auditors enabled the satisfactory establishment of the financial statements while ensuring a high level of security.

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 the chapter dedicated to this topic in the Management Report), 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 on any possible changes.

The "Management and Remuneration" Committee reports on its work to the Board; it may meet whenever it considers this appropriate, for example to assess the performance of the company's senior managers.

In 2005, the Committee met four times, in complete independence. It mainly proposed new candidate members to the Board of Directors and presented a plan for General Management succession in 2006, along with proposals including stock option allocation, assignment principles and remuneration for General Management in 2005.

Following the proposal by the Chairman and Chief Executive Officer, the Committee recommended that the Board appoints Mr Jean-Paul Agon as Chief Executive Officer of L'Oréal at the end of the Annual General Meeting in April 2006, while separating the positions of Chairman and Chief Executive Officer. The Board noted that this was an outstanding way to prepare for the future, particularly with a figure that the Board both knows and respects. As the Chairman pointed out to shareholders at the Annual General Meeting in April 2005, Mr Agon has already notched up a number of impressive achievements, particularly through the growth and remarkable results of L'Oréal in the United States.

Facilitating and expanding on the Board's work
In 2005, in addition to closing the annual financial statements and examining the half-year IFRS-compliant financial statements with the Statutory Auditors, and all the other compulsory aspects of its missions, the Board of Directors, in extending the preparatory works of its Committees, debated, in particular, strategy, competition and development for L'Oréal in several major countries, along with the position of stake of L'Oréal in Sanofi-Aventis and the new organisation in General Management.

Internal control

At the behest of the Chairman and Chief Executive Officer, the Administration and Finance Department compiled the information contained in this report based on the different tasks carried out by departments working on Internal Control within the group. The resulting report was submitted to the Audit Committee.

Internal Control objectives
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 Internal Control and its main areas of application.

Actively involved parties

The main parties actively involved in Internal Control are:
• the General Management,
• the senior executives, whether involved in the financial or legal field, or in commercial, administrative, research, marketing and production activities,
• the Internal Audit Division,
• the Internal Control Division,
• the Audit Committee.

The General Management and group managers
The mission of the General Management is to define the general principles of the 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 processes are 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, with their agreement.

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 Internal Audit conducted 43 missions in 2005, thus covering one third of group sales.

The audit missions result in the drawing up of a report setting out findings and risks and formulating recommendations where appropriate, along with the drawing up of an action plan to be implemented by the entity audited.

The follow-up of this action plan, whose formal definition was 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.

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.

The Internal Control Division
This role was created in 2005 following a general review of our standards, charters, procedures and best practices. The new department compiled and distributed the *Fundamentals of Internal Control* throughout the group at all levels. This summary document provides a one-page overview for each main rule governing the Internal Control system.

The document was validated by experts in the field and presented to the Executive Committee.

Each sheet covers detailed group procedures. Training kits were given out along with a skills-based approach covering the right issues in each field. The Internal Control division should continue this compilation of the fundamentals, which is an essential tool in managing an effective Internal Control system.

The Internal Control Division will need to work with group experts in the relevant fields to promote greater awareness of Internal Control rules.

Lastly, this new Division should monitor and anticipate any regulatory changes to adapt our Internal Control System where required.

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 Control 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 2005 in the presence of the Statutory Auditors.

The main topics examined over the year, in line with 2004, were provisions, legal disputes, insurance and the implementation of new accounting standards. The Committee also heard the views of the Internal Audit Division and the Report of the Chairman on Internal Control was presented to it.

In 2005, before the publication of the first-half financial statements, the Committee spent much of its time reviewing, during three of its meetings, the conversion of 2004 accounts and the compliance of 2005 accounts with IFRS requirements.

In 2005, the procedures in force within the company to ensure optimal control over cash transactions were discussed in the presence of the Audit Committee, which had expressed an interest in hearing this information.

In each case, these different issues were addressed by the Audit Committee in the presence of the senior managers in charge of the relevant fields in the company.

The Statutory Auditors
The Statutory Auditors have certified that the consolidated financial statements and parent company financial statements present a true, consistent 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.

Actively involved parties
Findings from audits conducted by insurance companies in factories and distribution centres were used to improve the internal control system in these facilities.

Reference texts, 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 given to each new employee. This charter sets out the values and principles for action that each individual must comply with in ethical matters. With regard to the principles of loyalty, integrity, respect for the individual and diversity, 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 its 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."
"...Respect for the individual is a fundamental principle. At L'Oréal, it is applied on a daily basis and governs relationships within the company. L'Oréal believes in the virtue of difference and diversity as a source of human richness.",
• the Insider Trading Rules,
• requirements related to personnel management, which define documents to be issued to employees, employees treatment and expenses, payroll monitoring and management, procedures for recruitment, training and evaluation,
• the legal charter, which sets out the internal signature principles, the general and specific rules relating to contracts, brand regulations, patents, intellectual property, corporation law, 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,

• 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 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,
• production quality standards, which define rules governing the quality of products, including all stages, from design to production to distribution. The majority of factories are ISO 9001 certified,
• the main logistics principles, which cover inventory management, subcontracting, transports, products traceability, and the business continuity plan,
• best practices with respect to general terms of sale, pricing and contracts, invoicing methods, sales policy control, management of returns and disputes, along with customer credit facilities,
• the insurance charter, which states that the group mainly makes use of integrated global programmes to cover 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 client debt's risk,
• the information technology safety charter, which includes confidentiality precautions and standby plan management procedures, along with rules governing good practices for the use of workstations, management and administration of servers and the choice of software applications,
• 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. This action plan was gradually implemented during 2005 and should be fully operational in 2006,
• 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. Those standards comply with the accounting standards in force in France,
- the accounting plan sets out the definitions and reporting methods necessary for drawing up financial statements,
- the management standards also set out the rules applied to value certain significant items in the balance sheets and profit and loss accounts.

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 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.

IRFS standards are the only accounting standards now used and the 2005 consolidated financial statements are the first financial statements to adopt this new reference system. The group's Accounting Department continues to monitor the development of the new IFRS system to more effectively detect and anticipate any impact it may have on the group's financial statements.

Conclusion

The group is continuing its constant efforts to improve its Internal Control system, in particular this year, through the creation of the Internal Control Division and the definition, implementation and diffusion of the fundamentals of Internal Control.

Chairman of the Board of Directors

INFORMATION ABOUT CORPORATE OFFICERS

List of Offices and Directorships held by corporate officers during the last five years

Sir Lindsay Owen-Jones

Term of office: 2006

Chairman and Chief Executive Officer
Chairman of the Committee for "Strategy and Implementation"
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy cedex – France
Holds 2,179,005 L'Oréal shares

Other corporate offices and directorships held

French companies	
L'Air Liquide SA	Vice-Chairman of the Supervisory Board
Sanofi-Aventis SA	Director
Foreign companies	
Ferrari Spa (Italia)	Director (*Amministratore*) (since April 2005)
Galderma Pharma SA (Switzerland)	Director
L'Oréal U.K. Ltd (United Kingdom)	Chairman & Director
L'Oréal USA Inc. (United States)	Chairman & Director

Corporate offices and directorships expired

		Term of office
French companies		
BNP Paribas SA	Director	December 2005
Gesparal SA (merged into L'Oréal)	Director	April 2004
L'Air Liquide SA	Director	November 2001
Lafarge SA	Director	September 2001
Foreign company		
Galderma Pharma SA (Switzerland)	Chairman of the Board	May 2004

Jean-Pierre Meyers

Term of office: 2009

Director
Vice-Chairman of the Board
Member of the Audit Committee
Member of the Committee for "Strategy and Implementation"
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France
Holds 15,332 L'Oréal shares

Other corporate offices and directorships held

French companies	
Gespral SA	Director
Téthys SAS	General Manager Member of the Supervisory Board
Foreign company	
Nestlé SA	Director
Other	
Fondation Bettencourt Schueller	Vice-Chairman of the Board
Fondation Ophtalmologique Adolphe de Rothschild	Director

Corporate offices and directorships expired

		Term of office
Company in France		
Gesparal SA (merged into L'Oréal)	Director	April 2004

Peter Brabeck-Letmathe	**Term of office**
Director	**2009**
Vice-Chairman of the Board	
Member of the "Management and Remuneration" Committee	
Member of the Committee for "Strategy and Implementation"	
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Nestlé SA (Switzerland)	Chairman of the Board (since April 14th, 2005) Chief Executive Officer

Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland

Other corporate offices and directorships held

Foreign companies	
Alcon, Inc. (Switzerland)	Vice-Chairman of the Board
Credit Suisse Group (Switzerland)	Director
Dreyer's Grand Ice Cream Holdings, Inc. (United States)	Vice-Chairman of the Board
Roche Holding SA (Switzerland)	Director
Uprona (Canada) Ltd (Canada)	Director
Other	
Cereal Partners Worldwide (Switzerland)	Co-Chairman of the Supervisory Board
Forum Economique Mondial (Switzerland)	Member of the Foundation Board
Table Ronde des Industriels Européens (Belgium)	Member

Corporate offices and directorships expired		Term of office
French company		
Gesparal SA (merged into L'Oréal)	Director	April 2004
Foreign companies		
Credit Suisse (Switzerland)	Vice-Chairman of the Board	April 2005
Credit Suisse First Boston (Switzerland)	Vice-Chairman of the Board	April 2005
Credit Suisse Group (Switzerland)	Vice-Chairman of the Board	April 2005
Winterthur Insurance Company (Switzerland)	Vice-Chairman of the Board	April 2005
Winterthur Life (Switzerland)	Vice-Chairman of the Board	April 2005
Other		
Fondation Avenir Suisse (Switzerland)	Board Member	December 2004
Fondation pour la Fédération internationale des sociétés de la Croix-Rouge et du Croissant-Rouge (Switzerland)	Board Member	November 2005
Prince of Wales International Business Leaders Forum (United Kingdom)	Deputy Chairman	March 2005

Liliane Bettencourt	**Term of office**
Director	**2007**
Chairwoman of the "Management and Remuneration" Committee	
Member of the Committee for "Strategy and Implementation"	
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France	
Holds 5,633 L'Oréal shares in absolute ownership	

Other corporate offices and directorships held

French companies	
Clymene SAS	Chairwoman
Eugène Schueller SARL	Managing Director
Gespral SA	Chairwoman of the Board
Téthys SAS	Chairwoman Chairwoman of the Strategic Committee Member of the Supervisory Board
Other	
Fondation Bettencourt Schueller	Chairwoman

Corporate offices and directorships expired		**Term of office**
French companies		
Compagnie Nouvelle d'Investissement SA (disbanded)	Director	June 2005
Gesparal SA (merged into L'Oréal)	Director	April 2004

Françoise Bettencourt Meyers	**Term of office**
Director	**2009**
Professional address: Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France	
Holds 283 L'Oréal shares in absolute ownership et 76,440,541 L'Oréal shares in bare ownership	

Other corporate offices and directorships held

French companies	
Gespral SA	Director
Société Immobilière Sebor SAS	Chairwoman
Téthys SAS	Member of the Supervisory Board
Other	
Fondation Bettencourt Schueller	Director

Corporate offices and directorships expired		**Term of office**
French company		
Gesparal SA (merged into L'Oréal)	Director	April 2004

Werner J. Bauer	Term of office
Director	**2009**
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Nestlé SA (Switzerland)	Executive Vice-President
Professional address: Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	

Other corporate offices and directorships held

Foreign companies	
Alcon, Inc. (Switzerland)	Director
Hans Rychiger AG (Switzerland)	Director and Chairman of the Board
Life Ventures SA (Switzerland)	Director and Vice-Chairman of the Board
Nutrition-Wellness Venture AG (Switzerland)	Director
Uprona (Canada) Ltd (Canada)	Director
Other	
Cereal Partners Worldwide (Switzerland)	Member of the Supervisory Board
Bertelsmann Foundation (Germany)	Member of the Board of Trustees
Société Suisse des Industries Chimiques (Switzerland)	Board Member

Corporate offices and directorships expired		Term of office
Foreign companies		
Alcon Laboratories (South Africa) Pty. Ltd (South Africa)	Director	June 2002
Dairymaid-Nestlé (Proprietary) Ltd (South Africa)	Director	January 2002
General Countainers (Proprietary) Ltd (South Africa)	Director	June 2001
Nestlé (South Africa) (Proprietary) Ltd (South Africa)	Director	January 2002
Nestlé Foods Kenya Ltd (Kenya)	Director	January 2003
Nestlé's Products (Mauritius) Ltd (Mauritius)	Director	September 2002
Nestlé Purina (South Africa) (Pty) Ltd (South Africa)	Director	January 2002
Nestlé Waters (Proprietary) Ltd (South Africa)	Director	January 2002
Nestlé Zimbabwe (Private) Ltd (Zimbabwe)	Director	March 2002
Sunland Foods (Swaziland) (Pty) Ltd (Swaziland)	Director	January 2002
TM Pets Products (Pty) Ltd (South Africa)	Director	March 2002
Wilson-Rowntree (Proprietary) Ltd (South Africa)	Director	June 2001

Francisco Castañer Basco	Term of office
Director	**2006**
Member of the Audit Committee	
Member of the Committee for "Strategy and Implementation"	
Holds 1,500 L'Oréal shares	

Main corporate office held outside L'Oréal

Nestlé SA (Switzerland)	Executive Vice-President
Professional address: Avenue Nestlé, 55 - CH 1800 Vevey – Switzerland	

Other corporate offices and directorships held

Foreign companies	
Alcon Inc. (Switzerland) (formerly Alcon Universal)	Director
Galderma Pharma SA (Switzerland)	Chairman of the Board
Uprona (Canada) Ltd (Canada)	Director

Corporate offices and directorships expired		Term of office
French company		
Gesparal SA (merged into L'Oréal)	Director	April 2004
Foreign company		
Alcon Laboratories, Inc. (United States)	Director	April 2002

François Dalle
Director (until April 26th, 2005) – died in August 2005

Other corporate offices and directorships held

Foreign company	
L'Oréal USA Inc. (United States)	Director
Other	
Association Entreprise et Progrès	Chairman & Founder
Institut de l'Entreprise	Chairman & Founder
Revue Humanisme et Entreprise	Chairman

Jean-Louis Dumas
Director
Member of the "Management and Remuneration" Committee
Holds 2,500 L'Oréal shares

Term of office
2006

Main corporate office held outside L'Oréal
Hermès International SCA — Acting Partner
Professional address: 24 rue du Faubourg Saint-Honoré – 75008 Paris – France

Other corporate offices and directorships held

French companies	
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
Gaulme SA	Vice-Chairman and Member of the Supervisory Board
Hermès Interactif SAS	Permanent representative of Hermès International, Chairman
Hermès Sellier SA	Director, Artistic Director
Immauger SCI	Permanent representative of Hermès International, Managing Director
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
Motsch George V SAS	Permanent representative of Hermès International, Chairman
Peugeot SA	Member of the Supervisory Board
SCI Auger Hoche	Managing Director
SCI Boissy les Mûriers	Permanent representative of Hermès International, Managing Director
SCI Boissy Nontron	Permanent representative of Hermès International, Managing Director
SCI «Briand Villiers I»	Managing Director
SCI «Briand Villiers II»	Managing Director
SCI du Faubourg Saint Honoré «SIFAH»	Managing Director
SCI Edouard VII	Permanent representative of Hermès International, Managing Director
SCI Les Capucines	Permanent representative of Hermès International, Managing Director (since January 13th, 2005)
Sport Soie SA	Chairman of the Board
Foreign companies	
Boissy Mexico (Mexico)	Substitute Director
Hermès de Paris (Mexico)	Permanent Director
Hermès Greater China (Hong Kong)	Chairman of the Board
Hermès Grèce (Greece)	Director (since July 18th, 2005)
Hermès Japon (Japan)	Chairman of the Board
Hermès Retail (Malaysia)	Chairman of the Board
La Montre Hermès (Switzerland)	Director (since April 21st, 2005)

Corporate offices and directorships expired		Term of office
French companies		
Ateliers AS SA	Permanent representative of Sport Soie, Director	March 2003
Bagages et cuirs SAS	Permanent representative of Cie Hermès de Participations, Member of Executive Committee	August 2002
Castille Investissements SA	Chairman of the Board, Chief Executive Officer, Director	December 2003
Cie des Arts de la Table	Permanent representative of Castille Investissements, Member of Executive Committee	February 2002
Gaumont SA	Director	October 2002
Ganterie de Saint-Junien SAS	Permanent representative of Sport Soie, Member of Executive Committee	August 2002
Heraklion SA	Permanent representative of Hermès International, Director	December 2003
Hermès Porcelaine Périgord SA	Permanent representative of Castille Investissements, Director	March 2002
Holding Textile Hermès SA	Chairman and Member of Executive Committee	December 2003
John Lobb SA	Permanent representative of Hermès International, Director	December 2003
Manufacture de Seloncourt SAS	Permanent representative of Sport Soie, Member of Executive Committee	December 2003
Maroquinerie de Belley SAS	Permanent representative of Hermès International, Chairman	July 2003
Maroquinerie des Ardennes SASU	Permanent representative of Hermès International, Chairman	July 2003
SCI Boissy Belley	Permanent representative of Hermès International, Managing Director	December 2005
SCI Boissy Bogny	Permanent representative of Hermès International, Managing Director	December 2005
SCI Boissy Saint-Honoré	Permanent representative of Hermès International, Managing Director	December 2005
SCI Les Jonquilles Soleil	Permanent representative of Hermès International, Managing Director	December 2005
SIN REJAC SA	Permanent representative of Sport Soie, Director	July 2002
Société d'impression sur Etoffes du Grand-Lemps SA	Permanent representative of Holding Textile Hermès, Director	March 2003
Soficuir International SA	Permanent representative of Sport Soie, Director	April 2003
Tissages Perrin SA	Permanent representative of Hermès International, Director	April 2002
Tissages Verel SA	Permanent representative of Hermès International, Director	April 2002
Foreign companies		
Boissy Mexico (Mexico)	Permanent Director	February 2004
Ex-Pili (Hong Kong)	Chairman of the Board	December 2003
Financière Saint Eloi (Luxembourg)	Permanent representative of Hermès International, Director	
Herlee (Hong Kong)	Director	December 2003
Hermès Australia (Australia)	Director	December 2003
Hermès Bénélux (Belgium)	Director	December 2003
Hermès Canada (Canada)	Chairman of the Board	February 2004
Hermès de Paris (Mexico)	Chairman of the Board	February 2004
Hermès GB (United Kingdom)	Director	December 2003
Hermès Holding US (United States)	Chairman of the Board	December 2003
Hermès Ibérica (Spain)	Director	January 2004
Hermès Italie (Italia)	Director	May 2004
Hermès Korea (South Korea)	Director and legal representative	February 2004
Hermès Korea Travel Retail (South Korea)	Director and legal representative	February 2004
Hermès of Hawaï (United States)	Chairman of the Board	January 2004
Hermès of Paris (United States)	Chairman of the Board	January 2004
Hermès Prague (Czech Republic)	Chairman of the Supervisory Board	February 2003
Hermès South East Asia (Singapore)	Director	December 2003
Hermès Suisse (Switzerland)	Chairman of the Board	March 2004
Hermtex (United States)	Chairman of the Board	January 2004
J.L. & Co. (United Kingdom)	Director	January 2004
John Lobb Japan (Japan)	Director	March 2004
La Montre Hermès (Switzerland)	Chairman of the Board	April 2005
Leica Camera (Germany)	Member of the Supervisory Board	October 2003
Saint Honoré (Thailand)	Director	December 2003
Saint Honoré Chile (Chile)	Permanent Director	June 2004

Xavier Fontanet	**Term of office**
Director	**2006**
Chairman of the Audit Committee	
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Essilor International SA	Chairman and Chief Executive Officer

Professional address: 147 rue de Paris – 94227 Charenton Cedex – France

Other corporate offices and directorships held

French company	
Crédit Agricole SA	Director
Foreign companies	
EOA Holding Co. Inc. (United States)	Director
Essilor of America Inc. (United States)	Director
Nikon Essilor Co. Ltd (Japan)	Director
Shanghai Essilor Optical Company Ltd (China)	Director
Transitions Optical Holding B.V. (Netherlands)	Director
Transitions Optical Inc. (United States)	Director

Corporate offices and directorships expired		**Term of office**
French company		
Chantiers Beneteau SA	Director	January 2005
Foreign companies		
Essilor Laboratories of America Holding Co. Inc. (United States)	Director	March 2004
Transitions Optical Ltd (Ireland)	Director	July 2004
Other		
IMS – Entreprendre pour la Cité	Director	October 2005

Rainer E. Gut	
Director	**until April 26th, 2005**
Vice-Chairman of the Board	
Member of the "Management and Remuneration" Committee	
Member of the Committee for "Strategy and Implementation"	

Corporate office and directorship held

Foreign company	
Crédit Suisse Group (Switzerland)	Honorary Chairman

Corporate offices and directorships expired		**Term of office**
French company		
Pechiney	Director	January 2002
Foreign companies		
Nestlé S.A. (Switzerland)	Chairman of the Board	April 2005
	Member of the Committee of the Board	April 2005
Union Carbide Corp. (United States)	Director	February 2001
Uprona (Canada) Ltd (Canada)	Chairman of the Board	June 2005
Sofina SA (Belgium)	Director	March 2003

Bernard Kasriel	**Term of office**
Director	**2008**
Member of the Committee for "Strategy and Implementation"	
Holds 1,290 L'Oréal shares	

Main corporate office held outside L'Oréal

Lafarge SA	Vice-Chairman of the Board and Director
Professional address: 61 rue des Belles Feuilles – 75016 Paris – France	

Other corporate offices and directorships held

French company	
Edifixio SAS	Director
Foreign companies	
Compagnie Coppee de Développement Industriel (Belgium)	Director (since May 2005)
Lafarge North America (United States)	Director
Sabelfi (Belgium)	Director
Sonoco Products Company (United States)	Director

Corporate offices and directorships expired		**Term of office**
French company		
Lafarge SA	Vice-Chairman Chief Executive Officer	May 2003
	Chief Executive Officer	December 2005
Foreign companies		
Lafarge North America (United States)	Vice-Chairman of the Board	December 2005
Lafarge Roofing GmbH (Germany)	*Aufsichtsratsvorsitzender* (Member of the Supervisory Board)	2005

Marc Ladreit de Lacharrière	**Term of office**
Director	**2006**
Holds 32,910 L'Oréal shares	

Main corporate office held outside L'Oréal

Fimalac SA	Chairman and Chief Executive Officer

Professional address: 97 rue de Lille – 75007 Paris – France

Other corporate offices and directorships held

French companies	
Casino	Director
Fimalac Participations	Managing Director
Groupe Euris SAS	Member and Chairman of the Supervisory Board
Groupe Marc de Lacharrière	Managing Director
Renault SA	Director
Renault SAS	Director
Foreign companies	
Fimalac Inc. (United States)	Chairman
Fitch Inc. (United States)	Chairman
Fitch Group (United States)	Chairman (since January 1st, 2005)
Other	
Académie des Beaux-Arts	Member (since February 2005)
American Friends of the Louvre	Member (since May 10th, 2005)
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
Fondation Bettencourt Schueller	Member
Fondation des Sciences Politiques	Member
IERSE	Honorary Chairman
Institut de France	Member
Société des Amis du Musée du Quai Branly	Member

Corporate offices and directorships expired		Term of office
French companies		
Casino	Member of the Supervisory Board	September 2003
Canal+ SA	Director	August 2003
Euris	Adviser	November 2003
Fimalac Investissements SA	Director	November 2003
Groupe Flo SA	Member of the Supervisory Board	October 2002
Lille Royale SA	Director	April 2002
SCI Onzain-Ars	Managing Director	June 2003
Sibmar SC	Managing Director	February 2004
Foreign companies		
Cassina (Italia)	Director	June 2005
Duff & Phelps (United States)	Chairman	2001
Engelhard-Clal (Switzerland)	Director	2002
Renault-Nissan (Switzerland)	Member of the International Advisory Board	2002
SEMP SA (Spain)	Director	2002
Other		
Conseil Stratégique pour l'Attractivité de la France	Member	March 2005
Fondation Agir Contre l'Exclusion	Vice-Chairman	2002
IERSE	Chairman	January 2004
Musée du Louvre	Member	March 2005
Le Siècle	Member	June 2005

Franck Riboud	**Term of office**
Director	**2006**
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Groupe Danone SA	Chairman & Chief Executive Officer and
Professional address: 17 boulevard Haussmann – 75009 Paris – France	Chairman of the Executive Board

Other corporate offices and directorships held

French companies	
Accor SA	Member of the Supervisory Board
Compagnie Gervais Danone SA	Chairman of the Board
Finalim III SAS	Representative of Cie Gervais Danone, Chairman
Finalim IV SAS	Representative of Cie Gervais Danone, Chairman
Générale Agro-Alimentaire de Participations SAS	Representative of Cie Gervais Danone, Chairman
Générale Biscuit SA	Chairman of the Board
Renault SA	Director
Renault SAS	Director
Foreign companies	
Bagley LatinoAmerica SA (Spain)	Director
Danone Asia Pte Ltd (Singapore)	Chairman & Director
Danone SA (Spain)	Director
ONA (Morocco)	Director
Quiksilver (United States)	Director
Sofina SA (Belgium)	Director
Wadia BSN India Ltd (India)	Director
Other	
Association Nationale des Industries Agroalimentaires	Director
Conseil National du Développement Durable	Member, Representative of Danone Group
International Advisory Board HEC	Director

Corporate offices and directorships expired		**Term of office**
French companies		
Cabasse	Member of the Supervisory Board	July 2001
Compagnie Gervais Danone	Chairman & Chief Executive Officer	September 2001
Danone Finance SA	Director	February 2005
Danone France	Permanent representative of Cie Gervais Danone	April 2002
Danone SA	Permanent representative of Cie Gervais Danone	August 2002
Eurazeo SA	Member of the Supervisory Board	April 2005
Générale Biscuit	Chairman & Chief Executive Officer	September 2001
Kalisto Entertainment	Director	July 2001
Lu France	Permanent representative of Générale Biscuit	August 2004
Produits Laitiers Frais Nord Europe (ex Sageb SAS)	Representative of Cie Gervais Danone, Chairman	March 2005
Société des Eaux de Volvic	Permanent representative of Cie Gervais Danone	February 2002
Victoire	Director	July 2001
Foreign companies		
Abi Holdings Ltd (ABIH) (United Kingdom)	Director	December 2004
Associated Biscuits International Ltd (ABIL) (United Kingdom)	Director	December 2004
PT Tirta Investama (Indonesia)	Commissioner	January 2005
Scottish & Newcastle Plc (United Kingdom)	Director	November 2003
Strauss Dairy Ltd (Israel)	Director	April 2002
Other		
ANSA	Director	February 2005
Banque de France	Member of the Consultative Council	May 2004
Club Paris Saint Germain	Director	July 2001
E. Pensée	Director	July 2001

Louis Schweitzer	**Term of office**
Director	**2009**
Holds 2,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Renault	Chairman of the Board

Professional address: 860 quai de Stalingrad – 92513 Boulogne-Billancourt – France

Other corporate offices and directorships held

French companies	
BNP Paribas	Director
Electricité de France	Director
Renault SAS	Director
Veolia Environnement	Director
Foreign companies	
AB Volvo (Sweden)	Director
Allianz AG (Germany)	Member of the Consultative Council
AstraZeneca (United Kingdom)	Director Chairman of the Board (since January 1st, 2005)
Philips (Netherlands)	Vice-Chairman of the Supervisory Board
Other	
Banque de France	Member of the Consultative Council
Festival d'Avignon	Chairman (since March 12th, 2005)
Fondation Nationale des Sciences Politiques	Member of the Board
Haute Autorité de Lutte contre les Discriminations et pour l'Egalité	Chairman (since March 8th, 2005)
Institut Français des Relations Internationales	Member of the Board
Musée du Louvre	Member of the Board
Musée du Quai Branly	Director (since January 1st, 2005)
Société des Amis du Musée du Quai Branly	Chairman

Corporate offices and directorships expired		**Term of office**
French companies		
Compagnie Financière Renault (disbanded)	Director	June 2003
RCI Banque (formerly named Renault Crédit International)	Director	February 2005
Renault	Chairman & Chief Executive Officer	April 2005
Foreign company		
Renault-Nissan B.V. (Netherlands)	Chairman of the Board of Directors	April 2005
Other		
Medef	Member of the Executive Committee	October 2005
Medef International	Chairman	November 2005

Family ties between the corporate officers

Mrs Françoise Bettencourt Meyers is the daughter of Mrs Liliane Bettencourt and the wife of Mr Jean-Pierre Meyers.

Potential conflict of interest between the duties of the corporate officers concerning L'Oréal and their private interests and/or other duties

None except to specify that Mrs Liliane Bettencourt, Mrs Françoise Bettencourt Meyers and Mr Jean-Pierre Meyers are acting in concert, holding a majority share of L'Oréal's capital and voting rights and that Mr Brabeck-Letmathe, Mr Castañer Basco and Mr Bauer fulfil a management role at Nestlé, which is acting in the same concert (see "General information concerning the share capital" section in the Management Report).

Arrangements or agreements concluded with main shareholders, customers, suppliers or other parties in accordance with which the corporate officers were nominated as directors of L'Oréal

Agreement signed on February 3rd, 2004 ("the Agreement") on the one hand by Mrs Liliane Bettencourt and her family, and on the other hand by Nestlé, published on February 5th, 2004 (see details in the "General information concerning the share capital" section in the Management Report), providing for the commitment of parties to vote in favour of the appointment as directors of three members put forward by the other party.

Restriction accepted by the corporate officers concerning the pending disposal of their share in L'Oréal's capital

Restrictions accepted by both Mrs Liliane Bettencourt and her family and Nestlé according to the terms of the Agreement (see details in the "General information concerning the share capital" section of the Management Report) and rules relating to the prevention of the Insider Trading (see the Internal Rules of the Board of Directors, "Rights and obligations of Directors").

Other information dealt with in points 14 and 16.2 of Annex 1 of European Regulation no.809/2004

The corporate officers are not bound to L'Oréal or to one of its subsidiaries by a service contract providing for the granting of benefits at the end of such a contract and have not, during the last five years and to the best of the company's knowledge, been convicted of fraud, declared bankrupt, gone into receivership or been liquidated, been the subject of an accusation or official public sanction issued by the statutory or regulatory authorities (including designated professional bodies) or a court ruling preventing them from acting as a member of an administrative, management or monitoring body or been prevented from managing or conducting the business of an issuer.

INTERNAL RULES OF THE BOARD OF DIRECTORS

Double-click on the paper clip to read the version updated on Aug. 30th 2006

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.

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.

(1) This section will be amended when France has completed the transposition of the "Market abuse" directive.

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 12.31.2004		Acquisitions		Subscriptions		Sales		Situation at 12.31.2005	
Headings	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Club Créateurs de Beauté Japon	1,691.1	20.00	481.5	30.00					2,172.6	50.00
Club Créateurs de Beauté Korea	132.1	50.00			757.9	50.00			890.0	50.00
Laboratoires Innéov	3,500.0	50.00			2,800.0	50.00			6,300.0	50.00
L'Oréal Balkan	85.0	100.00			1,200.0	100.00			1,285.0	100.00
L'Oréal India	54,605.3	100.00			296.6	100.00			54,901.9	100.00
L'Oréal Liban	3,154.7	75.17	4,545.5	24.75			2.1	0.05	7,698.1	99.88
L'Oréal Malaysia SDN BHD	14,359.5	97.50					5,044.7	1.48 (1)	9,314.8	96.02
L'Oréal Ukraine	3.6	100.00			511.0	100.00			514.6	100.00
L'Oréal USA	2,561,561.1	100.00			129,561.3	100.00			2,691,122.4	100.00
Maybelline Suzhou	44,196.1	63.71			5,404.7	3.04			49,600.8	66.75
Procosa	155,184.0	100.00			15,058.9	100.00			170,242.9	100.00
Ormes Bel Air	946.4	100.00					946.4	100.00 (2)		
Siampar Limited	502.0	49.99					502.0	49.99 (3)		
Sincos	1,504.7	100.00					1,504.7	100.00 (3)		
Total	**2,841,425.6**		**5,027.0**		**155,590.4**		**7,999.9**		**2,994,043.1**	

(1) Return of capital.
(2) Wound-up without liquidation.
(3) Liquidation.

5-YEAR FINANCIAL SUMMARY

L'Oréal parent company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2001	2002	2003	2004	2005
I. Financial position at end of financial year					
Share capital	135.2	135.2	135.2	135.2	131.8
Number of shares and investment certificates issued	676,062,160	676,062,160	676,062,160	676,062,160	658,769,660 (1)
Number of convertible bonds	0	0	0	0	0
II. Overall result of operations					
Net sales	1,481.8	1,609.3	1,706.1	1,774.2	1,856.6
Pre-tax profit before depreciation, provisions and reversals of provisions (including provisions for investment and profit-sharing provision)	1,064.5	1,330.4	1,261.5	1,341.1	1,403.0
Income tax	81.1	57.3	124.2	–20.8	–58.8
Net income	875.3	1,014.3	939.5	1,230.1	1,589.6
Amount of profits distributed	365.1	432.7	493.5	554.4	659 (2)
III. Result of operations per share or investment certificate					
Profit after tax and profit-sharing, but before depreciation and provisions	1.44	1.87	1.66	1.99	2.20
Net income	1.29	1.50	1.39	1.82	2.41
Dividend paid on each share and investment certificate (not including tax credit)	0.54	0.64	0.73	0.82	1.00 (2)
IV. Personnel					
Number of employees	5,397	5,627	5,731	5,746	5,759
Total salaries	282.1	311.2	325.7	331.8	339.2
Amount paid for welfare benefits (social security, provident schemes, etc.)	110.1	121.2	134.4	133.9	138.8

(1) The share capital comprises 658,769,660 shares with a par value of €0.2, following the cancellation of 17,300,000 treasury shares decided on April 26th, 2005 and the subscription to 7,500 shares following the exercise of options.
(2) The dividend will be proposed during the Annual General Meeting of April 25th, 2006.

2005 Parent company financial statements

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Additional information

Reports and declaration

Parent company financial statements

COMPARED BALANCE SHEETS

€ millions

Assets (net values)	12.31.2005	12.31.2004	12.31.2003
Intangible assets (note 1)	420.3	389.9	350.2
Tangible assets (note 2)	232.7	226.0	204.3
Financial assets (note 4)	7,164.4	6,779.1	5,897.5
Fixed assets	**7,817.4**	**7,395.0**	**6,452.0**
Inventories	47.5	42.8	42.3
Prepayments to suppliers	7.5	7.0	8.1
Trade accounts receivable (note 8)	303.4	272.1	292.5
Other current assets (note 8)	166.1	142.3	115.6
Marketable securities (note 6)	1,418.4	1,339.0	1,528.3
Cash and cash equivalents	296.8	322.2	192.2
Current assets	**2,239.7**	**2,125.4**	**2,179.0**
Prepaid expenses (note 7)	**24.7**	**19.2**	**16.1**
Unrealised exchange losses (note 12)	**4.6**	**3.8**	**12.2**
TOTAL ASSETS	**10,086.4**	**9,543.4**	**8,659.3**

€ millions

Liabilities	12.31.2005	12.31.2004	12.31.2003
Capital stock	131.8	135.2	135.2
Additional paid-in capital	953.9	953.5	953.4
Reserves and retained earnings	4,537.5	4,807.1	4,386.4
Net income	1,589.6	1,230.1	939.5
Regulatory provisions	50.3	48.2	49.0
Shareholders' equity	**7,263.1**	**7,174.1**	**6,463.5**
Provisions for liabilities and charges (note 9)	**147.6**	**185.0**	**279.1**
Borrowings and debts (note 10)	2,159.3	1,662.7	1,320.1
Trade accounts payable (note 11)	292.8	281.8	273.8
Other current liabilities (note 11)	220.8	235.0	313.0
Other liabilities	**2,672.9**	**2,179.5**	**1,906.9**
Unrealised exchange gains (note 12)	**2.8**	**4.8**	**9.8**
TOTAL LIABILITIES	**10,086.4**	**9,543.4**	**8,659.3**

COMPARATIVE TABLES OF PROFIT AND LOSS ACCOUNTS

€ millions

	12.31.2005	12.31.2004	12.31.2003
Revenue	**1,956.6**	**1,902.1**	**1,818.9**
Net sales (note 15)	1,856.6	1,774.2	1,706.1
Reversals of provisions and transfers of charges	23.1	48.7	36.1
Other revenue (note 16)	76.9	79.2	76.7
Expenses	**–1,809.7**	**–1,764.1**	**–1,781.6**
Purchases and variation in inventories	–258.4	–243.8	–243.1
Other purchases and external charges	–907.4	–877.2	–905.9
Taxes and similar payments	–43.6	–40.3	–35.0
Personnel costs (note 17)	–478.1	–465.7	–460.1
Depreciation and charges to provisions (note 18)	–66.5	–74.3	–72.5
Other charges	–55.7	–62.8	–65.0
Operating profit	**146.9**	**138.0**	**37.3**
Net interest income	1,244.3	1,167.7	1,139.7
Net charges to/(reversals of) provisions and transfers of charges	165.7	–152.7	–150.5
Exchange gains and losses	–27.9	19.8	36.1
Net financial income (note 19)	**1,382.1**	**1,034.8**	**1,025.3**
Pre-tax profit	**1,529.0**	**1,172.8**	**1,062.6**
Exceptional income/(loss) (note 20)	**16.6**	**54.5**	**16.3**
Employee profit-sharing	–14.8	–18.0	–15.2
Income tax (note 21)	58.8	20.8	–124.2
Net income	**1,589.6**	**1,230.1**	**939.5**

CHANGES IN SHAREHOLDERS' EQUITY

The share capital of €131,753,932 comprises 658,769,660 shares with a par value of €0.2 following transactions carried out in 2005:
• cancellation of 17,300,000 treasury shares,
• subscription to 7,500 shares following the exercise of options.

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 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**
Changes in share capital	−3.4	0.4		−981.0			−984.0
Allocation of 2004 net income				711.3	−711.3		0.0
Dividends paid for 2004					−518.8		−518.8
2005 net income					1,589.6		1,589.6
Other movements during period						2.1	2.1
Balance at December 31st 2005 before allocation of net income	**131.8**	**953.9**	**46.0**	**4,491.5**	**1,589.6**	**50.3**	**7,263.1**

The reserves include an amount of €21.4 million in 2005 corresponding to dividends not paid, as a consequence of L'Oréal's retaining some of its own shares, compared with €18 million in 2004. €14.2 million was charged to reserves as a result of the cancellation of shares in 2005.

The regulatory provisions consist mainly of the provision for investment that amounted to €27 million at December 31st 2005, compared with €30 million at December 31st 2004. In 2005, a charge of €3.5 million was made to the provision for investment as employee profit-sharing for 2004 (compared with €2.8 million in 2004). 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 2005 of a provision of €6.5 million set aside in 2000 (compared with €6.8 million in 2004).

Accelerated capital allowances at December 31st 2005 amounted to €23.3 million, compared with €18.1 million at December 31st 2004.

The details of available share-subscription schemes are detailed in the Management Report.

STATEMENTS OF CASH FLOWS

€ millions

	12.31.2005	12.31.2004	12.31.2003
Operating activities			
Net income	**1,589.6**	**1,230.1**	**939.5**
Depreciation	54.1	53.8	53.3
Charges to provisions (net of reversals)	–196.4	60.2	135.4
Gains and losses on disposals of fixed assets	–0.3	15.1	3.1
Cash flow	**1,447.0**	**1,359.2**	**1,131.3**
Cash used for working capital (note 23)	–58.5	–83.7	156.2
Net cash provided by operating activities	**1,388.5**	**1,275.5**	**1,287.5**
Investing activities			
Investments in fixed assets	–1,453.9	–1,167.6	–333.4
Changes in other financial assets (note 24)	48.6	196.8	–117.6
Disposals of fixed assets	16.1	0.8	2.7
Net cash used by investing activities	**–1,389.2**	**–970.0**	**–448.3**
Financing activities			
Capital increase	0.4	0.1	0.0
Dividends paid	–518.8	–513.8	–460.0
Changes in financial debt	494.1	343.7	–264.9
Net cash used by financing activities	**–24.3**	**–170.0**	**–724.9**
Change in cash and cash equivalents	–25.0	135.5	114.3
Cash and cash equivalents at beginning of year	317.5	182.0	67.7
Cash and cash equivalents at end of year (note 25)	**292.5**	**317.5**	**182.0**

NOTES

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

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 are presented in accordance with the 1999 General Accounting Plan and other accounting principles.

In accordance with CRC regulation 2004-06 on assets, L'Oréal has, for the first time in 2005, recorded as charges expenses related to the registration of trademarks, previously listed as fixed assets. The impact at the start of the year of this change in accounting methods is €2.9 million, which has been recorded as income in order to make the 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.
Application of regulation 2004-06 on assets has made it necessary to identify a number of brands as depreciable in accordance with their forecast life cycle.
Initial trademark registration costs are now recorded as charges.

Patents are amortised over five years.

Software whose value is material is amortised by the straight-line method over five years and gives rise to an accelerated capital allowance using the declining balance method over twelve months.

Other intangible assets are usually amortised over periods not exceeding twenty 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 depreciation calculated over the period of actual use of the asset. Industrial machinery and materials, however, constitute an exception and are depreciated by the straight-line method over ten 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 weighted 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 purchase 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 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.

Provisions for liabilities and charges
Provisions of this type are set up to cover potential outflows for the benefit of third parties, without 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 cover.

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 the 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[1]
L'Oréal adheres to pensions, early retirement and other benefit schemes for employees and retired employees depending on local 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.

Since 2004, the obligation for long-service medals has not been recorded as an off-balance sheet commitment; instead, a provision is 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 expenses
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. Since 2004, 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.

(1) Obligations relating to retirement and related benefits, for senior executives of the L'Oréal group, are described on page 129 of this document, in the section entitled "Additional Information".

Notes to the balance sheet and off-balance sheet items

Note 1 · Intangible assets

€ millions	12.31.2004	Increase Acquisition	Decrease Sale	12.31.2005
Patents and trademarks	345.2	9.4	9.3	345.3
Business goodwill	2.4	0.6	–	3.0
Other intangible assets	130.4	74.2	35.6	169.0
Customer prepayments	0.1	n/s	0.1	n/s
Gross value	**478.1**	**84.2**	**45.0**	**517.3**
Patents and trademarks	32.1	2.5	6.5	28.1
Business goodwill	0.3	–	–	0.3
Other intangible assets	55.8	13.0	0.2	68.7
Amortisation	**88.2**	**15.5**	**6.7**	**97.0**
Net book value	**389.9**	**68.7**	**38.3**	**420.3**

Note 2 · Tangible assets

€ millions	12.31.2004	Increase Acquisition	Decrease Sale	12.31.2005
Land	48.3	0.1	n/s	48.4
Buildings	328.2	17.7	2.8	343.1
Industrial machinery and materials	135.5	11.0	2.7	143.8
Other tangible assets	89.0	10.0	16.5	82.5
Work-in-progress	12.6	27.4	20.8	19.2
Supplier prepayments	1.1	5.2	5.1	1.2
Gross value	**614.7**	**71.4**	**47.9**	**638.2**
Buildings	217.5	19.2	2.8	233.9
Industrial machinery and materials	105.3	10.5	2.7	113.1
Other tangible assets	65.9	8.9	16.3	58.5
Amortisation	**388.7**	**38.6**	**21.8**	**405.5**
Net book value	**226.0**	**32.8**	**26.1**	**232.7**

The annual straight-line depreciation amounted to €22.8 million.

The annual declining balance depreciation amounted to €15.1 million.

An exceptional depreciation amount of €0.7 million has been recorded.

Note 3 · Leased fixed assets

€ millions	Leased fixed assets				Balance sheet including leased fixed assets		
Balance sheet items	Historial cost[1]	Depreciation[2] For the year[3]	Depreciation[2] Aggregate	Net value	Gross value	Depreciation	Net value
Buildings and land	95.7	3.6	53.2	42.5	487.1	287.0	200.1
Industrial machinery and materials	n/s	n/s	n/s		143.8	113.1	30.7
Total at 12.31.2005	**95.7**	**3.6**	**53.2**	**42.5**	**630.9**	**400.1**	**230.8**
Total at 12.31.2004	**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						
Balance sheet items	Instalments paid		Instalments not yet paid				Residual
	For the year	Aggregate	Less than 1 year	1 to 5 years	Over 5 years	Total to be paid	purchase price[1]
Buildings and land	10.6	131.3	10.5	12.8	17.7	41.0	1.4
Industrial machinery and materials	n/s	n/s	–	–	–	–	n/s
Total at 12.31.2005	**10.6**	**131.3**	**10.5**	**12.8**	**17.7**	**41.0**	**1.4**
Total at 12.31.2004	**11.9**	**120.7**	**11.8**	**22.3**	**22.8**	**56.9**	**1.4**

(1) In accordance with contract.

Note 4 · Financial assets

€ millions	12.31.2004	Increase Acquisition Subscription	Decrease Sale	12.31.2005
Investments in non-consolidated companies	6,119.0	159.7	7.0	6,271.7
Long-term loans and other debtors	190.5	559.1	579.2	170.4
Treasury stock	691.8	1,224.6	984.4	932.0
Other	9.1	0.2	0.7	8.6
Gross value	**7,010.4**	**1,943.6**	**1,571.3**	**7,382.7**
Investments in non-consolidated companies	213.9	16.6	17.4	213.1
Long-term loans and other debtors	–	–	–	–
Treasury stock	12.4	–	12.4	–
Other	5.0	0.2	–	5.2
Provision for depreciation	**231.3**	**16.8**	**29.8**	**218.3**
Net book value	**6,779.1**	**1,926.8**	**1,541.5**	**7,164.4**

In 2005, L'Oréal bought 20,000,000 of its own shares under the general share buyback programme and cancelled 17,300,000 shares. At year-end, L'Oréal held 15,040,000 shares, compared with 12,340,000 shares held at December 31st 2004.
The total market value amounted to €935.8 million at the average price for the month of December and €944.5 million at the closing price at December 31st.

Following a decision by the Board of Directors on November 30th 2005, 1,800,000 shares booked as other long-term investments were assigned to a stock option plan for employees.

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	12.31.2005	12.31.2004
Financial assets	6,215.1	6,070.6
Trade accounts receivable	168.4	142.5
Other receivables	6.0	19.8
Borrowings	47.8	172.7
Trade accounts payable	66.8	52.7
Other payables	1.3	n/s
Financial charges	12.4	13.0
Financial income	1,304.8	1,218.3

Note 6 · Marketable securities
This item comprises:

€ millions	12.31.2005	12.31.2004
L'Oréal shares	1,706.2	1,759.1
Financial instruments	1.6	3.2
Stock option premiums	1.3	11.8
Gross value	**1,709.1**	**1,774.1**
L'Oréal shares	290.7	435.1
Financial instruments	–	–
Stock option premiums	–	–
Provision for depreciation	**290.7**	**435.1**
Net book value	**1,418.4**	**1,339.0**

The 23,756,050 L'Oréal shares held for the employee stock option plans have a net value of €1,415.5 million (after depreciation of €144.4 million), compared with €1,324 million at December 31st 2004.

During 2005, the only stock options exercised related to 1,691,750 shares.

For 2005, the total market value of treasury stock amounted to €1,478.1 million based on the average price in December and to €1,491.9 million at the closing price on December 31st.

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 on December 31st.

Note 7 · Prepaid expenses

€ millions	12.31.2005	12.31.2004
Prepaid expenses	24.7	18.5
Deferred charges	–	0.7
Total	**24.7**	**19.2**

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	83.3	87.1	170.4	–	170.4
Other financial assets	–	8.3	8.3	4.9	3.4
Current assets					
Trade accounts receivable	307.0	–	307.0	3.6	303.4
Other current assets,	166.6	–	166.6	0.5	166.1
Including: Tax and welfare benefit accounts receivable	86.8	–	86.8	–	–
Group and associates	6.0	–	6.0	–	–
Other accounts receivable	73.8	–	73.8	–	–
Prepaid expenses	**24.7**	**–**	**24.7**	**–**	**–**

The items entered under current assets amounted to €54.7 million at December 31st 2005, compared with €58.7 million at December 31st 2004, and consisted mainly of income to be received in an amount of €41.8 million at December 31st 2005, compared with €41.8 million at December 31st 2004.

Note 9 · Provisions for liabilities and charges

€ millions	12.31.2004	Increase	Reversal (provisions used)	Reversal (provisions not used)	12.31.2005
Provisions for litigation	27.4	0.9	0.8	1.6	25.9
Provisions for exchange losses	–	1.8	–	–	1.8
Provisions for charges	40.8	15.5	26.7	3.7	25.9
Other provisions for liabilities[1]	116.8	8.6	10.5	20.9	94.0
Total	**185.0**	**26.8**	**38.0**	**26.2**	**147.6**

(1) This item includes provisions for fiscal risks, and for industrial and commercial risks relating to operations (contracts, product returns) and personnel liabilities.

The changes 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	11.1	11.1	4.1
Financial income	12.5	17.8	–
Exceptional income	2.9	9.1	22.1
Income tax	0.3	–	–
Total	**26.8**	**38.0**	**26.2**

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 €2,625 million at December 31st 2005, compared with €2,121 million at December 31st 2004. 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	12.31.2005	12.31.2004
Debenture loans	n/s	n/s
Borrowings and debts due to financial institutions	751.7	721.7
Perpetual loan[1]	80.4	83.2
Short-term paper	1,224.6	634.3
Other borrowings and debts	100.4	221.2
Overdrafts	2.2	2.3
Total	**2,159.3**	**1,662.7**

(1) In accordance with OEC recommendation no. 28, the perpetual loan is recorded under the Debts heading. Given that this loan is due to expire in 2007, under the 2006 Finance Law in France, no impact was recorded for the financial year 2005 concerning tax estimated at €9.7 million.

By maturity

€ millions	12.31.2005	12.31.2004
Due within 1 year	1,726.8	965.5
Due in 1-5 years	431.5	624.3
Due beyond 5 years	1.0	72.9
Total	**2,159.3**	**1,662.7**

The following main variations were recorded during the year:

€ millions	
Loans subscribed	1,456.5
Loans repaid	960.3

At December 31st 2005, the perpetual loan subscribed by L'Oréal in 1992 generated a total interest charge for the year of €9.8 million, including interest receivable but not yet due in an amount of €4.6 million.

Note 11 · Statement of debts

€ millions	
Trade accounts payable	**292.8**
Other current liabilities,	**220.8**
Including: Tax and welfare benefit debts	141.1
Fixed asset debts	11.1
Group and associates	0.1
Other debts	68.5

There is no debt maturing beyond one year.

Other trade accounts payable amounted to €131.3 million at December 31st 2005, compared with €138.1 million at December 31st 2004. Other tax and welfare benefit debts amounted to €85.6 million at December 31st 2005, compared with €86.8 million at December 31st 2004. They consisted mainly of the provision for employee profit-sharing (€15.3 million at December 31st 2005) and the provision for incentives (€44.7 million at December 31st 2005).
Other fixed asset debts amounted to €2.9 million.
Other debts amounted to €45.3 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	
	12.31.2005	12.31.2004	12.31.2005	12.31.2004
Financial receivables	n/s	n/s	n/s	–
Trade accounts receivables	0.1	1.7	0.8	0.4
Financial debts	1.7	–	0.1	0.5
Trade accounts payable	0.4	n/s	0.2	1.3
Financial instruments	2.4	2.1	1.7	2.6
Total	**4.6**	**3.8**	**2.8**	**4.8**

The overall foreign exchange position, based on the accounting principles described earlier, was as follows:

€ millions	12.31.2005	12.31.2004
Japanese yen	n/s	0.1
US dollar	–1.1	0.7
Canadian dollar	–0.4	n/s
Other currencies	–0.3	0.2
Total	**–1.8**	**1.0**

The overall foreign exchange position indicates an unrealised loss, particularly on US Dollar, which is 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	
	12.31.2005	12.31.2004	12.31.2005	12.31.2004
Currency futures				
Sale of USD/Purchase of EUR	150.9	172.4	–9.2	6.1
Sale of RUB/Purchase of EUR	64.9	27.5	–3.3	1.3
Sale of CAD/Purchase of EUR	40.2	29.2	–3.0	0.6
Sale of AUD/Purchase of EUR	21.8	8.9	–0.5	0.1
Sale of GBP/Purchase of EUR	17.9	54.8	–0.4	0.7
Sale of PLN/Purchase of EUR	11.6	4.0	–0.7	–0.3
Sale of HKD/Purchase of EUR	9.5	–	–0.4	–
Sale of MXN/Purchase of EUR	9.4	0.4	–1.0	n/s
Sale of CHF/Purchase of EUR	7.7	6.9	n/s	n/s
Purchase of JPY/Sale of EUR	13.5	9.5	–0.5	–0.1
Other currency purchases/Sale of EUR	3.2	0.1	n/s	n/s
Sale of CNY/Purchase of USD	80.4	32.0	0.6	0.7
Sale of ARS/Purchase of USD	22.5	13.2	0.8	–0.5
Sale of RUB/Purchase of USD	–	33.1	–	–1.0
Sale of MXN/Purchase of USD	–	1.1	–	n/s
Sale of CNY/Purchase of JPY	0.8	–	n/s	–
Other currencies/Purchase of EUR	50.0	35.8	–1.2	–0.1
Currency futures total	**504.3**	**428.9**	**–18.8**	**7.5**
Currency options				
USD/EUR	28.0	74.0	–1.7	7.0
RUB/EUR	17.6	33.9	–0.8	2.4
GBP/EUR	3.2	8.5	n/s	0.2
RUB/SD	17.8	–	–0.5	–
CNY/USD	4.5	–	n/s	–
Other currencies/EUR	7.4	11.3	–0.4	0.5
Currency options total	**78.5**	**127.7**	**–3.4**	**10.1**
Of which: call options	78.5	153.4	–3.4	11.8
put options	–	–25.7	–	–1.7
Futures instruments total	**582.8**	**556.6**	**–22.2**	**17.6**

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	12.31.2005	12.31.2004	12.31.2005	12.31.2004
Borrower rate/Floating rate swaps				
EUR Euribor/Fixed rate	309.5	325.5	13.3	22.0
Floating rate/Floating rate swaps				
EUR Euribor/Euribor	210.2	286.2	–	0.6
Purchase caps				
EUR Euribor	–	300.0	–	–
Total	**519.8**	**911.7**	**13.3**	**22.6**

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	12.31.2005	12.31.2004
Commitments given for employee retirement obligation and related benefits(1)	575.2	487.2
Minorities buyback commitments	75.3	78.3
Commitments given(2)	716.1	621.1
Commitments received	5.4	9.0
Investment orders	39.6	35.0
Documentary credits	4.2	4.9

(1) The discount rate used in 2005 to assess the value of these commitments is 4.25%, compared with 4.75% in 2004. 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 €709.1 million at December 31st 2005 on behalf of directly and indirectly held subsidiaries, compared with €613.3 million at December 31st 2004. Liability commitments are added in the usual way.

b) Lease commitments due in under 1 year amounted to €4.6 million, those due in 1-5 years to €5.4 million, and those due in over 5 years to €2.4 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	12.31.2005	12.31.2004
Goods	873.4	849.4
Raw materials, packaging	17.5	16.4
Services(1)	826.7	801.3
Rental	32.9	32.4
Other revenue	106.1	74.7
Total	**1,856.6**	**1,774.2**

(1) Mainly revenue from technical assistance.

Net sales in France amounted to €1,151.8 million in 2005, compared with €1,119.6 million in 2004.

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:

	2005	2004
Executives	2,453	2,400
Supervisors	2,148	2,157
Employees	503	518
Manual workers	335	352
Sales representatives	320	319
Total	**5,759**	**5,746**
of which: apprentices	140	125
external temporary workers	178	189

Note 18 · Depreciation and charges to provisions
Depreciation and charges to provisions consisted of:

€ millions	12.31.2005	12.31.2004
Depreciation of fixed assets	53.5	53.4
Depreciation of current assets	2.0	2.6
Provisions for liabilities and charges	11.1	18.3
Total	**66.6**	**74.3**

Note 19 · Net financial income
Net interest income amounted to €1,244.3 million at December 31st 2005, compared with €1,167 million at December 31st 2004. It consisted mainly of the following:

€ millions	12.31.2005	12.31.2004
Dividends collected	1,303.7	1,215.7
Income from other accounts receivable and marketable securities	11.2	5.5
Loan interest charges	–54.4	–38.6
Loss paid to SNCs	–11.9	–12.0

Net charge to/(reversal of) provisions and transfers of charges amounted to €165.7 million at December 31st 2005, compared with €–152.7 million at December 31st 2004 and related mainly to:

€ millions	12.31.2005	12.31.2004
Net reversals of provisions for depreciation of financial assets excluding treasury stock	0.6	15.0
Reversal of provisions for depreciation of treasury stock compared with net charges at December 31st 2004	156.7	–170.4
Net reversals of provisions for financial liabilities and charges compared with net charges at December 31st 2004	5.3	–0.2

Note 20 · Exceptional income
Exceptional income amounted to €16.6 million and consisted mainly in the following:
• under net charges to provisions for financial liabilities and charges, a charge of €2.9 million and a €22.1 million reversal for provisions not used,
• under the net book value, trademark registrations ("removed" from assets on January 1st 2005 in compliance with regulation no.2004-15) amounting to €2.9 million.

Note 21 · Income tax
The tax charge for the year consisted of the following:

€ millions	12.31.2005	12.31.2004
Income tax	–46.9	–5.3
Tax on exceptional income and employee profit-sharing	–12.2	–15.5
Net provisions for tax	0.3	–
Income tax	**–58.8**	**–20.8**

Application of tax regulations resulted in a €1 million reduction in the profit this year, mainly due to the charge to regulatory provisions and tax credits for research, sponsorship and family.

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		7.3	3.2	5.2		9.3
Temporarily non-deductible charges	198.7		14.4	83.8	129.3	
Charges deducted (or revenue taxed) for fiscal purposes and not yet recorded	0.1		2.4	3.2		0.7
Temporarily non-taxable revenue		0.8	0.2			0.6
Items to be imputed						
Losses, deferred depreciation, etc.						
Possible taxation items						
Special reserve of long-term capital gains[1]		176.8				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 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 €–58.5 million at December 31st 2004, compared with €–83.7 million at December 31st 2004. It consisted of the following:

€ millions	12.31.2005	12.31.2004
Inventories	–3.5	–0.8
Receivables	–52.3	–14.6
Debts	–2.7	–68.3
Total	**–58.5**	**–83.7**

Note 24 · Changes in other financial assets

This line includes cash flows relating to treasury stock for the year, classified under *Marketable securities*.

Note 25 · Cash and cash equivalents at end of year

Cash and cash equivalents amounted to €292.5 million at December 31st 2005, compared with €317.5 million at December 31st 2004 and consisted of the following:

€ millions	12.31.2005	12.31.2004
Cash and cash equivalents excluding interest receivable	294.7	319.8
Overdrafts	–2.2	–2.3
Total	**292.5**	**317.5**

TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31ST 2005

Detailed information

€ 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		
A. Main French subsidiaries – Holding over 50%							
Areca & Cie	35	1	99.78	35	35	158	(1)
Banque RE.GE.FI.	19,250	62,386	100.00	75,670	75,670	13,730	10,435
Beauté Créateurs	4,412	–1,701	50.00	3,425	3,425	5,691	766
Biotherm Distribution & Cie	182	415	99.90	472	472	3,129	4,675
Centrex	1,800	29	100.00	3,532	3,532	15	(1)
Chimex	5,642	–4,152	100.00	7,501	7,501	–708	
Cosmétique Active France	21	4,321	69.91	130	130	17,522	12,255
Cosmétique Active International	17	3,931	87.94	15	15	6,194	5,121
Episkin	1	0	99.00	2	2	48	(1)
Exclusive Signatures International	10	0	99.00	10	10	–23	(1)
Fapagau & Cie	15	1	79.00	12	12	2,758	(1)
Faprogi	15	17	59.90	9	9	2,050	(1)
Finval	2	0	99.00	2	2	497	(1)
Gemey Maybelline Garnier	49	324	66.61	34	34	48,639	30,232
Gemey Paris-Maybelline NY	35	588	99.96	46	46	17,494	26,437
Goldys International	15	0	99.90	15	15	0	(1)
Helena Rubinstein	30	0	99.95	46,661	46,661	3,785	1,984
Holdial	1	0	98.00	1	1	754	(1)
L & J Re	1,500	7,679	100.00	1,500	1,500	–7	
La Roche-Posay Laboratoire Pharmaceutique	380	4,542	99.98	27,579	27,579	8,147	6,861
Laboratoire Garnier & Cie	579	2	99.97	5,784	5,784	4,782	4,861
Laboratoires Innéov	350	6,100	50.00	6,300	3,225	–6,847	(1)
Lancôme Parfums et Beauté & Cie	1,192	0	100.00	3,235	3,235	31,290	37,460
Lascad	18	0	99.17	18	18	37,477	34,657
Lehoux et Jacque	39	56	100.00	263	263	222	601
Laboratoires Industriels de Vichy	147	–3,974	100.00	5,015	5,015	1,338	
L'Oréal Produits de Luxe International	76	1,478	99.20	76	76	40,424	43,912
L'Oréal Produits de Luxe France	63	4,075	74.33	46	46	18,216	14,311
Par-bleue	2	0	99.00	2	2	–1,009	(1)
Parfums Cacharel & Cie	1	1	99.00	2	2	–488	(1)
Parfums Guy Laroche	332	5,416	100.00	1,656	1,656	–46	49
Parfums Paloma Picasso & Cie	2	0	99.00	2	2	–177	(1)
Parfums Ralph Lauren	2	0	99.00	2	2	–1	(1)
Prestige & Collections International	31	3,952	56.67	18	18	10,253	7,962
Sicos & Cie	375	6	80.00	999	999	6,316	(1)
Socinay	33	10	97.73	66	66	–1	
Soprocos	8,250	1,436	100.00	11,904	11,904	1,421	2,083
Soproreal	15	0	99.90	15	15	3,446	(1)
Sparlys	750	1,498	100.00	3,826	3,826	929	242
Société de Développement Artistique	2	0	99.00	2	2	–227	(1)
Viktor & Rolf Parfums	2	0	99.00	1	1	–630	(1)
B. Main French holdings – Holding under 50%							
Galderma International	932	72,165	26.67	2	2	142	
Sanofi-Aventis	2,802,613	(2)	10.21	512,853	512,853	(2)	171,649
C. Main foreign subsidiaries – Holding over 50%							
Aofi (Anglo Overseas Finance) (India)	2,529	–29	100.00	4,306	2,247	–1	
Avenamite S.A. (Spain)	242	48	100.00	6,216	6,216	154	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)	46,152	6,296	90.00	44,313	44,313	618	
Beautylux Intern.Cosm (Shanghai) China	6,187	–7,902	100.00	16,871	16,871	–413	
Beautytech Intern.Cosm (YiShang) China	3,374	–4,721	100.00	135,185	135,185	–1316	
Biotherm (Monaco)	152	16	99.80	3,545	3,545	2920	266
Caribel Fragrances Inc. (Puerto Rico)	0	0	100.00	0	0	0	
Club des Créateurs de Beauté Korea	116	–197	50.00	890	0	79	
Club des Créateurs de Beauté Japon K.K	8,291	–14,287	50.00	2,173	802	1,242	
Cosmelor Ltd (Japan)	3,460	13,873	100.00	35,810	35,810	539	1,505
Cosmephil Holdings Corpo. (Philippines)	192	–162	100.00	400	14	0	
Cosmetica Activa Portugal Ltda	75	–225	95.00	709	709	2,316	2,484
Cosmétique Active Belgilux (Belgium)	3,240	433	86.71	3,423	3,423	3,233	2,315
Cosmétique Active Hellas (Greece)	705	344	99.97	14,468	14,468	4,837	3,900
Cosmétique Active Ireland Ltd (Ireland)	82	–347	100.00	732	732	511	
Cosmétique Active Osterreich (Austria)	75	38	100.00	1,579	1,579	2,527	1,893
Cosmétique Active Suisse (Switzerland)	32	23	100.00	4,645	4,645	2,850	2,997
Elebelle (Proprietary) Ltd (South Africa)	902	62,066	100.00	61,123	61,123	0	
Erwiton (Uruguay)	967	4,385	100.00	17	17	3,415	1,405
Galderma Pharma S.A. (Switzerland)	31,471	18,480	50.00	10,124	10,124	41,650	
Geral Inc. (USA)	177	0	100.00	302	173	–26	
Kosmepol Sp ZOO (Poland)	47,282	6,703	99.73	48,965	48,965	2,720	
Lai Mei Cosmetics Int. Trading (China)	10,443	1,887	100.00	11,197	11,197	9,244	7,405
Lancarome A/S (Denmark)	402	10	100.00	953	953	3,812	1,654
Le Club des Créateurs de Beauté (Belgium)	500	–704	50.00	251	0	–386	
Le Club des Créateurs de Beauté (Taiwan)	517	20	50.00	328	235	–98	
L'Oréal Argentina Sociedad anonima	13,469	–16,300	100.00	81,068	35,154	3,793	3,944
L'Oréal Australia	2,951	14,639	100.00	18,794	18,794	21,964	19,204
L'Oréal Balkan (Serbia)	1,201	–62	100.00	1,285	1,285	246	
L'Oréal Baltic (Latvia)	374	2,832	100.00	529	529	684	
L'Oréal Belgilux (Belgium)	10,000	26,681	99.99	35,583	35,583	23,272	21,327
L'Oréal Canada Inc.	2,111	19,246	100.00	144,226	144,226	44,530	36,217
L'Oréal Ceska Republica (Czech Republic)	10,004	–4,296	100.00	8,678	7,844	1,544	
L'Oréal Chile (Chile)	25,873	925	100.00	43,784	38,430	9,714	5,872
L'Oréal China Co. Ltd (China)	26,102	–13,332	100.00	37,482	37,482	–15,298	
L'Oréal Colombia (Colombia)	2,516	1,765	94.00	6,395	4,101	204	681
L'Oréal Danmark A/S (Denmark)	268	5,419	100.00	7,382	7,382	6,328	4,584
L'Oréal Deutschland GmbH (Germany)	12,647	53,074	99.99	71,832	71,832	84,105	75,234
L'Oréal Espana S.A. (Spain)	59,911	70,092	63.86	228,809	228,809	65,447	41,798
L'Oréal Finland Oy (Finland)	673	12	100.00	1,280	1,280	6,977	5,686
L'Oréal Guatemala S.A.	1,181	1,039	100.00	2,162	2,162	1,799	1,773
L'Oréal Hellas (Greece)	3,465	4,544	77.41	2,112	2,112	11,268	9,638
L'Oréal Hong Kong Limited	3	–7,638	99.97	604	604	43,070	33,757
L'Oréal India Private Limited	43,244	–27,484	100.00	54,902	17,541	403	
L'Oréal Investments B.V. (Netherlands)	18	8	100.00	18	18	0	
L'Oréal Israël Ltd	4,200	8,403	92.97	38,497	33,597	4,148	2,925
L'Oréal Italia Spa	153,818	25,756	100.00	161,801	161,801	74,859	70,756
L'Oréal Japan Ltd (Japan)	360	–485	100.00	275	0	–77	
L'Oréal Korea Limited (South Korea)	2,535	6,426	100.00	20,794	10,094	–9,833	
L'Oréal Liban SAL	3,390	636	99.88	7,698	7,698	2,304	3,060
L'Oréal Luxe Producten Nederland B.V.	908	26	100.00	1,937	1,937	6,258	10,166
L'Oréal Luxury Products Norge (Norway)	313	249	100.00	853	853	1,680	1,413
L'Oréal Luxury Products Sverige (Sweden)	107	8	100.00	108	108	2,115	1,519
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,401	48	100.00	7,815	7,815	407	1,303
L'Oréal Malaysia SDN BHD	7,577	–708	96.02	9,315	9,315	4,602	
L'Oréal Mexico S.A de C.V (Malaysia)	2,647	55,816	100.00	8,443	8,443	27,427	26,148
L'Oréal Middle East (United Arab Emirates)	2,310	–622	100.00	2,507	2,507	8,513	5,635
L'Oréal Nederland BV (Netherlands)	34	3	100.00	4,894	4,894	16,479	16,663
L'Oréal New Zealand Limited	47	1,495	100.00	624	624	4,270	3,200

€ 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
L'Oréal Norge A/S (Norway)	1,203	1,489	100.00	3,198	3,198	8,352	6,864
L'Oréal Osterreich GmbH (Austria)	2,785	304	100.00	2,240	2,240	7,614	5,365
L'Oréal Panama							
L'Oréal Peru (Peru)	2,265	142	100.00	3,739	2,730	729	342
L'Oréal Philippines Inc.	2,404	647	95.38	12,478	3,063	–271	
L'Oréal Polska Sp. Z.O.O. (Poland)	26,397	499	100.00	38,210	38,210	12,727	6,934
L'Oréal Portugal LDA	114	1,359	99.08	1,369	1,369	10,242	12,780
L'Oréal Produits de Luxe Belgique (Belgium)	250	817	99.97	2,885	2,885	7,900	7,928
L'Oréal Produits de Luxe Hellas A.E	1,026	1,807	99.89	2,135	2,135	4,232	3,431
L'Oréal Produits de Luxe Portugal LDA	250	–415	99.90	317	317	3,949	3,891
L'Oréal Produits de Luxe Suisse (Switzerland)	257	130	100.00	556	556	3,117	3,290
L'Oréal Romania SRL (Romania)	2,446	610	100.00	5,883	5,883	1,392	573
L'Oréal Singapore Pte Ltd (Singapore)	1,275	86	100.00	18,991	18,991	5,519	4,965
L'Oréal Slovenija kosmetica D.O.O. (Slovenia)	459	390	100.00	856	856	1,891	2,057
L'Oréal Slovensko S.R.O. (Slovakia)	1,737	174	100.00	1,673	1,673	1,759	1,793
L'Oréal Suisse (Switzerland)	193	97	100.00	116,776	116,776	15,401	14,758
L'Oréal Sverige AB (Sweden)	1,864	382	100.00	2,139	2,139	7,935	5,754
L'Oréal Taiwan (Taiwan)	18,285	–15,711	100.00	40,942	37,572	2,186	
L'Oréal Thailand	4,086	–4,917	100.00	5,238	1,960	1,819	
L'Oréal Turkiye Kozmetik Sanayi Ve Ticar	21,428	3,149	100.00	22,207	22,207	4,830	3,376
L'Oréal U.S.A. Inc.	4,717	1,192,823	100.00	2,691,122	2,691,122	246,136	239,480
L'Oréal UK Ltd	25,448	4,884	100.00	47,372	47,372	74,040	56,253
L'Oréal Ukraine	590	0	100.00	515	515	–1,136	
L'Oréal Uruguay	363	–1,951	100.00	472	0	–1,389	
L'Oréal Venezuela C.A.	1,379	–312	100.00	12,502	6,363	3,360	2,066
L'Oréal Zagreb D.O.O.	136	1,355	100.00	1,503	1,503	226	411
Maybelline Suzhou Cosmetics (China)	58,809	–42,289	66.75	49,601	19,371	4,657	
Nihon L'Oréal KK (Japan)	135,175	27,564	100.00	377,752	363,752	6,342	
Parbel of Florida Inc. (U.S.A.)	43	–1,086	100.00	100,317	100,317	25,695	18,203
Parmobel Ltd (Cyprus)	613	0	100.00	34,776	34,776	4,474	6,719
Procosa Productos de Beleza Ltda (Brazil)	132,266	21,127	100.00	170,243	170,243	14,723	15,713
P.T. L'Oréal Indonesia	1,385	–38	99.00	2,305	1,571	75	
P.T. Yasulor Indonesia	4,375	9,521	99.98	40,854	15,871	2,102	
Scental Limited (Hong-Kong)	5	187	100.00	8	8	0	
Sincos Private Limited (Singapore)			100.00	0	0	0	
Sofamo (Monaco)	160	2,045	99.97	1,851	1,851	955	
Venprobel (Venezuela)	16	–242	100.00	2,722	0	0	
Yue-Sai Kan Cosmetic (Shenzhen) China	4,581	8,679	100.00	168,708	168,708	–2,093	
D. Main foreign holdings – Holding under 50%							
	N/S	N/S	N/S	N/S	N/S	N/S	

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 2005.

It is stipulated that the above list of companies is not exhaustive.

Information relating to all subsidiaries and holdings

€ thousands	Subsidiaries French	Subsidiaries Foreign	Holdings French	Holdings Foreign
Book value of shares held:				
• gross restated	209,027	5,549,775	512,855	1
• net	205,056	5,340,613	512,855	1
Amound of loans and advances granted	90,983	68,689		
Amound of bonds and guarantees granted	2,733	702,703		
Amound of dividends collected	245,183	875,049	171,649	0

2006 Annual General Meeting

REPORT OF THE BOARD OF DIRECTORS ON THE DRAFT RESOLUTIONS SUBMITTED FOR APPROVAL TO THE ANNUAL GENERAL MEETING

Ordinary Part

Approval of the annual financial statements, allocation of the company's net income for 2005, and declaration of the dividend (1st, 2nd and 3rd resolutions)
Having reviewed the Reports of the Board of Directors and of the Statutory Auditors, the Annual General Meeting is called on to approve:
• the parent company financial statements, with a profit and loss account which indicates a 2005 net income of €1,589.6 million compared with €1,230.1 million at December 31st, 2004,
• and the 2005 consolidated financial statements whose main items are set out in this document.

The Board of Directors proposes to the Annual General Meeting a net dividend of €1 per share, representing an increase of 22% compared with the net dividend of 2004.

This dividend will be paid on Wednesday May 10th, 2006.

Transfer from the special reserve for long-term net capital gains (4th resolution)
In accordance with legal requirements, L'Oréal in 2005 carried out, in its parent company financial statements, the compulsory transfer of the sum of €200 million from the *Special reserve of long-term capital gains* item to the *Other reserves* item and made a corresponding payment of the exceptional tax of 2.5%.

Until December 31st, 2006, French companies can opt for the transfer of all or part of the balance of their *Special reserve of long-term capital gains* to the *Other Reserves* item, again with the payment of a tax of 2.5%.

The *Special reserve of long-term capital gains* of L'Oréal amounted on December 31st, 2005 to around €890 million, which would result in an exceptional tax payment of approximately €22.3 million, assuming that the whole amount is transferred.

It is proposed that the Board of Directors should be authorised to carry out, before December 31st, 2006, the transfer of the balance of the *Special reserve of long-term capital gains* to the *Other reserves* item, it being stipulated that the Board will be granted complete freedom, on the basis of the information at its disposal, to carry out this transfer, to limit its amount, or to make no transfer.

Regulated agreements (5th resolution)
No new regulated agreement was concluded or continued in 2005. The Annual General Meeting is called on to place this on record.

Renewal of the tenure as directors (6th, 7th, 8th, 9th, 10th resolutions)
The Board of Directors proposes to the Annual General Meeting that the tenure as directors of Sir Lindsay Owen-Jones, Mr Francisco Castañer Basco, Mr Xavier Fontanet, Mr Marc Ladreit de Lacharrière and Mr Franck Riboud, which expires at the end of this Annual General Meeting, should be renewed. The tenure as directors would then run for a statutory period of four years, expiring at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of 2009.

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

A British national, Sir Lindsay Owen-Jones joined the L'Oréal group in 1969. During his international career with the group, he was Chief Executive of L'Oréal in Italy from 1978 to 1981 and President and Chief Executive Officer of L'Oréal USA from 1981 to 1984.
He was appointed Deputy Chairman and Chief Executive Officer of L'Oréal in 1984, and has been Chairman and Chief Executive Officer since 1988. A L'Oréal director since 1984, his tenure was renewed in 2002. Sir Lindsay Owen-Jones is a director of Sanofi-Aventis and Ferrari (Italy); he is also Vice-Chairman of the Supervisory Board of Air Liquide.

Mr Francisco Castañer Basco
General Manager of Nestlé

A Spanish national, Mr Francisco Castañer Basco joined the Nestlé group in 1964, and was appointed General Manager in 1997. A L'Oréal director since 1998, his tenure was renewed in 2002. Mr Francisco Castañer Basco is a director of Alcon (Switzerland).

Mr Xavier Fontanet
Chairman and Chief Executive Officer of Essilor

Mr Xavier Fontanet was appointed Chief Executive Officer of Essilor in 1991, Vice-Chairman and Chief Executive Officer in 1995 and Chairman and Chief Executive Officer in 1996. He has been a L'Oréal director since 2002. Mr Xavier Fontanet is also a director of Crédit Agricole SA.

Mr Marc Ladreit de Lacharrière
Chairman and Chief Executive Officer of Fimalac
and Chairman of Fitch Ratings, Inc.

Mr Marc Ladreit de Lacharrière is a member of the *Institut de France*. After joining L'Oréal in 1976, Mr Marc Ladreit de Lacharrière was appointed Vice-President in charge of Administration and Finance, and Group Deputy Chief Executive Officer from 1984 to 1991. A L'Oréal director since 1984, his tenure was renewed in 2002. Mr Marc Ladreit de Lacharrière is also a director of Renault and Casino.

Mr Franck Riboud
Chairman and Chief Executive Officer of the Danone group

After joining the BSN group in 1980, Mr Franck Riboud was appointed Chairman and Chief Executive Officer of the Danone group in 1996. He has been a L'Oréal director since 2002. Mr Franck Riboud is also a director of Renault, a Supervisory Board member of Accor, and a director of Quiksilver (United States) and ONA (Morocco).

Appointment of a director (11th resolution)

The Board of Directors proposes that the Annual General Meeting should appoint a new director, Mr Jean-Paul Agon.

Deputy Chief Executive Officer of L'Oréal since July 2005, Mr Jean-Paul Agon would be appointed for a statutory period of four years, expiring at the end of the Ordinary Annual General Meeting to be held in 2010 to review the financial statements for 2009.

At the end of the Annual General Meeting, Sir Lindsay Owen-Jones will propose to the Board of Directors that the functions of the Chairman should be separated from those of the Chief Executive Officer, and that Mr Jean-Paul Agon should be appointed as Chief Executive Officer.

Mr Jean-Paul Agon
Deputy Chief Executive Officer of L'Oréal since July 2005

Mr Jean-Paul Agon has devoted his whole career within the L'Oréal group, in all its divisions, on several continents. He joined L'Oréal in 1978, and worked as a sales representative for one year before assuming marketing responsibilities. He began his international career in 1981, and he was appointed, at the age of 25, General Manager of L'Oréal's subsidiary in Greece. Five years later, he assumed the role of General Manager of the L'ORÉAL PARIS brand in France, and was responsible in particular for the launch of the Studio Line range. In 1989, he became International Managing Director of BIOTHERM in the Luxury Products Division, for which he carried out a strategic repositioning. In 1994, Mr Jean-Paul Agon was appointed Managing Director of L'Oréal in Germany. In 1997, he created the Asia zone and took charge of all the group's businesses in this region. He set up subsidiaries in countries in which sales had previously been made through agents, boosting the rapid growth of the brands in this region. In October 2001, Mr Jean-Paul Agon was appointed President and Chief Executive Officer of the group's largest subsidiary, L'Oréal USA. He played an active part in rolling out the American brands worldwide, and introduced international lines in the United States such as Fructis by GARNIER. At the same time, he focused on strengthening diversity of the teams by taking key initiatives in this area, which were then applied throughout the group. During the 27 years he has spent all over the world, Mr Jean-Paul Agon has always sought to understand sensitivities and cultures, and attached the highest importance to respecting differences.

Authorisation for the buying back by the company of its own shares (12th resolution)

During 2005, your company bought back 20 million of its own shares, for a total amount of €1,224.6 million, in connection with:
• authorisations granted by the Annual General Meetings of April 29th, 2004 and April 26th, 2005,
• and buyback plans decided on accordingly by the Board of Directors.

The buybacks were carried out primarily with a view to cancelling the shares purchased, and subsidiarily with a view to covering stock option plans decided on by the Board of Directors.

In 2005, the Board of Directors also carried out, in accordance with the authorisation granted by the Annual General Meeting of May 22nd, 2003, the cancellation of 17,300,000 shares purchased in 2004 and 2005.

By approving a new resolution, the Annual General Meeting will give the Board of Directors the means to continue its buyback policy.

This authorisation would be given for a maximum period of 18 months from the date of this Annual General Meeting, and the purchase price per share would not exceed €95.

The authorisation concerns a maximum of 10% of the share capital for a maximum amount of €6.3 billion, it being understood that the company may at no time hold more than 10% of its own share capital.

The purposes of the buybacks are specified in the text of the draft resolution.

Extraordinary Part

Authorisation given to the Board of Directors to grant L'Oréal share purchase and/or subscription options (13th resolution)

The two authorisations for the allocation of share purchase and subscription options approved by the Annual General Meeting of May 22nd, 2003 expire in 2006. The Annual General Meeting is asked to grant, on April 25th, 2006, a further authorisation for the allocation of share purchase and subscription options for a period of 26 months.

The beneficiaries would be employees and/or certain corporate officers. The proposed amount is a maximum total of 12 million shares. The exercise price would comply with legal provisions, with the exclusion of the possibility of granting a discount, which is clearly specified in the resolution.

Stock options effectively bring the interests of their beneficiaries closer to those of shareholders by enabling them to share the same confidence in the strong and steady growth of the company.

The aim is to give the Board of Directors the means to involve, motivate and ensure the loyalty of employees, and particularly those who through their abilities and their commitment contribute the most to the group's performance. Stock options also form part of L'Oréal's strategy to encourage and attract talented individuals.

If the Annual General Meeting approves this resolution, the allocations will be decided on by the Board of Directors, on the basis of the proposals made by the General Management, reviewed by the "Management and Remuneration" Committee.

Corresponding authorisation for the purpose of carrying out a capital increase reserved for employees (14th resolution)

The authorisation to grant subscription options gives rise to a corresponding obligation to present to the Annual General Meeting a draft resolution enabling a possible capital increase reserved for employees.

In accordance with the provisions of Articles L.225-129-2, L.225-129-6 and L.225-138 of the French Commercial Code (*Code de Commerce*) and Articles L.443-1 et seq. of the French Labour Code (*Code du Travail*), the Annual General Meeting is requested to delegate to the Board of Directors, for a period of 26 months, and up to a limit of 1% of share capital, the power to decide on carrying out the said capital increase.

Authorisation to cancel shares corresponding to expired purchase options (15th resolution)

Some stock options allocated in the past can no longer be exercised, for example because the beneficiaries have left the company.

It is proposed that the shares corresponding to these options should be allocated to the cancellation programme currently being conducted by the Board of Directors.

As the cancellation process for some of these shares is different from that of the share cancellation authorisation currently in force, a vote approving the resolution will enable their cancellation, up to a limit of 1.8 million of shares.

Amendment of Articles of Association to enable meetings of the Board of Directors to be held by means of telecommunication facilities (16th resolution)

It is proposed that the Annual General Meeting should decide to amend Article 9 of the Articles of Association to allow meetings of the Board of Directors to be held by means of telecommunications, in accordance with the provisions of the French Law for Economic Trust and Modernisation (*Loi pour la confiance et la modernisation de l'économie*) no.2005-842 of July 26th, 2005.

Powers for formalities (17th resolution)

This resolution is intended to grant the powers necessary to carry out all formalities resulting from the holding of the Annual General Meeting.

For the state of the parent company activities since the start of the year, refer to press releases distributed by L'Oréal and available on the website: www.loreal-finance.com.

DRAFT RESOLUTIONS SUBMITTED FOR APPROVAL TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING ON TUESDAY APRIL 25TH, 2006

Ordinary Part

1st resolution
Approval of the 2005 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 2005 parent company financial statements indicating a net income of €1,589,592,354.89 compared with €1,230,100,216.83 for 2004.

2nd resolution
Approval of the 2005 consolidated financial statements

The Annual General Meeting, having reviewed the Reports of the Board of Directors and of the Statutory Auditors, approves the 2005 consolidated financial statements.

3rd resolution
Allocation of the company's net income for 2005 and declaration of the dividend

The Annual General Meeting, on the proposal of the Board of Directors, decides to allocate the 2005 net income, amounting to €1,589,592,354.89 as follows:

In euros	
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	6,587,696.60
An amount of will be allocated to shareholders as superdividend[1]	652,181,963.40
The balance, that is, will be allocated to the *Other reserves* item[1]	930,822,694.89

(1) This amount takes into account the number of shares forming the capital at December 31st, 2005 and will be adjusted to reflect the number of shares issued following the exercise of share options with 2005 dividend rights on the date this dividend will be paid.

The Annual General Meeting therefore declares the net dividend to be paid for that year to be €1 per share.

The Annual General Meeting decides that the dividend will be paid on May 10th, 2006.

The income corresponding to the dividends not paid because of the treasury stock held by the company will be allocated to the *Ordinary reserve* item.
In accordance with Article 243 bis of the French General Taxation Code (*Code Général des Impôts*), it is pointed out that a 40% 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 158-3-2° of the French General Taxation Code.

The net dividends[1] per share paid for the last three years were the following:

2002	2003	2004
€0.64	€0.73	€0.82

(1) For natural persons whose fiscal domicile is situated in France, the dividend included a tax credit equal to 50% of the dividend for distributions made for the years 2002 and 2003.

4th resolution
Transfer from the special reserve of long-term net capital gains

The Annual General Meeting, having reviewed the Report of the Board of Directors, authorises the Board of Directors, in accordance with Article 39 of the Amended Finance Act (*Loi de Finances Rectificative*) for 2004:
• to transfer, before December 31st, 2006, the sum of €890,417,190 from the *Special reserve of long-term capital gains* item to the *Other reserves* item, and;
• to deduct 2.5% from the amount transferred to *Other reserves* representing the exceptional tax based on that amount, it being stated that the Board of Directors may decide to limit the amount transferred, and the relevant amount deducted for exceptional tax, to an amount it will determine.

5th resolution
Regulated agreements

The Annual General Meeting, having reviewed 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.

6th resolution
Renewal of the tenure as director of Sir Lindsay Owen-Jones

The Annual General Meeting renews the tenure as director of Sir Lindsay Owen-Jones for a statutory period of four years.

The tenure will expire at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of the year ending December 31st, 2009.

7th resolution
Renewal of the tenure as director of Mr Francisco Castañer Basco

The Annual General Meeting renews the tenure as director of Mr Francisco Castañer Basco for a statutory period of four years.

The tenure will expire at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of the year ending December 31st, 2009.

8th resolution
Renewal of the tenure as director of Mr Xavier Fontanet

The Annual General Meeting renews the tenure as director of Mr Xavier Fontanet for a statutory period of four years.

The tenure will expire at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of the year ending December 31st, 2009.

9th resolution
Renewal of the tenure as director of Mr Marc Ladreit de Lacharrière

The Annual General Meeting renews the tenure as director of Mr Marc Ladreit de Lacharrière for a statutory period of four years.

The tenure will expire at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of the year ending December 31st, 2009.

10th resolution
Renewal of the tenure as director of Mr Franck Riboud

The Annual General Meeting renews the tenure as director of Mr Franck Riboud for a statutory period of four years.

The tenure will expire at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of the year ending December 31st, 2009.

11th resolution
Appointment as director of Mr Jean-Paul Agon

The Annual General Meeting decides to appoint Mr Jean-Paul Agon as director for a period of four years that will expire at the end of the Ordinary General Meeting to be held in 2010 to review the financial statements of the year ending December 31st, 2009.

12th resolution
Authorisation for the buying back by the company of its own shares

The Annual General Meeting, having reviewed the reports of the Board of Directors 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 65,876,966 shares for a maximum amount of €6.3 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, the amounts indicated above will be adjusted as a function of the characteristics of the operation.

The company may buy its own shares for the following purposes:
• their cancellation for purposes of optimising shareholders' equity and net earnings per share by capital reduction, in accordance with the authorisation granted by the Extraordinary General Meeting of May 22nd, 2003 for a period of five years,
• their delivery to the beneficiaries of stock options granted by the Board of Directors, when the said options are exercised,
• their free grant, decided on by the Board of Directors,
• the increase of the volume of transactions and the share's liquidity in connection with a liquidity contract concluded with an investment service provider,
• the holding and subsequent exchange of the shares acquired as payment in connection with external growth operations,
• the application of any new market practice that would be authorised by the *Autorité des Marchés Financiers* and, more generally, the achievement of any operation in accordance with laws and regulations in force.

Purchase, sale, exchange and transfer operations carried out within the scope of this present authorisation may be carried out by any means on the Stock Exchange or otherwise.

These operations may also take place during a public offering periods within the limits authorised by laws and regulations in force.

This authorisation is granted for a maximum period of eighteen months from the date of the present Meeting.

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.

Extraordinary Part

13th resolution
Authorisation given to the Board of Directors to grant the L'Oréal company share purchase and/or subscription options

The Annual General Meeting, having reviewed the Report of the Board of Directors and the Special Report of the Statutory Auditors:

• authorises the Board of Directors to grant existing share purchase options and/or new share subscription options of the L'Oréal company, to members of the salaried employees or corporate officers of the L'Oréal company or companies or economic interest groups that are directly or indirectly linked to it under the conditions of Article L.225-180 of the French Commercial Code,

• sets at twenty-six months from the present Meeting the validity of the present authorisation which may used on one or more occasions,

• decides that the total number of options granted by the Board of Directors may not give the right to subscribe or purchase a total number of shares exceeding 12 million shares,

• decides that:

- the purchase price paid by the beneficiaries will be set by the Board of Directors, without any discount, on the day the options are granted; this price may not be less than the average of the opening prices of the twenty trading days before the day on which the options are granted, nor the average purchase price of the shares held by the company according to Articles L.225-208 and L.225-209 of the French Commercial Code,
- the share subscription price paid by the beneficiaries shall be set by the Board of Directors, without any discount, on the day the options are granted; this price may not be less than the average of the opening prices of the twenty trading days before the day on which the options are granted,

• decides that the options must be exercised within a maximum period of ten years from the date on which they are granted,

• decides that if the company carries out, after allocating options, financial operations affecting the capital, the Board of Directors will adjust the price and the number of shares covered by the options not yet exercised, such as the total value of the current options remains constant for each beneficiary,

• decides that the capital increase resulting from the exercise of share subscription options will be definitively made simply as a result of the declaration to exercise the option and cash payment or by compensation with credits for the corresponding amount,

• notes that the present authorisation includes, for the beneficiaries of share subscription options, the express renunciation by the shareholders of their preferential right to share subscriptions that will be issued as the options are exercised,

• delegates full powers to the Board of Directors, with the possibility to further delegate to the General Manager, to set all the other conditions and terms for the allocation of options and their exercise, notably to:

- temporarily suspend the exercise of options, in the event of financial or share operations,
- deduct, if he so deems appropriate, the expenses incurred to increase the share capital from the amount of the premiums attached to these increases and to deduct from this amount the sums required to raise the legal reserve to one tenth of the new share capital after each capital increase,

• delegates full powers to the Board of Directors to implement the present authorisation, with the possibility to further delegate in accordance with laws and regulations, and particularly to note the increases of the share capital resulting from the options which are exercised, to amend the Articles of Association accordingly, to carry out or get carried out all actions and formalities, and more generally to do all that is necessary,

• notes that the present authorisation invalidates, effective from today's date, any previous authorisation with the same purpose, to the extent of the unused part, if any.

14th 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 €1,317,539 by the issue of 6,587,696 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.

15th resolution
Authorisation given to the Board of Directors to cancel shares acquired by the company under Article L.225-208 of the French Commercial Code
The Annual General Meeting, having reviewed the Report of the Board of Directors and the Special Report of the Statutory Auditors:
• authorises the Board of Directors, in accordance with Articles L.225-204 and L.225-205 of the French Commercial Code, to cancel, on one or more occasions, a maximum of 1.8 million shares bought by the company on the basis of Article L.225-208 of the French Commercial Code to cover share purchase options and which correspond or will correspond to options that are no longer exercisable;
• grants full powers to the Board of Directors to:
- proceed to reduce the share capital by cancelling shares,
- decide the final amount of reduction in the share capital, to set the methods and to record the completion,
- deduct the difference between the book value of the shares cancelled and their par value from all reserves and available premiums,
- amend the Articles of Association accordingly and,
- more generally, do all that is necessary to implement the present resolution.

This authorisation is given for a period of twenty-six months effective from the date of the present Meeting.

16th resolution
Amendment of the Articles of Association to enable meetings of the Board of Directors to be held by means of telecommunication facilities
The Annual General Meeting, having reviewed the Report of the Board of Directors, decides to amend Article 9 of the Articles of Association to enable meetings of the Board of Directors to be held using telecommunication facilities, in accordance with the provisions of the French Law on Trust and Modernisation of the Economy (*Loi pour la confiance et la modernisation de l'économie*) no.2005-842 of July 26th, 2005.

As a consequence, sub-paragraph 4 of paragraph 2 of Article 9 of the Articles of Association which currently reads as follows:

"In accordance with legal and statutory provisions and subject to the limitations stipulated by these provisions, directors participating in Board meetings by means of videoconference facilities are deemed to be present for the purpose of quorum and majority calculations"

shall be replaced by a new paragraph which reads as follows:

"In accordance with legal and statutory provisions and subject to the limitations stipulated by these provisions, directors participating in Board meetings by means of videoconference or telecommunication facilities are deemed to be present for the purpose of quorum and majority calculations."

17th 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.

Additional information

GENERAL INFORMATION RELATING TO THE COMPANY

Share capital

See information pages 70 to 73 of this Reference Document.

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.

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 (pages 46 to 49). It also has substantial holdings in non-consolidated companies (pages 49 and 50 and pages 113 to 115).

Date of incorporation and term of the company (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 feminine and 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.

Consultation of 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 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 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.

The right to take part in the Annual General Meetings is also governed by the Articles of Association (Article 12): "It 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."

Since the Annual General Meeting of April 29th, 2004, the double voting rights have been eliminated.

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, three-twentieths, one-fifth, one-quarter, one-third, one-half, two-thirds, eighteen-twentieths or nineteen-twentieths 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 five percent (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

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 American banks.

Share price

Price at December 31st, 2005	€62.8
High	€67.45 at September 16th, 2005
Low	€54.50 at January 24th, 2005
Annual rise at December 31st, 2005:	
- L'Oréal	+12.44%
- CAC 40	+23.1%
- Euronext 100	+23.2%
- DJ Stoxx 50	+20.7%
Market capitalisation at December 31st, 2005:	€41.37 billion
At December 31st, 2005, the L'Oréal share accounted for:	
- of the CAC 40	2.50%
- of the Euronext 100	2.35%
- of the DJ Stoxx 50	0.60%

L'ORÉAL SHARE MARKET

Primary market until the evening of Friday, February 18th, 2005.
Eurolist – compartment A (Large Caps) since the morning of Monday, February 21st, 2005.
Deferred Settlement Service of the Paris Bourse.

Trading volume and price of the company's shares

Date	Prices in euros			Average daily trading volume (€ millions)
	High	Low	Average	
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
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	Prices in euros			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
March	62.15	58.75	60.07	84.37
April	62.20	55.10	59.17	98.79
May	59.65	55.60	57.66	87.54
June	61.50	58.35	60.15	79.41
July	65.95	56.20	62.45	109.07
August	65.80	62.15	64.53	77.45
September	67.45	62.75	65.17	106.38
October	65.90	59.40	62.75	83.57
November	62.70	59.40	61.26	74.65
December	64.20	60.95	62.22	79.58
2006				
January	67.05	62.30	64.86	108.90
February	76.45	65.15	69.57	129.66

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 (excluding 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
12.31.1995	Purchase of 75 shares at €199.86 per share	14,989.50		75
06.28.1996	Dividend: €2.03 per share, excluding tax credit		152.07	75
	Reinvestment: purchase of 1 share at €260.54	260.54		76
07.01.1996	Bonus issue (1 for 10)			83
07.31.1996	Compensation for 6 voting rights at €22.86 per right		137.16	83
	Reinvestment: purchase of 1 share at €236.91	236.91		84
07.01.1997	Dividend: €2.13 per share, excluding tax credit		179.28	84
	Reinvestment: purchase of 1 share at €393.93	393.93		85
06.12.1998	Dividend: €2.44 per share, excluding tax credit		207.33	85
	Reinvestment: purchase of 1 share at €473.05	473.05		86
06.15.1999	Dividend: €2.82 per share, excluding tax credit		242.55	86
	Reinvestment: purchase of 1 share at €586.50	586.50		87
06.15.2000	Dividend: €3.40 per share, excluding tax credit		295.80	87
	Reinvestment: purchase of 1 share at €825.00	825.00		88
07.03.2000	Ten-for-one share split			880
06.08.2001	Dividend: €0.44 per share, excluding tax credit		387.20	880
	Reinvestment: purchase of 5 shares at €78.15	390.75		885
06.04.2002	Dividend: €0.54 per share, excluding tax credit		477.90	885
	Reinvestment: purchase of 7 shares at €74.95	524.65		892
05.27.2003	Dividend: €0.64 per share, excluding tax credit		570.88	892
	Reinvestment: purchase of 10 shares at €61.10	611.00		902
05.14.2004	Dividend: €0.73 per share, excluding tax credit		658.46	902
	Reinvestment: purchase of 11 shares at €63.65	700.15		913
05.11.2005	Dividend: €0.82 per share, excluding tax credit		748.66	913
	Reinvestment: purchase of 14 shares at €56.50	791.00		927
Total		**20,782.98**	**4,057.28**	
Total net investment		**16,725.70**		

Portfolio value at 31st December, 2005 (927 shares at €62.80 per share): €58,215.60.

The initial capital has thus been multiplied by 3.88 in 10 years (10-year inflation rate = 16.2% - Source: INSEE) and the final capital is 3.48 times the total net investment.

The Total Shareholder Return of the investment is thus 15.37% per year (assuming that the shares are sold on December 31st, 2005, 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.

BUYBACK OF ITS OWN SHARES BY THE COMPANY – DETAILED INFORMATION

All the information provided in this section updates and completes the information contained in the Management Report (under the heading "Buyback of its own shares by the company") in order, in particular, to comply with the regulations of Article 241-2 of the General Regulations of the *Autorité des Marchés Financiers* and to benefit from the exemption from the obligation to publish a description of the programme, in accordance with Article 241-3 of the same Regulations.

During 2005 and up to March 10th, 2006, the company bought back 23,082,000 of its own shares, for a total amount of €1,436.2 million, under two successive programmes:
• the first, decided on at the meeting of the Board of Directors on June 15th, 2004, and continued and completed during the first half of the year,
• the second, decided on at the meeting of the Board of Directors on June 29th, 2005, and still in progress at March 10th, 2006.

At March 10th, 2006, the company held 40,901,950 of its own shares, or 6.2% of the share capital, whose value on the basis of the purchase price was €2,801 million and whose book value was €2,648.5 million.

Furthermore, 2,667,850 shares previously acquired have been transferred to the beneficiaries of share purchase options having exercised them.

Authorisations by virtue of which the buybacks of shares by the company since January 1st, 2005 have been carried out

The buybacks were carried out on the basis of the authorisations whose characteristics are as follows:

Annual General Meeting	Expiry	Ceiling authorised	Purposes	Maximum purchase price per share
April 29th, 2004	April 26th, 2005	10% of the share capital (i.e. on the day of the AGM, 67,606,216 shares for an amount of €6,4 billion)	Market situation External growth Purchase options Share price regulation	€95
April 26 th, 2005	April 25th, 2006	10% of the share capital (i.e. on the day of the AGM, 67,606,216 shares for an amount of €6,4 billion)	Cancellation Purchase options Free grant Liquidity and increase in volume of transactions External growth	€95

Buyback programmes decided on by the Board of Directors

Continuation and completion of buyback programme decided on by the meeting of the Board of Directors on June 15th, 2004
At its meeting on June 15th, 2004, the Board of Directors decided, in application of the 10th resolution approved by the Annual General Meeting on April 29th, 2004, to buyback, in the following twelve months, L'Oréal shares for a maximum amount of €1 billion. This amount was raised to €1.25 billion at the meeting of the Board of Directors on February 16th, 2005. The buybacks continued from April 26th, 2005 onwards, in application of the 11th resolution of the Annual General Meeting held on the same day.

The shares purchased for the purpose of this programme are to be cancelled, except for those which may be allocated to stock option plans.

In this connection, the company bought back, during the first half of 2005, 9,500,000 of its own shares for an amount of €557.9 million.

Negotiation fees represented a total amount of €1,134,328.67.

The purchases were all made directly by the company, with no delegation to an investment service provider, and with no use of derivatives.

The Board of Directors at its meeting on April 26th, 2005 cancelled 4,960,000 of these shares, as well as the 12,340,000 acquired in 2004 in connection with the same programme. 1,800,000 of the 4,540,000 remaining shares have been allocated to a stock option plan by the Board of Directors at its meeting on November 30th, 2005.

Implementation of the buyback programme decided on by the Board of Directors at its meeting on June 29th, 2005

At its meeting on June 29th, 2005, and in application of the 11th resolution of the Annual General Meeting held on April 26th, 2005, the Board of Directors decided to launch a new buyback programme for an amount of €1.25 billion, to be carried out over the next 12 months.

The shares purchased for this purpose are to be cancelled.

Buybacks carried out in this connection up to March 10th, 2006 related to 13,582,000 shares, for an amount of €878.3 million.

Negotiation fees amounted to a total amount of €1,828,420.12.

The purchases were all made directly by the company, with no delegation to an investment service provider, and with no use of derivatives.

Details of purchases made since January 1st, 2005

In accordance with the requirements of Article L.225-209 of the French Commercial Code, a table is set out below indicating for each purposes, the number and price of shares thus purchased, the volume of shares used for these purposes, and any reallocations to other purposes to which they were subject:

	Shares purchased from January 1st, 2005 to March 10th, 2006				Use at March 10th, 2006 of shares purchased		
Month	Number	Average purchase price per share (€)	Purpose	Number used	New purpose	Number	Number not used
January 2005	1,450,000	57.18	Cancellation	1,450,000	N/A	0	0
			Purchase options	0			
February 2005	980,000	59.01	Cancellation	980,000	N/A	0	0
			Purchase options	0			
March 2005	2,310,000	59.98	Cancellation	2,310,000	N/A	0	0
			Purchase options	0			
April 2005	770,000	57.25	Cancellation	220,000	N/A	0	0
			Purchase options	550,000			
May 2005	2,190,000	57.49	Cancellation	0	N/A	0	940,000
			Purchase options	1,250,000			
June 2005	1,800,000	60.37	Cancellation	0	N/A	0	1,800,000
			Purchase options	0			
Total purchased in 2005 under			**Cancellation**	**4,960,000**	**N/A**	**0**	**2,740,000**
2004 AGM authorisation	**9,500,000**	**58.73**	**Purchase options**	**1,800,000**			
July 2005	1,380,000	63.93	Cancellation	0	N/A	0	1,380,000
August 2005	1,060,000	64.95	Cancellation	0	N/A	0	1,060,000
September 2005	3,000,000	65.21	Cancellation	0	N/A	0	3,000,000
October 2005	1,250,000	62.90	Cancellation	0	N/A	0	1,250,000
November 2005	1,785,000	61.29	Cancellation	0	N/A	0	1,785,000
December 2005	2,025,000	62.19	Cancellation	0	N/A	0	2,025,000
Total purchased in 2005 under 2005 AGM authorisation	**10,500,000**	**63.49**	**Cancellation**	**0**	**N/A**	**0**	**10,500,000**
			Cancellation	**4,960,000**	**N/A**	**0**	**13,240,000**
Total purchased in 2005	**20,000,000**	**61.23**	**Purchase options**	**1,800,000**			
January 2006	1,800,000	64.74	Cancellation	0	N/A	0	1,800,000
February 2006	750,000	73.97	Cancellation	0	N/A	0	750,000
March 2006 (up to March 10th incl.)	532,000	74.39	Cancellation	0	N/A	0	532,000
Total purchased in 2006 (up to March 10th incl.) under 2005 AGM authorisation	**3,082,000**	**68.65**	**Cancellation**	**0**	**N/A**	**0**	**3,082,000**
Total purchased from January 1st,			**Cancellation**	**4,960,000**	**N/A**	**0**	**16,322,000**
2005 to March 10th, 2006	**23,082,000**	**62.22**	**Purchase options**	**1,800,000**			

Renewal of authorisation given to the Board of Directors to trade on the Stock Exchange or otherwise in the company's shares

Characteristics of the new authorisation

The Board of Directors proposes to the Annual General Meeting of April 25th, 2006 that the authorisation given to the Board of Directors to trade in 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 maximum period of eighteen months from the date of the Annual General Meeting.

This authorisation would enable the company to buy its own shares for the following purposes:
• cancellation of the shares for purposes of optimising shareholders' equity and net earnings per share by capital reduction, in accordance with the authorisation granted by the Extraordinary General Meeting of May 22nd, 2003 for a period of five years,
• delivery of the shares to the beneficiaries of share purchase options granted by the Board of Directors, when the said options are exercised,
• free grant of shares, decided on by the Board of Directors,
• to increase the volume of transactions and ensure the liquidity of the share in connection with a liquidity contract concluded with an investment service provider,
• the holding of shares and their subsequent exchange as payment in connection with external growth operations,
• the implementation of any new market practice which may be allowed by the *Autorité des Marchés Financiers* and, more generally, the carrying out of any operation in accordance with the regulations in force.

The 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 at December 31st, 2005, that is 65,876,966 shares for a maximum amount of €6.3 billion, it being stipulated that the company may not at any time hold more than 10% of its own share capital.

Purchases whose carrying out is considered in connection with the new authorisation

The approval by the voting of the Annual General Meeting of April 25th, 2006 of the authorisation for the buyback by the company of its own shares will enable the Board of Directors to:
• continue up till June its policy of regularly purchasing shares of the company in order to cancel them, as decided on in June 2005, up to a maximum amount of €1.250 billion,
• the possible implementation of a new share buyback programme, which complies with the provisions of the authorisation granted by the Annual General Meeting.

RISK FACTORS

The group's Internal Control, which is based on reference texts, charters, standards, procedures and good practices, is aimed at creating and maintaining an organisation which enables the prevention and control of risks, particularly of an economic, financial and legal nature, to which the Company and its subsidiaries are exposed inside and outside France, even though no guarantee of a total absence of risk can ever be total.

Market risks

Market risks and their management are stated in the note 21 to the consolidated financial statements on pages 34 to 37 of this Document.

Legal risks

L'Oréal is the owner of the major intangible assets on behalf of the group's companies, to which it grants licences in exchange for the payment of royalties.

The group is not, moreover, in a position of significant technical or commercial dependency in relation to third parties.

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 cost is possible.

At the present time, there is no exceptional event nor any governmental, legal or arbitration procedure which could affect, or has recently affected, materially and with serious probability, 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 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 its 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 an internal and external SHE audit programme,
• 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 Safety, Health and Environment Department (SHE), and a decentralised network of designated experts.

The SHE Department:
• implements technical projects in the fields of SHE at an international level,
• manages the interventions of SHE experts and specialists at each organisational level and on each 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 group's strong commitment to its SHE programme encompasses all the group's sites worldwide: all the administrative offices, all the laboratories, all the factories and all warehousing centres. The L'Oréal group operates a total of approximatly 116 manufacturing and distribution sites, of which 4 are classified in the "High 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 (The global environment summit held in Rio de Janeiro —water, energy, emissions and waste— remains central in defining L'Oréal's environmental concerns). More than 100 parameters are monitored every month in all manufacturing and distribution sites. The monthly charts of safety, health and environmental protection performance include key performance indicators 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 (RIO) and Industrial Safety Risk (RIS) 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 are found. It is applied uniformly throughout the group, and is supported by dialogue between managers, thus contributing to a significant collective improvement in risk control.

• SHE Awards are presented to the winners of internal competitions intended to mobilise group employees 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 overall policy
The objective of the group's policy on insurance is to protect the group's assets from any identified risks. This risk transfer forms an integral part of the group's risk management process.

The policy is applied at two levels:
• at parent company 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 purchase insurance cover to meet their local regulatory obligations, and, if deemed necessary, to supplement the group's worldwide programmes for any residual risks.

The financial solvency of the insurers is an important criterion in the group's insurer selection process.

Each insurance programme subscribed by the group involves the participation of a pool of insurers. The majority of the main global insurance companies participate in one or more of these group programmes.

Integrated worldwide programmes

Third party liability
The group has established an integrated global programme covering all its 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 recall costs.

Claim activity under this programme has historically been very low, which reflects the high standards of quality and safety applied by the group in managing its operations and in designing and manufacturing its products.

The health and safety of consumers and employees is a constant priority at all levels of group operations.

Property damage and interruption of operations
The group has set up an integrated global programme to cover the property (fixed assets and inventories) of all its subsidiaries. This programme also covers operating losses directly resulting from a business interruption or/and insured property loss or damage. The level of insured limit has been selected to cover the maximum reasonably foreseeable loss, taking into account the existing degree of prevention and protection measures implemented at the group's manufacturing sites together with the business continuity plans.

As the capacity of the insurance market is limited for certain types of event, this programme includes certain sub-limits, particularly in the event of natural disasters.

This programme includes the provision, by the insurer's engineers, of loss prevention audits for the group's principle locations, and these audits form part of the group's general safety management system.

Transport
The group has set up a programme to cover the transportation of all its products All subsidiaries subscribe to this programme, which ensures optimum transport insurance for all flows of merchandise.

Self-insurance
Through its reinsurance subsidiary, the group carries risk retention levels that are not material at consolidated level, and are applicable in addition to local deductible amounts absorbed by the subsidiaries insured.

Local insurance

Customer risk
Subsidiaries are encouraged to purchase credit insurance, with assistance from headquarters, in addition to their own credit management procedures, provided that such cover is compatible with their level of commercial activity and is available in financially acceptable conditions.

Other insurance
The group's subsidiaries have taken out complementary local insurance to comply with local regulatory obligations, and also to supplement the cover provided by the group's global integrated programmes.

Other specific risks

There are no other identified risk 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, (see Volume 1, pages 36 and 37),
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 shares 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.

EMPLOYEE RETIREMENT OBLIGATION AND RELATED BENEFITS

All over the world, depending on the legislation and regulations in each country, L'Oréal adheres to pensions, early retirement and employees benefits schemes offering a variety of additional coverage for its employees.

Employee pension schemes in France

In France, L'Oréal has completed its retirement plan by creating on January 1st, 2001 a defined benefits scheme with conditional entitlements based on the end of the employee's career. Then, on September 1st, 2003, a defined contributions scheme with acquired entitlements was introduced.

Defined benefits scheme
In order to provide additional cover, if applicable, to compulsory pensions provided by the French Social Security's Old Age Retirement Pension (*Assurance Vieillesse de la Sécurité sociale*), ARRCO or AGIRC, L'Oréal introduced on January 1st, 2001, a defined benefits scheme with conditional entitlements, the Retirement Income Guarantee for former Senior Executives.

Prior to this, on December 31st, 2000, L'Oréal closed another defined benefits scheme, also with conditional entitlements, the Retirement Guarantee for Members of *Comité de Conjoncture*.
The access to the Retirement Income Guarantee for former Senior Executives, created on January 1st, 2001, is open to former L'Oréal Senior Executives who fulfil, in addition to having completed their career with the company, the condition of having been a Senior Manager in the sense of Article L.212-15-1 of the French Labour Code for at least ten years to the completion of their career. This scheme provides entitlement to payment to the beneficiary retiree of a Life Annuity, as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a Spouse Pension and, to the children, of an Orphan Pension, subject to the latter fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries of the best three years of the seven calendar years prior to the completion of his/her career at L'Oréal. The Guaranteed Income is calculated from the beneficiary's number of years' professional activity in the company at the date of completion of the career at L'Oréal, within a limit of 25 years. At this date, the gross Guaranteed Income may not exceed 50% of the calculation basis for the Guaranteed Income, nor exceed the average of the fixed part of the salaries of the three years used for the calculation basis. A gross annuity and gross Lump Sum Equivalent are then calculated taking into account the sum of the annual pensions acquired on the liquidation date by the retiree as a result of his/her professional activity and taking into account the beneficiary's age of 65 years. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date of the liquidation of the gross Lump Sum Equivalent, excluding advance notice and paid holiday, less the amount of all payments due as a result of the termination of the employment contract, including the Retirement Indemnity, and all wages paid for early retirement plan, if such a capital is the result of these operations. Around 400 Senior Managers are eligible for this scheme, subject to their fulfilling all the conditions after having completed their career with the company.

Access to the Retirement Guarantee for Members of *Comité de Conjoncture* is closed since December 31st, 2000.

This former scheme opens an entitlement to the beneficiary retiree, after having completed his/her career with the company, to a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a Spouse Pension and, to the children, of an Orphan Pension, subject to the latter fulfilling certain conditions. The calculation basis for the Retirement Guarantee is the average of the salaries of the best three years from the seven calendar years prior to the completion of his/her career at L'Oréal. The Retirement Guarantee is calculated as a function of the beneficiary's number of years' service, to a maximum of 40 years. The Retirement Guarantee may not exceed 40% of the calculation basis for the Retirement Guarantee, plus 0.5% per year for the first twenty years, then 1% per year for the following twenty years, nor exceed the average of the fixed part of the salaries of the three years used for the calculation basis. Around 120 Senior Managers are eligible for this scheme subject to, for those in active employment, their fulfilling all the conditions after having completed their career with the company.

Defined contribution scheme
Access to the Define Contribution scheme with acquired entitlements, created on September 1st, 2003, is open in France to all L'Oréal employees, with more than one year's service, and whose salary exceeds the French Social Security ceiling, without exceeding it by a factor of six.
In 2003, the year in which this scheme was created, the contribution was 0.5% by the employer. Since 2004, the employees and the company make, each year through to 2008, an increasing contribution to the scheme which will set out on January 1st, 2008 at 4% of the income broken down in equal shares between the employees and the company.
This scheme opens an entitlement to the payment to the beneficiary retiree, after liquidation his/her entitlement to a pension from the French Social Security's Old Age Spouse Pension scheme, of a Life Annuity as well as after his/her death, the payment to the spouse and/or ex-spouse(s) of a Spouse Pension. The Life Annuity is calculated as a function of the capital formed by the contributions made and their financial income at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated. Around 7,000 employees are eligible for this scheme.

Early retirement benefits

L'Oréal pays particular attention to the retirement conditions of its employees and the early retirement benefits made available to them.

Early retirement plan ("Congé de fin de carrière" – C.F.C.)
Employees who meet the conditions for full retirement benefits and who retire between the ages of 60 and 63 may benefit, if they wish so, from sabbatical leave, ranging from three months for 20 years' service to nine months for 30 years' service, this period being calculated up to the 63rd birthday. They remain salaried employees and maintain their income, subject to a ceiling, as well as the employee profit-sharing, incentives and paid holidays.

Balance
This arrangement, linked to the 35 hours working week agreement and the Time Savings Account (*Compte Epargne Temps* – C.E.T), enables an employee who has saved each year since 2001, at a constant rate, 3 days' leave per year under the C.E.T., to benefit from the early termination of their activity by 3 months (6 months for sales representatives), which can be cumulative with the C.F.C.

Retirement Indemnity
The rate for calculating Retirement Indemnity applied by L'Oréal is more favourable than that the one prescribed under the French National Chemical Industries Collective Agreement.
Thus, an employee may, when he/she retires, benefit from a Retirement Indemnity ranging from one month's salary for five years' service, to six months salary from 35 years' service, this being calculated up to the 65th birthday.

Retirement Indemnity converted into time
The employee may opt instead of the payment of a Retirement Indemnity for its conversion into time, in order to cumulate it with his/her early retirement plan.

These commitments are guaranteed by partial external financial cover of which the aim is to gradually establish funds built up by premiums paid to external organisations.
The net commitments of funds invested and the actuarial differences are booked as a provision in the liabilities of the consolidated balance sheet.
The assessment method adopted to calculate the retirement and early retirement benefits commitments is the actuarial valuation method based on the final salary.

Employees Benefits schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Art.4 and 4bis of the French National Collective Agreement of 1947 (1.5% of Part A of the income as defined by the French Social Security) and the guarantees accorded under the French National Chemical Industries Collective Agreement. L'Oréal has implemented, in France, under an agreement, an Employees Benefits scheme providing additional collective guarantees to its employees.
All the guarantees are based on the gross income up to eight times the Social Security ceiling, except for the education annuity which is limited to up to four times the ceiling. They are generally financed out of the Parts A, B and C of the income as defined by the French Social Security, except for the Education Annuity which is based on Parts A and B, and the Spouse Pension which is based on Parts B and C.

This Employees Benefits scheme guarantees in the event of:
• **temporary disability**, for all employees, 90% of their gross income limited to eight times the French Social Security ceiling, net of all deductions, after the first 90 days' off work,
• **definitive disability**, for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income but limited to eight times the French Social Security ceiling, net of all deductions,
• **death**:
- for all employees, the payment of a Lump Sum Death Benefit, mark-up functions of marital status. Its amount is doubled in the event of death by accident,
- for executives and similar categories, the payment of a Spouse Pension to the surviving spouse. This ensures the spouse has an income similar to the Spouse Pension that would have been paid by AGIRC if death had occurred at the age of 65,
- for executives, similar categories, and sales representatives, the payment of an Education Annuity to each dependent child, according to an age-based rate. For the other employees, this guarantee is optional in replacement of part of the Lump Sum Death Benefit. There is a ceiling applied to the total amount of the Lump Sum Equivalent for these guarantees.
The Lump Sum Equivalent to the Spouse Pension is the first to be applied; followed by the Education Annuity; the balance of the basic scheme is then used to establish the Lump Sum Death Benefit, possibly augmented by the minimum guaranteed Lump Sum Death Benefit.

Minimum guaranteed Lump Sum Death Benefit

Since December 1st, 2004, then January 1st, 2005 for sales representatives, L'Oréal has set in place an additional guaranteed Lump Sum Death Benefit that completes, if applicable, for all employees, the Lump Sum Death Benefit to the extent of three years' average income.
This guarantee is subject to a ceiling.
The total amount of the capital needed to found the Spouse and Education Pensions, the Lump Sum Death Benefit and the minimum guaranteed Lump Sum Death Benefit is also subject to a ceiling.

Health care expenses

Additional health care cover schemes are offered to the employees of L'Oréal parent company and its French subsidiaries.
These schemes are generally optional and personal, and generally financed equally by the company and the employees.
Employees have the option of including their family members in these schemes.
Retirees can generally continue to benefit from the health care expenses scheme, with a contribution by the company, subject to a membership duration clause.

Corporate officers appointed by the Board of Directors

It is the L'Oréal Board of Directors' constant policy to assimilate corporate officers, tied to the company under an employment contract, and appointed by it, to senior executives for all additional benefits relating to their salary. These corporate officers therefore covered by the same employee benefits as the L'Oréal senior executives, notably as regards pension and employees benefits schemes.

Pensions and Employees Benefits schemes outside France

In 2002, L'Oréal set up a supervisory committee for pensions and employees benefits schemes offered by its subsidiaries. This committee monitors the implementation and the following up of L'Oréal's pensions and employees benefits policy as defined by the L'Oréal Executive Committee. This policy expresses general principles in the following areas: definition and implementation of schemes, relations with employees, financing and cost schemes, and management scheme. Approval must first be obtained from the Supervisory Committee prior to the introduction of any new scheme or the modification of any existing scheme. The Supervisory Committee works in collaboration with the operational management of the Divisions and zones.

The characteristics of the pension schemes and early retirement benefits offered by the subsidiaries outside France vary as a function of the applicable law and regulations as well as the practices of the companies in each country.

In many countries, L'Oréal participates in establishing additional retirement benefits for its employees through a series of defined benefits schemes and/or defined contributions schemes (e.g. United States, Netherlands, Belgium, Canada, and Latin American countries). In some cases, the defined benefits schemes have been closed to new recruits who are offered defined contribution schemes (Germany and the United Kingdom). This series of defined benefits and defined contribution schemes give the possible to share the financial risk and ensure improved cost stability. In defined contribution schemes, the company's commitment mainly consists in paying each year into a pension scheme a percentage of the employee's annual salary.

The defined benefits schemes are financed by the payment to specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the main managers of the funds established, as well as the financial stability notation of the custodians, is regularly reviewed by the Supervisory Committee.

MAIN SHAREHOLDERS – OPERATIONS WITH RELATED PARTIES

The interests of Mrs Liliane Bettencourt and her family on the one hand, and of Nestlé on the other hand, in the share capital of L'Oréal, their change and the provisions of the agreement signed between these shareholders on February 3rd, 2004 are presented in the Management Report (cf. section "Shareholders' agreements relating to the company's share capital" p.72). The six directors appointed upon a proposal by the two main shareholders are subject to the same commitments as the company's other directors, notably with regard to compliance with social interests, as recalled in the Internal Rules of the Board of Directors.

The organisational and operational method adopted by the Board of Directors enables it, if applicable, to prevent any potential abusive use of control by a shareholder, notably by the presence of six independent members on the Board of Directors.

Further, the legal requirement of the "Regulated Agreements" makes provision for a triple control (prior authorisation by the Board of Directors, Statutory Auditors' Special Report [cf. page 146 of the present document], and approval by the General Meeting [cf. page 119, 5th Resolution submitted to the Meeting of Shareholders held on April 25th, 2006]), and refers not only to agreements reached between the company and one of its corporate officers, but also those agreed with one of its shareholders which holds more than 10% of the voting rights.

No regulated agreement was concluded or continued in 2005.
It is recalled that the information about "transactions between related parties" (p.38) is given in Note 26 of the Notes to the Consolidated financial statements.

INFORMATION POLICY

Ever since its first listing on the Paris Stock Exchange 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 financial 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 presentations of the L'Oréal group's financial results are broadcast live online on the financial website www.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,
• the presentation of the group to shareholders in several large provincial cities in France, in collaboration, this year, with the French Investment Club Federation *(Fédération Française des Clubs d'Investissement – FFCI)* and the Society of Investor Relation Managers in France *(Cercle de Liaison des Informateurs Financiers en France – CLIFF)*. Outside France, numerous meetings with institutional investors in the main international financial centres are organised throughout the year,
• the participation in the Actionaria Fair at the *Palais des Congrès* in Paris on November 18th and 19th, 2005, 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, revised annually to provide a more accurate presentation. The Annual Report, filed as a Reference Document 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 www.loreal-finance.com. Releases and financial announcements complete the list.

In 1997 L'Oréal created the specialised financial website www.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 www.loreal-finance.com, which presents the main information from the financial website for Personal Digital Assistant users. This year, electronic information has enabled L'Oréal to advise systematically and in real-time of the publication of financial information by adding the new function "RSS Flow" to its website.
Moreover, a freephone service has been available to L'Oréal shareholders calling from France or other countries, in French, English or German. The service provides practical information and enables shareholders to keep track of their L'Oréal share account; it also enables holders of registered shares to access a share trading service. (See also Volume 1, page 74.)

ANNUAL INFORMATION DOCUMENT

This Annual Information Document has been drawn up in application of Article 451-1-1 of the French Monetary and Financial Code and of Article 221-1-1 of the General Regulations of the AMF (*Autorité des Marchés Financiers*). This document sets out the information published or made public by L'Oréal from January 1st, 2005 to March 17th, 2006 to meet its legal and regulatory obligations.

Information available on the website www.loreal-finance.com and/or on the website of the AMF (www.amf-france.org)

Press releases

Dates	News releases
Weekly from January 3rd, 2005 to March 6th, 2006	Declaration of transactions relating to the company's own shares
January 26th, 2005	2004 sales
February 17th, 2005	2004 annual results
April 21st, 2005	1st quarter 2005 sales
April 26th, 2005	Annual General Meeting and Meeting of Board of Directors of April 26th, 2005
April 28th, 2005	Impact of transition to IFRS standards on L'Oréal's consolidated financial statements
May 18th, 2005	Acquisition of SkinCeuticals
June 29th, 2005	Share buyback
July 12th, 2005	1st half 2005 sales
August 30th, 2005	Acquisition of Delial
September 1st, 2005	New structure of profit and loss account – Segment information: profitability by division
September 2nd, 2005	1st half 2005 results
September 23rd, 2005	Opening of a research centre in Shanghai
October 24th, 2005	Sales at September 30th, 2005
January 13th, 2006	2005 sales
January 16th, 2006	Partnership with Diesel
February 16th, 2006	2005 annual results
February 23rd, 2006	L'Oréal – The Body Shop
February 28th, 2006	Episkin, a subsidiary of L'Oréal, acquires SkinEthic
March 16th, 2006	Proposal of 2005 dividend
March 17th, 2006	Cash offer for The Body Shop International PLC

Operation

Date	Type of operation
March 15th, 2005	Buyback programme 05-0154 (visa AMF)

Reference Document

Date	Type of document
April 7th, 2005	2004 Reference Document D.05-0361 (AMF registration)

"Bulletin des Annonces Légales et Obligatoires": information available on the website of the "Journal Officiel" (www.journal.officiel.gouv.fr)

Date	Issue no.	Publication
February 16th, 2005	20, p.1464	2004 sales
March 14th, 2005	31, p.2763	Notice of meeting
April 8th, 2005	42, p.5399	Notice to attend Annual General Meeting of Shareholders
April 8th, 2005	42, p.5603	Consolidated financial statements and parent company financial statements at December 31st, 2004
May 4th, 2005	53, p.12256	Voting rights
May 9th, 2005	55, p.13021	1st quarter 2005 sales
August 5th, 2005	93, p.21603	Sales at end-June 2005
August 26th, 2005	102, p.22292	Approval of financial statements closed at December 31st, 2004
September 23rd, 2005	114, p.23333	Half-year report
November 4th, 2005	132, p.27780	Sales at September 30th, 2005
February 3rd, 2006	15	2005 sales

Publications in legal announcement journals

Legal announcement journal	Publication date	Information
Les Petites Affiches	March 9th, 2006, no.49	Capital increase
Les Petites Affiches	May 25th, 2005, no.103	Non-renewal of tenure of a director, resignation of a director and appointment of directors
Les Petites Affiches	May 20th, 2005, no.100	Capital reduction
Gazette du Palais	April 8th-9th, 2005, no.98-99 p. 53	Notice to attend

Information registered with the Registry Office of the "Tribunal de Paris" (www.infogreffe.fr)

Date of registration	Type of document
03.13.2006, reg. no.24981	Capital increase (extract from minutes of Meeting of Board of Directors of 02.15.2006)
03.13.2006, reg. no.24981	Updated Articles of Association at 02.15.2006
05.26.2005, reg. no.31989	Appointment of directors (extract from minutes of Annual General Meeting of 04.26.2005) and capital reduction (extract from minutes of Meeting of Board of Directors of 04.26.2005)
05.26.2005, reg. no.31989	Updated Articles of Association at 04.26.2005
05.26.2005, reg. no.31989	Resignation of a director (extract from minutes of Meeting of Board of Directors of 02.16.2005)
05.02.2005, reg. no.26050	2004 annual financial statements

Declarations of operations on shares by senior managers (www.amf-france.org)

Date	Declarer
December 22nd, 2005	Sir Lindsay Owen-Jones
February 21st, 2006	Groupe Marc de Lacharrière
February 21st, 2006	Groupe Marc de Lacharrière

RECENT EVENTS AND OUTLOOK

Release of January 13th, 2006

2005 sales.

14.5 billion euros, up by +6.5%.

Sharp increase in 4th quarter sales: +12.2%.

Growing sales in Western Europe.

Strong level of activity continues in North America and in new markets.

2005 results targets confirmed.

The sales of the L'Oréal group, at December 31st, 2005, amounted to €14.53 billion.
Sales grew by +12.2% in the fourth quarter, giving a full-year sales growth rate of +6.5%.

Currency fluctuations had a positive impact of +6.1% in the fourth quarter; their total impact up to December 31st was +1.5%. Excluding currency fluctuations, the sales growth rate was +5% for the full year and +6.1% in the fourth quarter.
The net impact of changes in consolidation amounted to +0.2%, mainly as a result of the acquisition of SkinCeuticals in June 2005.

Like-for-like, i.e. based on a comparable structure and identical exchange rates, growth in the group's sales amounted to +5.7% in the fourth quarter, giving a growth rate of +4.8% at December 31st, 2005.

Commenting on the figures, Sir Lindsay Owen-Jones, Chairman and Chief Executive Officer of L'Oréal, said: "*As we had hoped, the fourth quarter saw an acceleration of our sales growth. Western Europe returned to growth and shows a positive result for the full year. North America and the other regions of the world continued to advance at a rapid pace. Furthermore, the strengthening of the main currencies against the euro led to a positive exchange rate effect in the fourth quarter. In view of these figures, we can confirm our targets for full-year 2005 results.*"

Cosmetics sales growth by operational division and geographic zone

		At December 31st, 2005(1) Growth		4th quarer 2005(1) Growth	
	€ millions	Like-for-like	Reported	Like-for-like	Reported
By operational division					
Professional Products	2,061	+6.1%	+7.3%	+8.5%	+14.6%
Consumer Products	7,499	+4.6%	+6.4%	+4.5%	+11.2%
Luxury Products	3,582	+2.7%	+3.9%	+5.2%	+10.6%
Active Cosmetics	986	+13.5%	+17.2%	+15.3%	+25.3%
Cosmetics total	**14,215**	**+4.8%**	**+6.5%**	**+5.6%**	**+12.1%**
By geographic zone					
Western Europe	6,742	+0.1%	+0.1%	+2.5%	+2.7%
North America	3,868	+6.4%	+8.3%	+5.5%	+18.2%
Rest of the world	3,605	+12.6%	+18.4%	+11.6%	+24.2%
Of which : Asia	1,375	+7.4%	+10.6%	+5.1%	+14.4%
Latin America	861	+11.3%	+23.5%	+11.4%	+36.3%
Eastern Europe	682	+28.5%	+34.3%	+28.7%	+36.2%
Other countries	687	+11.5%	+15.0%	+9.9%	+18.5%
Cosmetics total	**14,215**	**+4.8%**	**+6.5%**	**+5.6%**	**+12.1%**
Dermatology(2)	318	+6.3%	+8.3%	+8.8%	+16.9%
Group total	**14,533**	**+4.8%**	**+6.5%**	**+5.7%**	**+12.2%**

(Provisional, unaudited figures).
(1) All figures are based on IFRS standards.
(2) Group share, i.e. 50%.

Release of January 16th, 2006

L'Oréal – Luxury Products Division – signs a partnership agreement with Diesel —worldwide youth cult brand— for launch of new fragrance line

L'Oréal, Luxury Products Division has just signed a licence agreement with Diesel, the cult brand founded in 1978 and developed by its charismatic president Renzo Rosso. The contract covers the creation of a line of fragrances.

This partnership will build on the synergy between the expertise of L'Oréal, the world's leading cosmetics group and number one company in luxury fragrances, and the creative strength of Diesel, whose over 25 years of original and innovative style has created a group worth one billion euro.

Diesel is a cult brand among 18-35 year-olds all over the world. Taking a highly original approach to jeans and high-end casualwear, Renzo Rosso, its founder, has invented something more than simple fashion: he has given birth to a unique lifestyle that is illustrated in an emblematic way through its ground-breaking advertising campaigns and unconventional marketing techniques.

Diesel, an unlisted company based in Molvena (Italy), is present in 80 countries, through 5,000 sales outlets, over 300 of them directly owned. Its flagship stores, the first of which opened in New York in 1996 followed by all the major capitals, are always located in prime position trendy shopping districts, making Diesel products essential accessories of today's luxury wardrobe.

L'Oréal is world leader in selective fragrances, with a portfolio of brands that complement one another in terms of targets, positioning and geographic locations: LANCÔME, the world's leading beauty product brand, is in eighth place in fragrances.

And within Prestige & Collections International, GIORGIO ARMANI has increased its turnover five-fold in 10 years and is now the third most important world brand in luxury fragrances and number one in fragrances for men. RALPH LAUREN is in second place in the United States and in the top 10 worldwide. CACHAREL, with its neo-romantic style, is among the top 10 brands for women. VIKTOR & ROLF, a trendsetting and daring designer brand, with whom L'Oréal signed a licence agreement in 2002, has quickly made a name for itself with the launch of its Flower Bomb for women, and is in the top 5 with its worldwide exclusive distribution. Diesel will join the Prestige & Collections International Department.

"With Diesel we are underlining our interest in high added creative value brands; we have been won over by the brand's creators, by their bold, not to say cheeky, approach which has made Diesel a sexy and ground-breaking casual-chic brand. We will provide Diesel with all our expertise in order to continue to expand the fragrance market. The first fragrance, due out in 2007, will come as a welcome surprise to a young public looking for unconventional products."

Patricia Turck Paquelier,
International Brand President of Prestige &
Collections International, within L'Oréal's Luxury Division.

"The agreement with Diesel fits our strategic aim of consolidating our position as world leader in fragrances, and perfectly complements our existing brand portfolio. The Diesel brand, with its appeal to young people worldwide, represents a tremendous opportunity for growth for LOréal's Luxury Products Division and brings in a new alternative to classical luxury brands."

Marc Menesguen,
President of the Luxury Products Division,
of L'Oréal.

"For over 25 years we have worked to develop a unique lifestyle icon that is called Diesel, a brand that stands for creativity, innovation and quality.

Today Diesel is the finest representation of premium casualwear and accessory lines. After some very successful licensing partnerships for our shades and for our jewellery and watches, we were looking only for the best for a special category such as fragrances, not only as far as business and product know-how is concerned, but also as far as the 'human relationship' goes. This latter is a key ingredient of all our ventures as our ideal partner is always someone who can understand and translate the Diesel spirit and attitude in the best product. And the L'Oréal people just proved to be our perfect match."

Renzo Rosso,
President and Founder of Diesel.

Release of February 16th, 2006

Sales: +6.5%

Further improvement in operating profitability

Net profit[1]: +37%

Net profit excluding non-recurrent items: +10.3%

Net earnings per share[2]: +13,5%

The Board of Directors of L'Oréal met on Wednesday, February 15th, 2006 under the chairmanship of Sir Lindsay Owen-Jones and in the presence of the Statutory Auditors. The Board closed the group's consolidated financial statements and the financial statements of the L'Oréal parent company for 2005.

At the end of December 2005, sales amounted to €14.53 billion, up by +6.5%, reflecting like-for-like growth of +4.8%.
Operating profit before foreign exchange gains and losses amounted to €2,313 million, up by +12.7%. This result reflects a strong improvement in operating profitability before exchange gains and losses at 15.9% compared to 15.0% in 2004.
There was a clear improvement in all operating items.
After exchange losses of €47 million, operating profit at €2,266 million grew by +8.5%, representing 15.6% of sales.
Net profit after minority interests, excluding non-recurrent items, amounted to €1,639 million, representing double-digit growth of +10.3%. Net earnings per share amounted to €2.60 up by +13.5%.
Net profit after minority interests at €1,972 million increased sharply by +37% compared with pro forma results for 2004[1].

Commenting on the results, Sir Lindsay Owen-Jones, Chairman and Chief Executive Officer of L'Oréal, said: *"In 2005, L'Oréal's growth once again clearly outperformed the world market, thanks to the powerful appeal of its brands and the success of its new high-value-added products. Growth was driven by good performance in North America and new breakthroughs in emerging markets, while the rates of increase were more modest in Western Europe. Growth in sales combined with strict cost control has enabled us once again to improve profitability and achieve double-digit earnings growth. We are confident about the outlook for 2006 in view of the faster growth in Western Europe at the end of last year and the strong international momentum."*

1) For the purposes of comparison, the pro forma profit and loss statement has been adjusted to take into account the deconsolidation of Sanofi-Synthélabo on January 1st, 2004:
- by replacing the share in the net profit of Sanofi-Synthélabo, i.e. €293.5 million, with the dividends received, i.e. €145.9 million;
- and by neutralising the dilution capital gain, net of tax, relating to these shares, i.e. €2,854.5 million gross and €471.1 million tax.
(2) Net earnings per share: diluted net earnings per share based on the net profit excluding non-recurrent items after minority interests.

Key annual indicators

€ millions	12.31.2004 IFRS	12.31.2004 IFRS Pro forma [1]	12.31.2005 IFRS	% growth over Pro forma 2004
Sales	13,641	13,641	14,533	+6.5
Operating profit before foreign exchange gains and losses	2,053	2,053	2,313	+12.7
Operating profit	2,089	2,089	2,266	+8.5
Pre-tax profit excluding non-recurrent items	2,334 [1]	2,187	2,370	+8.4
Net profit after minority interests	3,970 [1]	1,439	1,972	+37
Net profit excluding non-recurrent items[2]		1,486	1,639	+10.3
Net earnings per share[3] (in euros)		**2.29**	**2.60**	**+13.5**

(1) For the purposes of comparison, the pro forma profit and loss statement has been adjusted to take into account the deconsolidation of Sanofi-Synthélabo on January 1st, 2004:
- by replacing the share in the net profit of Sanofi-Synthélabo, i.e. €293.5 million, with the dividends received, i.e. €145.9 million;
- and by neutralising the dilution capital gain, net of tax, relating to these shares, i.e. €2,854.5 million gross and €471.1 million tax.
(2) Net profit excluding non-recurrent items after minority interests does not include capital gains and losses on disposals of long-term assets, impairment of assets, restructuring costs, associated tax effects or minority interests.
(3) Net earnings per share: diluted net earnings per share based on the net profit excluding non-recurrent items after minority interests.

Growth in cosmetics sales by operational division and geographic zone

At 12.31.2005[1]	€ millions	Growth Like-for-like	Growth Reported
By operational division			
Professional Products	2,061	+6.1%	+7.3%
Consumer Products	7,499	+4.6%	+6.4%
Luxury Products	3,582	+2.7%	+3.9%
Active Cosmetics	986	+13.5%	+17.2%
Cosmetics total	**14,215**	**+4.8%**	**+6.5%**
By geographic zone			
Western Europe	6,742	+0.1%	+0.1%
North America	3,868	+6.4%	+8.3%
Rest of the World	3,605	+12.6%	+18.4%
Including: Asia	1,375	+7.4%	+10.6%
Latin America	861	+11.3%	+23.5%
Eastern Europe	682	+28.5%	+34.3%
Other Countries	687	+11.5%	+15.0%
Cosmetics total	**14,215**	**+4.8%**	**+6.5%**
Dermatology[2]	318	+6.3%	+8.3%
Group total	**14,533**	**+4.8%**	**+6.5%**

(1) All figures are expressed in accordance with IFRS.
(2) Group share, i.e. 50%.

Sales of cosmetics divisions

With sales up by +8.5% in the fourth quarter, the **Professional Products Division** ended the year with like-for-like growth of +6.1%. The launch of the Kérastase Réflection range was a global success and the new VolumActive range got off to a very promising start. L'Oréal Professionnel continued to grow with the new Majirel hair colourant and Platinium lightening paste. Redken successfully relaunched its range of hair styling products. Matrix launched Color Smart, updated its Biolage range and strengthened its global presence.

Consumer Products Division sales grew by +4.6% like-for-like and +6.4% based on reported figures.
The Garnier brand achieved strong growth, buoyed by the success of its Ultra-Lift skincare range and Nutrisse hair colourants, along with the ongoing appeal of Fructis haircare products. The solid growth of L'Oréal Paris continued with the launch of Revitalift Double Lifting skincare products, Elsève Nutri-Gloss haircare products and Volume Shocking mascara, together with the success of the Men Expert range. Maybelline make-up achieved strong growth with Dream Matte Mousse foundation and Moisture Extreme lipstick.

The **Luxury Products Division** achieved like-for-like sales growth of +2.7%, reflecting a very significant upturn of +5.2% in the last quarter. Lancôme is making progress in skincare and make-up with the success of Platinéum skincare and l'Extrême mascara. Hypnôse perfume proved extremely successful, and was a bestseller in all European markets at the end of the year.

The Armani brand achieved very strong growth and consolidated its position as the world leader in fragrances for men thanks to the continuing success of Armani Code and the good scores of Emporio City Glam. Lastly, Promesse by Cacharel, Polo Black by Ralph Lauren and Flowerbomb by Viktor & Rolf all achieved impressive performance in the fourth quarter of 2005.

Active Cosmetics, number one in the market for dermocosmetic skincare products sold in pharmacies, once again produced strong like-for-like growth, up by +13.5%.
This stems from the success of launches and relaunches such as LiftActiv Pro anti-wrinkle firmness skincare products from Vichy and Aminexil SP94 hair loss treatment. La Roche-Posay meanwhile benefited from the successful launch of Redermic, its first anti-ageing product, released in late 2005, while making an impressive breakthrough into markets for sun protection and facial blemish skincare products.
Innéov maintained its strong sales growth.

Western Europe returns to growth

Professional Products made significant gains in the fourth quarter to end 2005 on a high note by strengthening its positions, particularly in haircare and hair colourants, with the success of Richesse colourants and Redken sprays.
The second-half growth of the Consumer Products Division confirmed the success of its launches. New high value added products brought gains in market share, particularly in the fourth quarter, in skincare with Revitalift Double Lifting, in haircare with Elsève Nutri-Gloss, and in make-up.
Sales of Luxury Products were bolstered in the fourth quarter by resounding successes for newly launched products such as Platinéum skincare by Lancôme and the perfumes Hypnôse from Lancôme and Polo Black by Ralph Lauren.
The Active Cosmetics sales trends are favourable, driven in particular by the successful relaunch of LiftActiv Pro by Vichy.

Strong sales trends continue in North America

Like-for-like sales in North America grew by +6.4%.
There was strong growth in Consumer Products as Fructis by Garnier continued to expand its share of the shampoo and styling market while Nutrisse increased its hair colourant market share. Make-up sales meanwhile were bolstered by successful product initiatives such as Infaillible foundation and Volume Shocking mascara by L'Oréal Paris, and Moisture Extrême lipstick by Maybelline.

The Professional Products Division was boosted by the success of Color Smart and Biolage by Matrix, and the breakthrough of Redken in the hair colourant market. Its performance was backed up by the very rapid growth of Kérastase with extremely high quality products.

Although growth was held back by the announcement of a merger between the two leading department store operators, the Luxury Products Division scored spectacular successes with its launches: Rénergie Microlift skincare products and L'Extrême mascara by Lancôme, and the men's fragrances Armani Code and Polo Black by Ralph Lauren.

Lastly, Active Cosmetics continued to progress, driven by the strong growth of SkinCeuticals, the acquisition of which was concluded in June 2005.

Strong growth in the other regions of the world

The **Asia** zone achieved like-for-like growth of +7.4%, bolstered by Greater China and Indonesia. South Korea was held back throughout the year by the crisis in specialised distribution.
In Consumer Products, Watershine and Unstoppable mascara galvanised Maybelline sales both in China and Japan. The success of White Perfect enabled L'Oréal Paris to increase its share of the skincare market.
Professional Products made gains in Japan through hair colourant and haircare initiatives by L'Oréal Professionnel and Kérastase. Matrix products are now being rolled out in Greater China and the Philippines.
In Luxury Products, Biotherm achieved strong growth thanks to Line Peel, particularly in Japan, and scored a real coup by creating the men's skincare market in China.
Shu Uemura is innovating with an extensive roll-out of its Tokyo Lash Bar concept. Active Cosmetics continued its rapid growth, by moving into new geographic areas and introducing strong product initiatives such as LiftActive Pro by Vichy and Méla D by La Roche-Posay.

Sales in **Latin America** continued to make impressive progress, with like-for-like growth of +11.3%.
Professional Products made rapid advances, up by +17%, notably due to the success of the Réflection range by Kérastase and the growth of Redken. Brazil, Venezuela and Argentina achieved the most outstanding growth scores.
Consumer Products benefited from the renewal of the Excellence hair colourant range, which has backed up the remarkable success of Nutrisse colourant in all countries in the zone. Maybelline achieved rapid growth in Mexico and Argentina.
In addition to the success of men's fragrances Armani Code and Cool by Ralph Lauren, the Luxury Products Division was buoyed by the strong growth of Biotherm, which strengthened its leading position in the men's segment of the selective retail channel.

Lastly, Active Cosmetics continued to develop through strong growth in Brazil, Mexico, Argentina and Chile, driven by successful products such as Anthélios by La Roche-Posay, which now leads the market for sun protection in Brazil.

In 2005, **Eastern Europe** once again confirmed its very strong sales momentum, up by +28.5% like-for-like.
A number of brands contributed to this success: Matrix products have been rapidly rolled out in hair salons in Poland and the Russian Federation, while the Vichy and La Roche-Posay brands are continuing to expand in pharmacies in the same countries.
The success of Consumer Products draws on the solid progress of facial skincare and bodycare products by Garnier, along with

strong growth in Elsève shampoos and the Dermo-Expertise range by L'ORÉAL PARIS. Lastly, the recent, highly promising Hydra Extrême initiative by MAYBELLINE helped consolidate the already strong positions of the brand. At the start of 2005, our Russian subsidiary took over management of our major Luxury brands in the country. The zone also continued to expand geographically, with the opening of subsidiaries in Serbia and Ukraine.

The growth rate in the **Rest of the World** was once again very high, at +11.5% like-for-like. India continued to reflect this strong sales growth trend, up by +46%, largely due to the outstanding success of Garnier Light facial skincare products, Color Natural hair colourants and Fructis shampoos by the same brand.

Results

Further increase in operating profitability at 15.6% of sales

Consolidated profit and loss account

€ millions	12.31.2004 Pro forma	As % of sales	12.31.2005	As % of sales	Growth in %
Sales	**13,641.3**	**100**	**14,532.5**	**100**	**+6.5**
Cost of sales	–4,101.1	30.1	–4,347.3	29.9	+6.0
Gross profit	**9,540.2**	**69.9**	**10,185.2**	**70.1**	**+6.8**
Research & development expenses	–466.5	3.4	–496.2	3.4	+6.4
Advertising & promotion expenses	–4,176.9	30.6	–4,367.2	30.1	+4.6
Selling, general & administrative expenses	–2,844.3	20.9	–3,009.2	20.7	+5.8
Operating profit before foreign exchange gains and losses	2,052.5	15.0	2,312.6	15.9	+12.7
Foreign exchange gains and losses	36.5	0.3	–46.6	0.3	–
Operating profit	**2,088.9**	**15.3**	**2,266.0**	**15.6**	**+8.5**

Gross profit amounted to €10,185 million, up by +6.8%, representing 70.1% of sales, compared with 69.9% in 2004. This improvement stems in particular from the continuation of our industrial optimisation programmes and the strengthening of our purchasing organisation.
R&D expenses increased by +6.4% to €496 million, representing 3.4% of sales, exactly the same level as in 2004.
Advertising and promotion expenses amounted to €4,367 million, representing 30.1% of sales. They were in fact slightly lower in 2005, partly because of better management of our promotional expenses, and partly because more favourable conditions were obtained.
Sales, general and administrative expenses amounted to €3,009 million, representing 20.7% of sales; this is a clear improvement over 2004, when they accounted for 20.9% of annual sales. This improvement reflects the group's constant efforts to streamline organisation and control costs.
Operating profit before foreign exchange gains and losses amounted to €2,313 million, that is 15.9% of sales, compared with 15.0% in 2004, reflecting another increase in 2005.
Fluctuations in the main currencies against the euro led to the recording of a foreign exchange loss of €46.6 million, compared with a gain of €36.5 million recorded in 2004.
After foreign exchange gains and losses, operating profit amounted to €2,266 million, that is 15.6% of sales, compared with 15.3% in 2004.

Operating profit by branch and division: growth in profitability across all the Cosmetics Divisions

	2004 IFRS Pro forma	2005 IFRS
By operational division		
Professional Products	19.0%	19.7%
Consumer Products	16.8%	17.2%
Luxury Products	20.1%	20.2%
Active Cosmetics	18.6%	19.0%
Cosmetics Divisions total	**18.0%**	**18.4%**
Non allocated[1]	–2.8%	–2.8%
Cosmetics Branch	**15.3%**	**15.6%**
Dermatology Branch	**17.3%**	**16.9%**
Group	**15.3%**	**15.6%**

(1) The "Non allocated" heading groups together central expenses, fundamental research expenses, stock option expenses and miscellaneous items.
It is expressed as a % of total sales.

Net profit excluding non-recurrent items: +10.3%

Net financial expense amounted to €67.1 million. The share of dividends received from Sanofi-Aventis for 2004 was €171.6 million, up by +17.6%.
Pre-tax profit excluding non-recurrent items amounted to €2,370 million, up by +8.4%.
Tax on profit excluding non-recurrent items amounted to €730.5 million, up by +4.7%.
Net profit excluding non-recurrent items stood at €1,639 million, up by +10.3%.

Net profit after minority interests: +37%

Net profit after allowing for non-recurrent items amounted to €1,972 million, up by +37% compared with the 2004 pro forma figure. This strong increase was mainly due to the restatement of deferred tax assets as a result of maintaining the position in Sanofi-Aventis.

Growth in cash flow and a healthy balance sheet
Cash flow amounted to €2,130 million at December 31st, 2005, up by +10.7%.Thanks to the strict control of the working capital requirement and stable investments, the operational cash flow is up by +22.4%.
Net group debt was €2,217 million at December 31st, 2005, representing 15.1% of shareholders' equity.

Dividends
The next meeting of the Board of Directors will decide on the dividend amount to be proposed at the Annual General Meeting on April 25th, 2006.

Release of February 23rd, 2006

In accordance with the laws and regulations of the British Stock Exchange, L'Oréal publishes the following release:
L'Oréal notes the recent movement in Body Shop International Plc's ("Body Shop") share price. L'Oréal's management is continually evaluating a wide range of strategic alternatives that may add value to its shareholders including a possible offer for Body Shop. However, no decision has been made regarding any offer, L'Oréal Board has not been consulted and no approach has been made to Body Shop.

Release of February 28th, 2006

Alternative approaches to safety evaluation:
"a top priority for L'Oréal" Episkin, subsidiary of L'Oréal, acquires SkinEthic, leader in tissue engineering
Acquisition of SkinEthic places L'Oréal in the front line of technologies dedicated to research and safety evaluation.

L'Oréal has today underlined its commitment to the further development of alternative methods for safety evaluation with the announcement that Episkin, a subsidiary of the group that is dedicated to the development of reconstructed skin, has acquired SkinEthic. SkinEthic, based in Nice, France, is expert in the field of tissue engineering, and its know-how will complement and widen the expertise that already exists within L'Oréal.

SkinEthic is an important worldwide player in the production and commercialisation of human epidermal and epithelial tissues (including epidermis, dermis, corneal, oral, gingival, oesophageal epithelium, alveolar and vaginal mucosa) for *in vitro* test applications across many industries.

L'Oréal's ultimate goal is to develop a range of approaches and standardised *in vitro* methods that can be used to test ingredient safety and shared across a number of industry sectors; with the aim of accelerating the elimination of animal testing. The complimentary nature of Episkin and SkinEthic allows L'Oréal to further advance its commitment to the development of alternative methods for the safety assessment of product ingredients.

Commenting on the acquisition, Jean-François Grollier, Vice-President of Research and Development at L'Oréal said "*Providing cutting-edge teams, such as these, with the opportunity to work at the crossroads of science and industry, demonstrates our support for sustainable innovation. The acquisition of SkinEthic allows us to respond to the needs of the entire industry and more specially in the area of alternative approaches to animal testing – a top priority for L'Oréal.*"

"*The acquisition provides SkinEthic with a new approach to the market and brings with it the research capability that will benefit all present and future customers*", added Doctor Martin Rosdy, founder of SkinEthic.

L'Oréal supports the objective of the elimination of laboratory animal testing and is working on various alternative methods that must be validated by competent scientific authorities.

L'Oréal has been committed to the development of alternative approaches for more than twenty years and has already contributed to successful scientific validations together with ECVAM (European Centre for Validation of Alternative Methods). The company has not carried out or commissioned tests of products on animals since 1989.

Release of March 16th, 2006

Annual Shareholders' Meeting
2005 dividend: €1, up +22%
Renewal of the tenure of directors
Mr Jean-Paul Agon proposed as director
The L'Oréal Board of Directors, under the chairmanship of Sir Lindsay Owen-Jones, met on Thursday March 16th, 2006 to decide on the resolutions to be submitted to the Ordinary and Extraordinary Annual General Meeting of April 25th, 2006.

The Board of Directors will propose a dividend for 2005 of €1 per share, up +22%. The payment date will be May 10th, 2006.

The Annual Shareholders' Meeting will decide on the renewal of the tenure of Sir Lindsay Owen-Jones, in addition to Mr Francisco Castañer Basco, Mr Xavier Fontanet, Mr Marc Ladreit de Lacharrière and Mr Franck Riboud as directors.
The Board will propose the appointment of Mr Jean-Paul Agon as director.

Mr Jean-Louis Dumas has decided not to request the renewal of his tenure as director. The Board expressed its gratitude for his involvement in the work of the Board and for the quality of his contribution.

The information and notices to attend the Shareholders' Meeting, as well as the other documents required for this Meeting, will be published or sent to shareholders shortly.

Release of March 17th, 2006

L'Oréal to make a recommended cash offer for The Body Shop International Plc.
Due to the legal and regulatory obligations, the content of this release is only available on the financial website of L'Oreal www.loreal-finance.com.

AUDITORS

2003	Date first appointed	Term of office	Expiry of term
Auditors			
Mr Pierre Coll 34 place des Corolles – Tour AIG 92908 Paris-la-Défense 2 – France	October 7th, 1998	6 years	
Mr Etienne Jacquemin 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine – France	May 29th, 2001	3 years	AGM reviewing
Substitutes			financial statements for 2003
Mr Etienne Boris 32 rue Guersant 75017 Paris – France	June 1st, 1999	5 years	held in 2004
Mr Jean-Paul Picard 47 rue de Courcelles 75008 Paris – France	May 29th, 2001	3 years	

2004 and 2005	Date first appointed	Term of office	Expiry of term
Auditors			
PricewaterhouseCoopers Audit 63 rue de Villiers 92200 Neuilly-sur-Seine – France	April 29th, 2004	6 years	
Deloitte & Associés 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine – France	April 29th, 2004	6 years	AGM reviewing
Substitutes			financial statements for 2009 to be
Mr Yves Nicolas 63 rue de Villiers 92220 Neuilly-sur-Seine – France	April 29th, 2004	6 years	held in 2010
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		In %		Amount		In %		Amount		In %	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Auditing	5,882	5,380	88.0	83.3	4,175	3,599	80.6	67.7	138	254	7.8	13.6
Other associated assignments	441	306	6.6	4.7	660	663	12.7	12.4	–	–	–	–
Subtotal	**6,323**	**5,686**	**94.6**	**88.0**	**4,835**	**4,262**	**93.3**	**80.1**	**138**	**254**	**7.8**	**13.6**
Other services[1] (legal/fiscal/social)	360	775	5.4	12.0	345	1,056	6.7	19.9	1,620	1,603	92.2	86.4
Total	**6,683**	**6,461**	**100**	**100**	**5,180**	**5,318**	**100**	**100**	**1,758**	**1,856**	**100**	**100**

(1) Mainly provided outside France.

HISTORICAL FINANCIAL INFORMATION INCLUDED IN REFERENCE

In accordance with Article 28 of European Regulation CE no.809-2004 of April 29th, 2004, this Reference Document contains the following information:

- the consolidated financial statements for the year ended December 31st, 2004, prepared in accordance with the French Accounting Standards and the related Statutory Auditors' Report presented on pages 3 to 34 of Volume 2 of the 2004 Reference Document filed with the *Autorité des Marches Financiers* on April 7th, 2005 on the number D 05-0361, and also information extracted from the 2004 Management Report and presented on pages 4 to 7 of Volume 3 of the same Reference Document,
- the consolidated financial statements for the year ended December 31st, 2003, prepared in accordance with the French Accounting Standards and the related Statutory Auditors' Report of the 2003 Reference Document filed with the *Autorité des Marchés Financiers* on March 25th, 2004 on the number D 04-0326.

The chapters of those two Reference Documents (no.D 05-0361 and no.D 04-0326) which are not targeted above either have no effects for investor or are covered in an other part of this Reference Document.

Reports and declaration

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS
(Year ended December 31st, 2005)

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. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, 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 and auditing matters. These assessments were considered for the purpose of issuing an audit 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. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you for the year ended December 31st, 2005 on:
- the audit of the accompanying financial statements of L'Oréal,
- the justification of our assessments,
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role 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 its assets and liabilities as of December 31st, 2005 and of the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

Justification of our assessments
In accordance with the requirements of article L.823-9 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 notes to the company's financial statements under "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.

Our assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed 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 matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

In accordance with the law, we verified that information relating to acquisitions of investments and controlling interests and the identity of the shareholders, were disclosed in the Management Report.

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Pierre Coll	Etienne Jacquemin

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31st, 2005)

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report on the consolidated financial statements includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit 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. This report on the consolidated financial statements should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended December 31st, 2005.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit. These consolidated financial statements have been prepared for the first time in accordance with IFRS as adopted by the European Union. They include comparative information restated in accordance with the same standards in respect of financial year 2004.

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 the significant estimates made by management, as well as evaluating the overall financial statement 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 assets and liabilities and of the financial position of the group as at December 31st, 2005, and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- The company performs impairment tests on goodwill and intangible assets with indefinite useful life at least once a year and whenever there is an indication that an asset may be impaired, in accordance with the methods set out in note 1-o-1 to the consolidated financial statements. We have reviewed the terms and conditions for implementing this test and we ensured that the estimates made were reasonable.

- Obligations relating to pensions, early retirement benefits and other related benefits granted to employees have been valued and recorded in accordance with the accounting policies described in notes 1-v and 1-q to the consolidated financial statements. Our work consisted of reviewing the data used in these calculations, assessing the assumptions applied and verifying that appropriate information was disclosed in the notes to the consolidated financial statements.

The assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the group management report. We have no matters to report regarding its fair presentation and consistency with the consolidated financial statements.

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' REPORT ON PRO FORMA FINANCIAL INFORMATION

(Year ended December 31st, 2005)

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.

For the attention of Mr. Christian Mulliez, Executive Vice-President Administration and Finance.

In our capacity as Statutory Auditors and pursuant to EC regulation no.809/2004, we have prepared this report on the pro forma financial information of L'Oréal for the year ended December 31st, 2004 included in Volume 2 of the Reference Document (*Document de Référence*) dated April 5th, 2006 relating to the financial statements for the year ended December 31st, 2005.

This pro forma financial information has been prepared solely for the purpose of illustrating the impact that the deconsolidation of Sanofi-Synthélabo could have had on the income statement of L'Oréal for the year ended December 31st, 2004, prepared in accordance with IFRS, if the transaction had occurred on January 1st, 2004. Pro forma financial information, by its very nature, describes a hypothetical situation and is not necessarily representative of the financial position or performance which might have been recorded had the transaction or event occurred at a date prior to that of its actual occurrence.

This pro forma financial information has been prepared under your responsibility pursuant to EC regulation no.809/2004 on pro forma information.

Based on our procedures, it is our responsibility to express a conclusion, under the terms set forth in Appendix II point 7 of EC regulation no.809/2004, on the adequacy of the pro forma financial information.

We have performed our procedures on the pro forma financial statements in accordance with professional standards applicable in France. These procedures, which do not include a review of the financial information underlying the preparation of the pro forma financial information, have mainly consisted in verifying that the bases on which this pro forma financial information has been prepared are consistent with the relevant source documents, reviewing the audit evidence supporting the pro forma restatements and meeting with the Management of L'Oréal to obtain information and explanations which we deemed necessary.

In our opinion:
- the pro forma financial information has been adequately prepared on the indicated basis,
- this basis complies with the accounting methods of the issuer.

This report has been issued solely for the purpose of filing the Reference Document with the French Financial Markets Authority (*Autorité des Marchés Financiers*) and may not be used in any other context.

Neuilly-sur-Seine, March 17th, 2006

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 PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31st, 2005)

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 (*Code de Commerce*), we hereby present our report on the report prepared by the Chairman of the Board of Directors of your company in accordance with article L.225-37 of the French Commercial Code for the year ended December 31st, 2005.

In his report, the Chairman of the Board of Directors is required to report on the preparation and organisation of the work carried out by the Board of Directors and the Internal Control procedures implemented within the company. Our responsibility is to provide you with our comments on the information contained in the Chairman's Report concerning the Internal Control procedures relating to the preparation and processing of financial and accounting information.

We performed our work in accordance with the professional guidelines applicable in France. These 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 processing of financial and accounting information. These procedures included, in particular:

- obtaining an understanding of the objectives and general organisation of Internal Control, as well as the Internal Control procedures relating to the preparation and processing 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.

Based on our procedures referred to above, we have nothing to report on the description of the company's Internal Control procedures relating to the preparation and processing of financial and accounting information, as described in the Report of the Chairman of the Board of Directors, prepared in accordance with the last paragraph of article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

(Year ended December 31st, 2005)

This is a free translation into English of the Statutory Auditors' special 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 your company, we are required to report to you on regulated agreements that have come to our attention. Our responsibility does not include identifying any undisclosed agreements.

We hereby inform you that we have not been informed of any agreement governed by article L.225-38 of the French Commercial Code (*Code de Commerce*).

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

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STATUTORY AUDITORS' SPECIAL REPORT ON THE GRANTING OF SHARE SUBSCRIPTION OR PURCHASE OPTIONS TO EMPLOYEES AND/OR CORPORATE OFFICERS

Ordinary and Extraordinary Shareholders' Meeting of April 25th, 2006
(thirteenth resolution)

This is a free translation of the original text in French for information purposes only.

As Statutory Auditors of your company and in accordance with Article L.225-177 of the French Commercial Code (*Code de Commerce*) and Article 174-19 of the decree of March 23rd, 1967, we hereby present our report on the granting of share subscription or purchase options to employees and/or corporate officers of L'Oréal, and companies and economic interest groupings directly or indirectly related to L'Oréal as defined by Article L.225-180 of the French Commercial Code.

It is the responsibility of the Board of Directors to prepare a report on the reasons for the granting of share subscription or purchase options and the proposed terms and conditions for setting the subscription or purchase price. It is our responsibility to comment on the proposed terms and conditions for setting the subscription or purchase price.

We performed our procedures in accordance with professional standards applicable in France. Those standards require that we verify that the proposed terms and conditions for setting the subscription or purchase price are disclosed in the Board of Directors' report and that they comply with legal provisions with regard to shareholder information, and do not appear obviously inappropriate.

We have no comment to make on the proposed terms and conditions.

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON THE SHARE CAPITAL INCREASE RESERVED FOR EMPLOYEES OF THE COMPANY

Ordinary and Extraordinary Shareholders' Meeting of April 25th, 2006 (fourteenth resolution)

This is a free translation of the original text in French for information purposes only.

As Statutory Auditors of your company and in accordance with the French Commercial Code (*Code de Commerce*) and in particular Articles L.225-135 and L.225-138 thereof, we hereby present you with our report on the draft resolution authorizing 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, who adhere to a L'Oréal group corporate savings plan, as well as any mutual funds *via* which such issued shares would be subscribed by such employees 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.225-129.6 of the French Commercial Code.

The total number of shares likely to be issued, on one or several occasions, pursuant to the authorization granted to your Board of Directors, and during the twenty-six month term of this authorization, cannot exceed 1% of the company's share capital as of the date of the Ordinary and Extraordinary Shareholders' Meeting.

This authorization supersedes that granted by the Ordinary and Extraordinary Shareholders' Meeting of April 26th, 2005.

On the basis of its report, the Board of Directors asks you to delegate the power to set the terms and conditions of one or several share capital increases that it may decide in connection with this authorization and proposes that you cancel your preferential share subscription rights.

We have performed our procedures in accordance with professional standards applicable in France. These 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 Board of Directors may decide in connection with this authorization, 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 do not express an opinion on the final terms and conditions under which the share capital increase, or share capital increases, would be performed. As a result, we do not express an opinion on the cancellation of your preferential share subscription rights which the Board of Directors has proposed; however, this type of cancellation is a logical element 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 authorization which has been submitted to you.

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON THE SHARE CAPITAL DECREASE BY CANCELLATION OF OWN SHARES

Ordinary and Extraordinary Shareholders' Meeting of April 25th, 2006
(fifteenth resolution)

This is a free translation of the original text in French for information purposes only.

As Statutory Auditors of your company and in accordance with Article L.225-204 of the French Commercial Code (*Code de Commerce*) concerning share capital decreases, we hereby report to you on our assessment of the reasons for and terms and conditions of the proposed share capital decrease.

This transaction involves the purchase by the company of its own shares, pursuant to the terms and conditions set forth in Article L.225-208 of the French Commercial Code.

Shareholders are requested to confer all necessary powers on the Board of Directors, for a period of twenty six months as from this Meeting, to cancel, on one or several occasions, a maximum of 1.8 million shares purchased by the company pursuant to Article L.225-208 of the French Commercial Code, to cover share purchase plans, which correspond or will correspond in the future to options no longer exercisable.

We conducted our review in accordance with professional standards applicable in France. Those standards require that we plan and perform the review in order to examine the fairness of the reasons for and the terms and conditions of the proposed share capital decrease. Our procedures notably consisted of verifying that the proposed share capital decrease(s) would not reduce the share capital of the company below legal minimum limits.

We have no comment to make on the reasons for or the terms and conditions of the proposed share capital decrease, which would reduce the share capital of your company by a maximum of €360,000.

Neuilly-sur-Seine, March 17th, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit — Deloitte & Associés

Pierre Coll — Etienne Jacquemin

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, Sir Lindsay Owen-Jones.

Declaration by the person responsible for the Reference Document

"I certify that, after having taken all reasonable care to ensure that such is the case, the information contained in the Reference Document, to the best of my knowledge, truly and fairly reflects the existing situation and contains no omissions which could adversely affect the fairness of the presentation.

I have obtained from the Statutory Auditors a certificate of completion of audit in which they state that they have carried out a verification of the information relating to the financial situation and the financial statements set out in this Reference Document and have read the whole of the Reference Document."

Clichy, April 5th, 2006

On the authority of the Chairman and Chief Executive Officer,

Christian Mulliez
Executive Vice-President Administration and Finance.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

In application of Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers*, this Reference Document was filed with the *Autorité des Marchés Financiers* on April 6th, 2006. 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 two volumes listed below together constitute the 2005 Reference Document of the L'Oréal group, which has been filed with the *Autorité des Marchés Financiers*, in accordance with Article 212-13 of the General Regulation of the *Autorité des Marchés Financiers*.

Reference Document table of concordance

In order to facilitate the reading of this Annual Report, filed as a Reference Document, the following table provides the page references of the main information required by the Annex 1 of Commission Regulation no.809/2004.

Incorporated in France as a "Société Anonyme"
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