

L'ORÉAL

2006 \_ ANNUAL REPORT



L'ORÉAL  
PROFESSIONNEL  
PARIS

KÉRASTASE  
PARIS

REDKEN  
5TH AVENUE NYC

MATRIX

L'ORÉAL  
PARIS

GARNIER

MAYBELLINE  
NEW YORK

SOFTSHEEN-CARSON™

LANCÔME  
PARIS

BIOThERM

HR HELENA  
RUBINSTEIN

GIORGIO ARMANI  
PARFUMS

RALPH LAUREN

cacharel

Kiehl's  
SINCE 1851

shu uemura

VICHY  
LABORATOIRES

LA ROCHE-POSAY  
LABORATOIRE PHARMACEUTIQUE

THE  
BODY  
SHOP

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Cover: Diane Keaton for L'ORÉAL PARIS.

# OUR MISSION

The right to be beautiful day after day: L'Oréal strives to make this a reality within the reach of every woman and every man. This ambition is reflected in a **brand portfolio unequalled anywhere in the world**. Since its creation in 1909, the group has always considered this mission of prime importance.

The thousands of men and women who have built up the group across the world have made this their personal mission statement. They use their intelligence and creativity, their innovative ability and all their expertise **to further the cause of beauty** the world over.

As well as meeting current consumer aspirations, L'Oréal anticipates their future expectations, being, as always, determined to **promote an approach to beauty that is fun, affordable, fulfilling, genuine and generous**.

None of this would be possible without L'Oréal's deep respect for human beings of all types and nationalities, and without its genuine commitment to a sustainable environment. Strengthened by these values, and convinced that the quest for beauty has always been a major challenge for women and men, **L'Oréal's teams continue daily to push forward the frontiers of their profession**.

# A PERFECTLY SMOOTH TRANSITION THE SUCCESSION IS SECURE

2006 was an important milestone in the history of L'Oréal. As I had proposed, the functions of Chairman and Chief Executive Officer were separated. A young management team is now in place, personified by Jean-Paul Agon. Enjoying the full confidence of the staff, with experience in all the geographical Zones and Divisions and with a successful track record in the group, Jean-Paul Agon immediately took over operational control without any interruption or loss of impetus of the business. The transition was smooth and harmonious, without L'Oréal missing a single heartbeat. I am particularly pleased that this milestone in the life of the group has taken place exactly as I had announced to you, and just as we had planned.

Generating dynamism in our businesses all over the world is an immense task. With his excellent interpersonal skills and knowledge of operational realities, Jean-Paul Agon brings to the group's management exceptional energy and enthusiasm, as well as natural team leading talent.

For my part, in my own new position, I am focusing my efforts on good corporate governance and the group's growth strategy. In a Board of Directors where debates are of high quality and where decisions are taken collectively, my experience enables me to contribute positively to choices about the main directions the group should take.

“The outstanding quality of the 2006 results is a reflection of this harmonious transition.”

The outstanding quality of the 2006 results is a reflection of this harmonious transition. In a dynamic market, L'Oréal continued to strengthen its worldwide position significantly, delivering strong sales' growth and substantially increased results of remarkable quality. This enables us to propose to the Annual General Meeting a substantial increase (+18%) in the dividend and a significantly higher payout ratio. In so doing, we are demonstrating our respect for our shareholders who, through their loyalty, give the company the resources it needs to carry out its long-term strategy.

It is my job to interact with General Management, so as to open up new strategic approaches. With Jean-Paul Agon and the support of the Board of Directors, we take the key decisions about the future of the group together, just as we did with the acquisition of The Body Shop. We do so in a spirit of complete and mutual confidence, both to ensure continuity and to further the group's interests.

The long standing values and the principles that guide our actions, such as respect for ethical principles, diversity, respect for the environment and caring for communities: these values help make L'Oréal a well respected group. The long term commitment of our people is also important, for it is their creativity and responsiveness, which make the implementation of our long-term strategy possible.



This long term approach in no way rules out our ability to regenerate, to break some of the taboos of our business, to open up new avenues, so as to meet aspirations for beauty worldwide. There is no doubt that in this area Jean-Paul Agon and his management team bring a fresh approach to our vision.

The succession is secure. The determination, imagination and vitality at the head of the company make me confident as I look forward, not just to 2007 but also much further ahead: to women and men ready to make their dreams a reality and to make sure that L'Oréal's heart always beats to the rhythm of success.

**Sir Lindsay Owen-Jones**  
Chairman of L'Oréal

“The women and men of L'Oréal also provide a guarantee of continuity.”

# COMBINING EVERYONE'S ENERGIES WITH A FORCEFUL BUSINESS MODEL TO FUEL A POWERFUL GROWTH DRIVE

2006 was another year of strong economic growth for L'Oréal.

The return to dynamic growth, the quality of our operating performance, and the strong increase in both profitability and cash flow have again proved the strength and relevance of the L'Oréal business model developed by Sir Lindsay Owen-Jones.

## **High growth in the worldwide cosmetics market**

Market growth accelerated in 2006, demonstrating the robust health of our businesses. Growth slowed in North America, but is moving forward again in Western Europe and has accelerated further in the rest of the world.

The continuing increase in scale of the new markets should generate its own momentum, moving world market growth up a gear. In our estimation, the gradual rise in household income in these countries should mean that each year some 70 million consumers will be able to buy our products for the first time.

This is an exceptional opportunity for L'Oréal because in each area we have an ideal portfolio of diversified and complementary brands to penetrate and conquer these new markets. The process of fully globalising our brands is only just beginning.

## **L'Oréal keeps on growing faster than the market**

Once again this year we have seen our sales growth outstrip the market. Like-for-like growth accelerated to +5.8%, edging closer to our long-term growth target range of +6% to +8% a year. Growth based on published figures reached +8.7%, the highest figure since 2000. This added an extra 1.257 billion euros to our 2005 sales, thus increasing our share of the world market from 15% to 15.6%: a very significant rise. All our Divisions strengthened their positions in their respective markets.

The key event was the regeneration of our growth in Western Europe, driven by market share gains in several categories, such as haircare, facial skincare and perfumes. In North America, our sales were affected by restructuring in two distribution channels out of three. 2006 was, however, a source of great satisfaction: L'ORÉAL PARIS rose to third position in make-up and Fructis by GARNIER took second place in the American haircare market, only four years after its launch.

Another historic development was the move of the Rest of the World Zone into second position, ahead of North America. This zone contributed 60% of the group's sales growth. Its growing importance provides dynamic stimulus for L'Oréal's overall sales growth.

Our growth in this zone was strong, driven by spectacular growth in Eastern Europe and in Latin America. In Asia, the breakthrough in China continued. In India, we are ensuring that all our brands tap into the sharp acceleration of this market.

And finally in Japan, although sales edged down slightly, we had some good success stories, showing that even in a difficult and competitive market we can succeed if our product offering is strong and matches local preferences.

## **The group's growth engine is firing on all six cylinders**

Overall, the L'Oréal engine was more efficient—firing on all six cylinders—which meant we could accelerate our growth compared with 2005.

The first cylinder is **technological innovation**: the development by L'Oréal's laboratories of Pro-Xylane™, a revolutionary anti-ageing compound made using green chemistry techniques, is a milestone in the history of anti-ageing skincare.

Introduced into the group's core brands, it gives them a major technological advantage in conquering the "seniors" market. This market is our number one strategic opportunity in developed countries (and features strongly in this Annual Report).

**The creation of major products:** the international roll-out of blockbusters launched this year will bolster growth in 2007 and beyond.

**The enhancement of the value of our products:** this has clearly increased in comparison with the last two years.

**The power of our brands** was strengthened in 2006, with two remarkable breakthroughs in particular: GARNIER sales topped the 2 billion euro mark and GIORGIO ARMANI has been transformed into a global beauty brand, with the target of becoming a major world player in the luxury market over the next few years.

**The globalisation of our brands:** we have completed our global coverage through new subsidiaries, such as in the Ukraine and Vietnam, and in the largest market in the world, the United States, where we have launched our VICHY brand.

**Acquisitions:** 2006 was a highly eventful year in this respect with the signing of the Diesel licence agreement enabling us to build up a powerful fragrance business, and with the acquisition of Laboratoires Sanoflore, giving us a foothold in organic cosmetics, a segment which is set to grow strongly worldwide. However, the most important acquisition was The Body Shop, which added to L'Oréal's portfolio a powerful and fully complementary international cosmetics brand with a promising future.



“The growth engine was more efficient and was firing on all six cylinders.”

### **Another year of strong growth in our results**

The trend of our results in 2006 shows the virtue and strength of our business model: in structural terms, the results' trends are very healthy and of remarkably good quality.

2006 was a vintage year in terms of gross profit improvement, thanks to our constant efforts to enhance product value and optimise purchasing and industrial productivity.

The Research and Development budget, an absolute priority for L'Oréal, advanced slightly more rapidly than like-for-like sales.

Advertising and promotion expenses increased to support our core brands and step up advertising expenditure in emerging markets. Lastly, sales, general and administrative expenses again fell (excluding The Body Shop), reflecting the improved efficiency of our organisational structures.

### **Confidence for the future**

We are looking forward to 2007 with confidence and optimism. The strengths behind the quality of the 2006 results will again feature this year. They should enable us to continue the growth cycle, which is spiralling upwards, demonstrating the success of the L'Oréal business model.

Economic success, which is shared with all the company's employees, is essential. But this is not our only goal. Our second aim is to make L'Oréal a model for individual self-fulfilment. Bonded by a common passion for adventure, and a strong and deeply human corporate culture, L'Oréal is a community of talents to which all individuals contribute their creativity, enthusiasm and commitment. It is a community in which we strive for each individual to be able, in return, to obtain the means for his or her professional and personal fulfilment.

“ Making L'Oréal a top performer and one of the world's most respected companies. ”

Overall, the group's operating profit increased by +12.1%. The very even distribution of profitable growth across the Divisions and Zones reflects the solidity of our business model and is extremely promising. Our stake in Sanofi-Aventis again made a strong contribution, with dividends up by +26.7%. Net profit excluding non-recurrent items after minority interests advanced by +11.9% and EPS grew strongly by +14.7%, in part as a result of the accretive effect of share buybacks.

2006 was also a very good year in cash flow terms. On this front too, all the indications are that we shall be able to continue to increase cash flow regularly, which is an essential part of our economic performance.

Our third goal is to make L'Oréal an exemplary company in terms of sustainable development, which is exactly what the leader in beauty care should be. We are already firmly committed to this aim, and we want to go even further, so that L'Oréal fully lives up to its principle to be a good world citizen.

I know I can count on the remarkable commitment and motivation of L'Oréal's teams, who put all their enthusiasm into meeting every kind of beauty need, ensuring the excellence of our products and making L'Oréal not only a top performer but also one of the world's most respected companies.

**Jean-Paul Agon**  
Chief Executive Officer of L'Oréal



# BOARD OF DIRECTORS

## Composition at December 31<sup>st</sup>, 2006

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

### SIR LINDSAY OWEN-JONES<sup>(1)</sup>

Age: 60. British. 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 (CEO) of L'Oréal USA from 1981 to 1984. He was appointed Deputy Chairman and Chief Executive Officer in 1984, Chairman and Chief Executive Officer in 1988, and has been **Chairman of the Board of Directors** since April 25<sup>th</sup>, 2006. L'Oréal Board member since 1984 (term of office renewed in 2006). Board member of Sanofi-Aventis and Ferrari (Italy). Vice-Chairman of the Board of directors of Air Liquide.

### JEAN-PAUL AGON

Age: 50. Joined the L'Oréal group in 1978. During his international career with the group, he was General Manager of Consumer Products in Greece, and of L'ORÉAL PARIS in France, International Managing Director of BIOTHERM, Managing Director of L'Oréal in Germany, Managing Director of the Asia zone, and President and CEO of L'Oréal USA. Appointed Deputy Chief Executive Officer of L'Oréal in 2005 and then **Chief Executive Officer** on April 25<sup>th</sup>, 2006. L'Oréal Board member since April 25<sup>th</sup>, 2006. Vice-Chairman of the Board of Directors of The Body Shop (United Kingdom).

### JEAN-PIERRE MEYERS<sup>(2) (6)</sup>

Age: 58. 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<sup>(2) (4)</sup>

Age: 62. 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) and Roche Holding (Switzerland).

### LILIANE BETTENCOURT<sup>(2) (3)</sup>

Daughter of Eugène Schueller, who founded L'Oréal almost a century ago. L'Oréal Board member since 1995 (term of office renewed in 2003).

### FRANÇOISE BETTENCOURT MEYERS

Age: 53. Daughter of Mrs Bettencourt. L'Oréal Board member since 1997 (term of office renewed in 2005).

### WERNER BAUER

Age: 56. German. With the Nestlé group since 1990, appointed General Manager in 2002. L'Oréal Board member since 2005. Board member of Alcon (Switzerland).

### FRANCISCO CASTAÑER BASCO<sup>(2) (6)</sup>

Age: 62. Spanish. With the Nestlé group since 1964, appointed General Manager in 1997. L'Oréal Board member since 1998 (term of office renewed in 2006). Board member and Vice-Chairman of Alcon (Switzerland).

### XAVIER FONTANET<sup>(5)</sup>

Age: 58. 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 (term of office renewed in 2006). Board member of Crédit Agricole SA.

### BERNARD KASRIEL<sup>(2) (4)</sup>

Age: 60. 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, Deputy General Manager in 1982. Seconded to the United States between 1987 and 1989, appointed Executive Vice-President from 1989 to 2003, and then Chief Executive Officer from 2003 to 2005. L'Oréal Board member since 2004. Board member of Lafarge and Arkema. Partner of LBO France since September 2006.

### MARC LADREIT DE LACHARRIÈRE

Age: 66. Member of the Institut. With L'Oréal from 1976 to 1991, former 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 2006). Board member of Renault and Casino.

### FRANCK RIBOUD

Age: 51. Joined BSN in 1980. Chairman and Chief Executive Officer of Danone group since 1996. L'Oréal Board member since 2002 (term of office renewed in 2006). Board member of Renault and Lacoste France. Member of the Supervisory Board of Accor. Board member of ONA (Morocco).

### LOUIS SCHWEITZER

Age: 64. Joined Renault in 1986, Chairman and Chief Executive Officer from 1992 to 2005, Chairman of the Board thereafter. Chairman of the Board of AstraZeneca (United Kingdom). L'Oréal Board member since 2005. Board member of BNP Paribas, EDF, Veolia Environnement, AB Volvo (Sweden). Vice-Chairman of the Supervisory Board of Phillips (Netherlands).

**Jean-Louis Dumas**, director until April 25<sup>th</sup>, 2006, did not wish to renew his tenure as director in 2006.

The statutory length of 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.

## Separation of the functions of Chairman and Chief Executive Officer

The major event in 2006 was the Board of Directors' decision to separate the functions of Chairman and Chief Executive Officer. At its meeting on April 25<sup>th</sup>, 2006, the Board appointed the Chairman and the Chief Executive Officer. The new management organisation came into force with immediate effect.

The Board decided to amend its internal rules<sup>(1)</sup> in the interest of clarity and transparency by defining the mission and role of the Chairman and the Chief Executive Officer, when the functions are separated.

### A balanced Board, open debates and collective decisions

The L'Oréal Board has 13 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 both parties. Alongside the Chairman and the Chief Executive Officer, five other directors are independent personalities who have held professional responsibilities and have wide professional experience.

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.

The Board met six times in 2006<sup>(2)</sup>, with an average attendance rate of 87%. Many of the directors also attend the Annual General Meeting. The AGM received the 2006 Capitalcom Award for the Best Annual General Meeting of a CAC40 company.

With regard to insider information and insider status, the principles, which the Board applies to itself comply with legal requirements, and are in line with the preventive measures taken by L'Oréal in relation to its employees, particularly with regard to internal control procedures. The goal is to prevent any improper use or transmission of insider information, and to make sure that investments in the company's shares are carried out with a high degree of security.

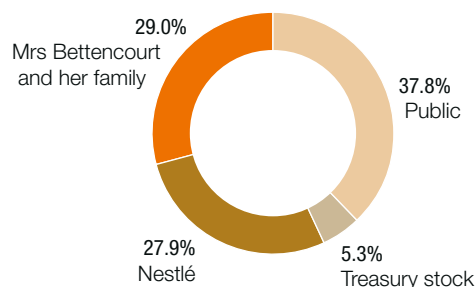
“The AGM received the 2006 Award for the Best Annual General Meeting of a CAC40 company.”

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.

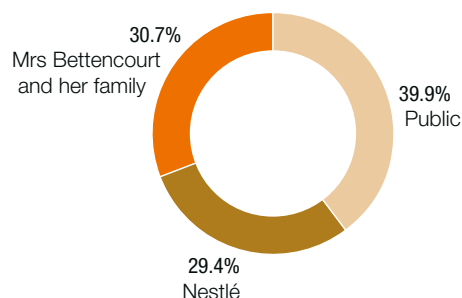
(1) The full text of the internal rules is published in the Reference Document, volume 2, Notes to the Management Report.

(2) The organisation and the modus operandi of the Board of Directors in 2006 are set out in detail in the Management Report and in the Chairman's Report (Reference Document, volume 2).

### > BREAKDOWN OF SHAREHOLDING STRUCTURE AT DECEMBER 31<sup>ST</sup>, 2006



### > BREAKDOWN OF VOTING RIGHTS AT DECEMBER 31<sup>ST</sup>, 2006<sup>(3)</sup>



(3) In accordance with the law, treasury stock carries no voting rights.

## The Board's review Committees

### 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

6 meetings in 2006.

### The Audit Committee

3 members:

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

4 meetings in 2006.

### The "Management and Remuneration" Committee

3 members:

- Liliane Bettencourt (Chairwoman)
- Peter Brabeck-Letmathe
- Bernard Kasriel

5 meetings in 2006.

In the course of its meetings in 2006, the Board considered a large number of strategic aspects relating to the organisation and development of L'Oréal's businesses. The issues discussed throughout the year, in most cases in the presence of the senior executives concerned, enable the Board to regularly assess the various strategic challenges facing the group and to take the corresponding decisions.

#### **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. They report to the Board on a regular basis.

#### **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 projections 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 six times in 2006. In 2006, the Committee reviewed not only trends in the sales and results of L'Oréal from an international viewpoint, but also, for example, the share buyback programmes, the acquisition of The Body Shop, the strategic development of the businesses in major countries, such as Japan and the United States, and the situation of the group's stake in Sanofi-Aventis.

#### **The "Management and Remuneration" Committee**

This Committee assists, in complete independence, the Chairman and the Board in their review of succession plans for the group's senior management positions. It reviews the composition of the Board of Directors and any possible changes. It makes proposals to the Board concerning the remuneration of corporate officers and grants of stock options, and addresses general issues of remuneration policy in the company.

The Committee met five times in 2006, and in addition to the various questions it reviews in connection with its mission, it prepared its proposal to the Board of the conditions under which the functions of Chairman and Chief Executive Officer would be separated, with the definition of the role and limits of each position.

The Committee proposed to the Board that it should be stated in the Board's internal rules, amended in 2006, that its constant policy is that the corporate officers it appoints are deemed to be employees and are therefore covered by the same retirement plans as the senior managers, particularly with regard to provident schemes.

#### **The Audit Committee**

The role of this 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.

The Committee sets the programme for its work at the start of the year; it met four times in 2006, with all its members attending on each occasion. It carried out hearings of the Statutory Auditors and the Internal Audit.

In 2006, the Audit Committee reviewed internal procedures, considering in particular, with the managers in charge of the respective fields in the company, the structure of the results and balance sheet, the key aspects of internal control at L'Oréal and the corresponding Chairman's report, legal disputes and risks, currency hedges, international insurance programmes, goodwill and intangible assets, as well as the organisation and frequency of the group's internal reporting.

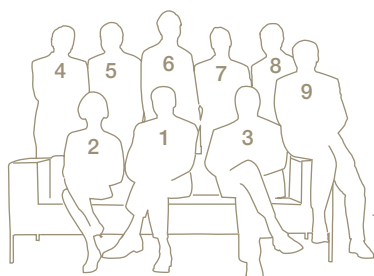
#### **A periodical evaluation of the Board's modus operandi since 1996**

Each year, the Board carries out an assessment of its composition, organisation and modus operandi, with the help of interviews organised by the Secretary of the Board based on regulations, recommendations and generally accepted practices. It considers possible ways forward and takes any measures it considers useful to improve the situation.

The Board thus expressed satisfaction with the participation in 2006 of a greater number of senior managers in its meetings and with the quality of their presentations, in connection with the strategic aspects of their field of activity. The directors wish to encourage this practice, which moreover gives them an opportunity to get to know the senior managers better.

Interval at which information is provided to directors on a regular basis was judged to be satisfactory. The Board wishes that this regularity be maintained, and that at the same time it should be ensured at all times that the information provided is relevant to the mission of the Board and the preparation of its work.

# MANAGEMENT COMMITTEE



- 1 Jean-Paul Agon**  
Chief Executive Officer
- 2 Béatrice Dautresme**  
Executive Vice-President  
Corporate Communications,  
External Affairs and Prospective
- 3 Jean-François Grollier**  
Executive Vice-President  
Research and Development
- 4 Jean-Jacques Lebel**  
President  
Professional Products
- 5 Marcel Lafforgue**  
Executive Vice-President  
Production and Technology
- 6 Christian Mulliez**  
Executive Vice-President  
Administration and Finance
- 7 Geoff Skingsley**  
Executive Vice-President  
Human Resources
- 8 Marc Menesguen**  
President  
Luxury Products
- 9 Patrick Rabain**  
President  
Consumer Products

# ADMINISTRATION AND FINANCE



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



## Carefully managing the main financial balances and making our organisational structures more efficient

In 2006, the Administration and Finance Division of L'Oréal continued to apply a balanced financial policy. This was accompanied by initiatives to improve the productivity of both organisational structures and systems made available to the operational teams.

Several of the projects implemented this year constitute significant advances:

- The integrated management software package, already widely implemented in the group, was extended further to the European production centres together with the businesses in the North America zone.
- Launched in 2006, the new reporting and consolidation tool has brought significant progress in the monitoring of the group's entities and the integration of consolidated information.
- Following the introduction in 2005 of IFRS International Financial Reporting Standards, the group's teams further increased their expertise in the use of the new standards in the second year of their application.
- Strong efforts continued to pool support services in all the main subsidiaries, resulting in productivity and efficiency gains in the structures.
- The purchasing optimisation programmes led to substantial cost savings, and their scope was extended in 2006.

Furthermore, the actions launched in 2005 to tighten up Internal Control have led to a widened dissemination of the fundamental internal control rules to all the hierarchical levels concerned in all the entities. Following this groundwork, initiatives were launched in 2006 to strengthen internal control, with the support of the teams of the Internal Audit department.

Throughout the group, the administration, management, finance and operations teams have played an active part in the operational performance of the businesses. They have particularly made a contribution to controlling cash flow by strict control of inventories, trade accounts receivable and investments. L'Oréal's cash flow thus improved once again in 2006 and is helping to strengthen the balance-sheet, further supported by the stake held in Sanofi-Aventis.

Overall, the group continued in 2006 its policy of substantially and continuously increasing dividend, and this has been backed up by a share buyback programme for significant amounts.

20.9%  
in 2004 (as % of sales)

20.7%  
in 2005 (as % of sales)

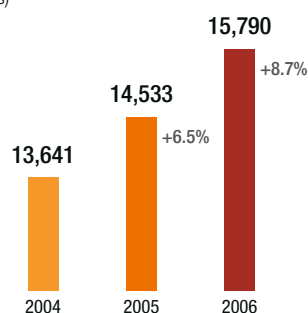
20.5%  
in 2006 (as % of sales)

Selling, general and administrative expenses (excluding The Body Shop)

## GROUP PERFORMANCE over three years

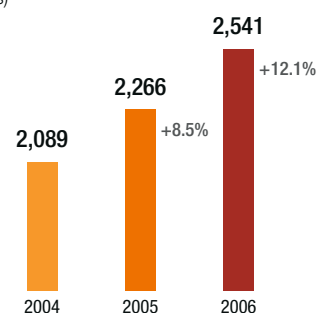
## &gt; CONSOLIDATED SALES

(€ millions)

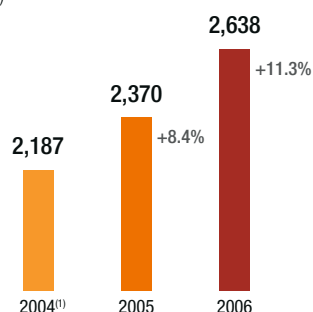


## &gt; OPERATING PROFIT

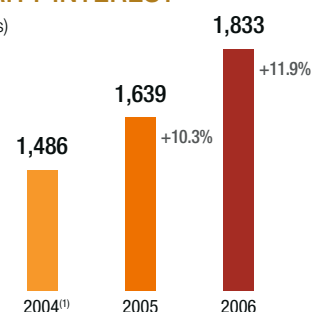
(€ millions)

> PRE-TAX PROFIT EXCLUDING NON-RECURRENT ITEMS<sup>(2)</sup>

(€ millions)

> NET PROFIT EXCLUDING NON-RECURRENT ITEMS AFTER MINORITY INTEREST<sup>(2)</sup>

(€ millions)

BREAKDOWN by branch<sup>(3)</sup>

## &gt; 2006 CONSOLIDATED SALES

€ millions

Growth  
Like-for-like    Published figures

Branch	€ millions	Like-for-like	Published figures
Cosmetics	15,011	+5.6%	+5.6%
The Body Shop <sup>(4)</sup>	435	+9.7%	-
Dermatology <sup>(5)</sup>	344	+8.6%	+8.1%

## &gt; 2006 OPERATING PROFIT

€ millions

Weight

Growth based on  
published figures

% of sales

Branch	€ millions	Weight	Growth based on published figures	% of sales
Cosmetics	2,423	95.4%	+9.5%	16.1%
The Body Shop <sup>(4)</sup>	58	2.3%	-	13.4%
Dermatology <sup>(5)</sup>	59	2.3%	+10.0%	17.3%

(1) For comparison purpose, 2004 pro forma profits and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1<sup>st</sup>, 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.

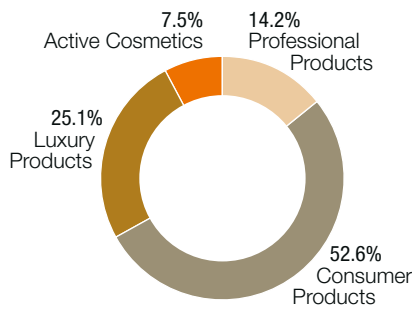
(2) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs.

(3) The group business is composed of the cosmetics and the dermatology branches and of The Body Shop.

(4) Data from July 1<sup>st</sup>, 2006 to December 31<sup>st</sup>, 2006.

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

## COSMETICS BRANCH: 2006 consolidated sales

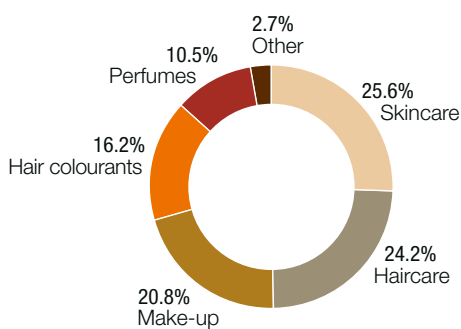


### > DIVISIONS WEIGHT

### > BY DIVISION

	€ millions	Like-for-like growth	Growth based on published figures
Professional Products	2,126	+3.8%	+3.2%
Consumer Products	7,903	+5.8%	+5.4%
Luxury Products	3,773	+5.1%	+5.3%
Active Cosmetics	1,128	+12.2%	+14.4%
<b>Total cosmetics sales<sup>(1)</sup></b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>

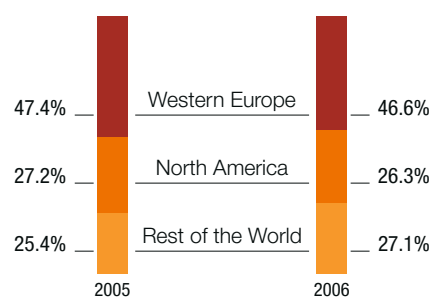
(1) The difference between the total cosmetics sales and the combined total of the 4 divisions, (€81 million), consists mainly of mail order sales.



### > BUSINESS SEGMENTS WEIGHT

### > BY BUSINESS SEGMENT

	€ millions	Like-for-like growth	Growth based on published figures
Skincare	3,850	+11.8%	+11.8%
Haircare	3,633	+3.8%	+3.7%
Make-up	3,123	+4.0%	+3.5%
Hair colourants	2,432	+3.2%	+3.1%
Perfumes	1,572	+7.8%	+6.9%
Other	402	-4.7%	-4.6%
<b>Total cosmetics sales</b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>



### > EVOLUTION OF THE GEOGRAPHIC ZONES WEIGHT

### > BY GEOGRAPHIC ZONE

	€ millions	Like-for-like growth	Growth based on published figures
Western Europe	6,992	+3.5%	+3.7%
North America	3,954	+2.7%	+2.2%
Rest of the World, of which:	4,065	+12.7%	+12.8%
Asia	1,476	+7.9%	+7.4%
Latin America	1,021	+16.1%	+18.6%
Eastern Europe	850	+22.0%	+24.8%
Other countries	718	+8.5%	+4.5%
<b>Total cosmetics sales</b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>

## COSMETICS BRANCH: 2006 operating profit

> BY DIVISION	2005		2006	
	€ millions	% of sales	€ millions	% of sales
Professional Products	406	19.7%	443	20.8%
Consumer Products	1,290	17.2%	1,421	18.0%
Luxury Products	724	20.2%	776	20.6%
Active Cosmetics	187	19.0%	221	19.6%
<b>Cosmetics divisions total<sup>(1)</sup></b>	<b>2,609</b>	<b>18.4%</b>	<b>2,860</b>	<b>19.1%</b>
Non-allocated <sup>(2)</sup>	-396	-2.8%	-437	-2.9%
<b>Cosmetics branch total</b>	<b>2,212</b>	<b>15.6%</b>	<b>2,423</b>	<b>16.1%</b>

> BY GEOGRAPHIC ZONE	2005		2006	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,415	21.0%	1,527	21.8%
North America	708	18.3%	744	18.8%
Rest of the World	486	13.5%	589	14.5%
<b>Total for geographic zones<sup>(1)</sup></b>	<b>2,609</b>	<b>18.4%</b>	<b>2,860</b>	<b>19.1%</b>
Non-allocated <sup>(2)</sup>	-396	-2.8%	-437	-2.9%
<b>Cosmetics branch total</b>	<b>2,212</b>	<b>15.6%</b>	<b>2,423</b>	<b>16.1%</b>

(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 31<sup>st</sup>, 2006)

Market capitalisation <sup>(3)</sup>	48.55 billion euros
Share price	75.90 euros
2006 Net earnings per share <sup>(4)</sup>	2.98 euros
2006 dividend per share <sup>(5)</sup>	1.18 euro
Annual share price performance in 2006	+20.86%

(3) On the numbers of shares at December 31<sup>st</sup>, 2006, i.e. 639,616,410 shares.

(4) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interest.

(5) Proposed at the Annual General Meeting of Shareholders of April 24<sup>th</sup>, 2007.

### > 10 YEARS INVESTMENT IN L'ORÉAL SHARES

Purchase of 50 shares at €297.89 <sup>(6)</sup> on December 31 <sup>st</sup> , 1996	14,894.50 euros
Valuation at December 31 <sup>st</sup> , 2006, including reinvestment of dividends (578 shares at €75.90)	43,870.20 euros
<b>Initial capital multiplied by 2.95 in 10 years</b>	
<b>Total Shareholder Return: 10.36%</b>	

### > 20 YEARS INVESTMENT IN L'ORÉAL SHARES

Purchase of 25 shares at €586.17 <sup>(6)</sup> on December 31 <sup>st</sup> , 1986	14,654.25 euros
Valuation at December 31 <sup>st</sup> , 2006, including reinvestment of dividends (3,719 shares at €75.90)	282,272.10 euros
<b>Initial capital multiplied by 19.26 in 20 years</b>	
<b>Total Shareholder Return: 15.31%</b>	

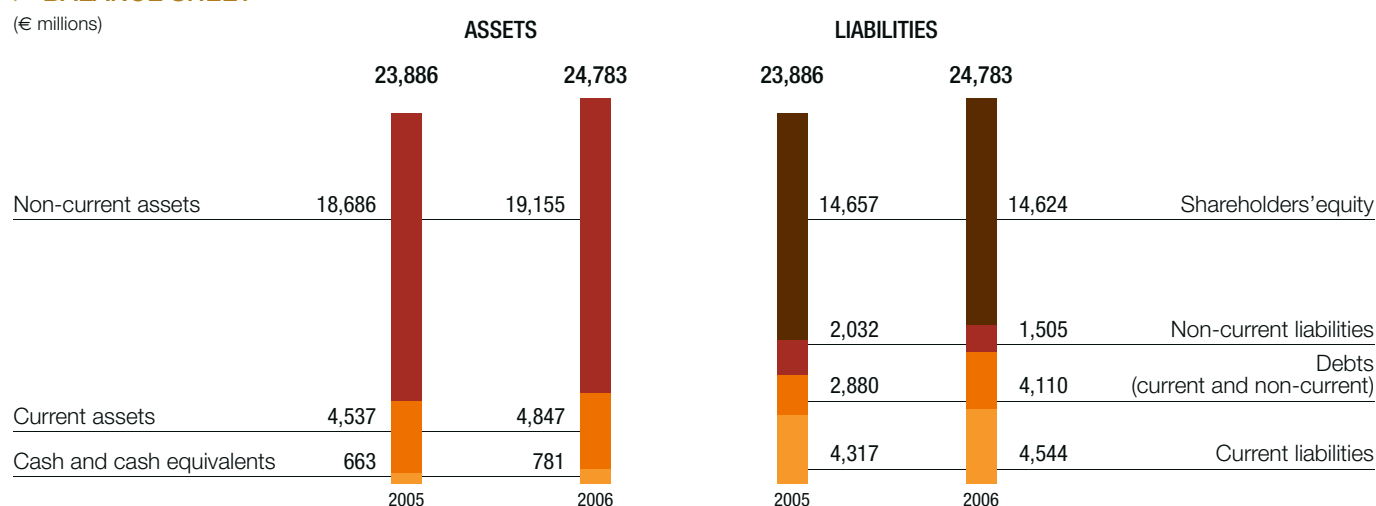
(6) Non-adjusted share price.



# BALANCE SHEET, CASH FLOWS AND FINANCIAL RATIOS

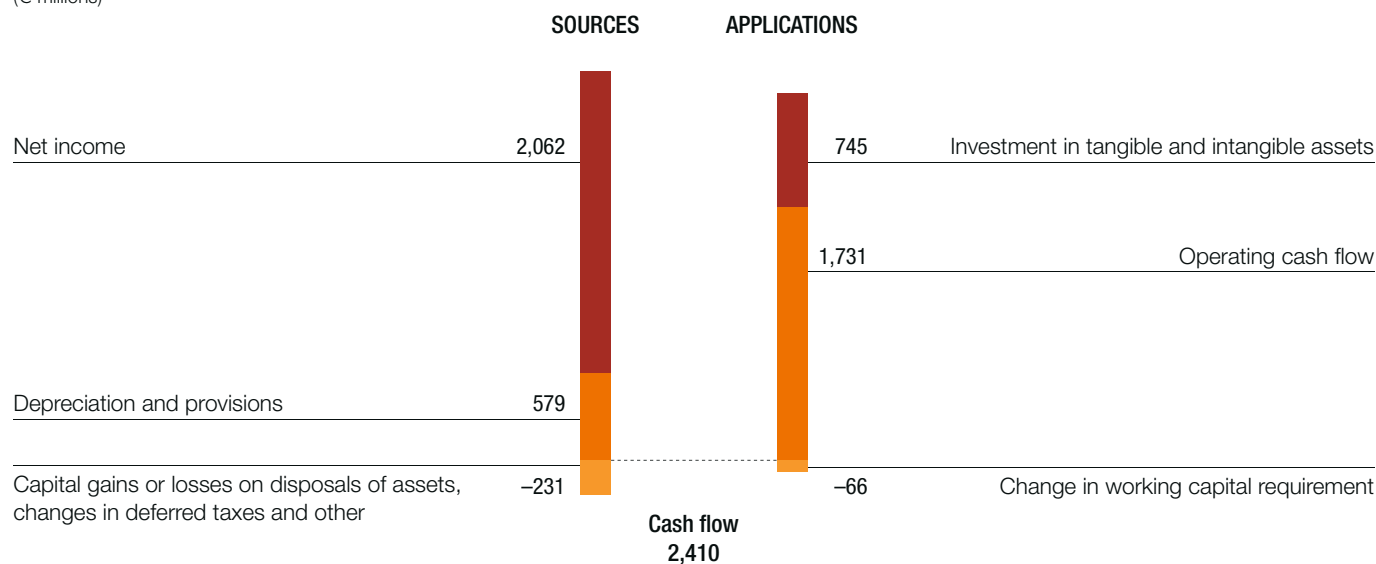
## > BALANCE SHEET

(€ millions)



## > 2006 SOURCES AND APPLICATIONS OF FUNDS

(€ millions)



## > FINANCIAL RATIOS

		2005	2006
(% of sales)			
Operating profit / Sales	=	15.6%	16.1%
(% of shareholders' equity)			
Net profit excluding non-recurrent items after minority interests / Opening shareholders' equity	=	13.9%	12.5%
(% of shareholders' equity)			
Net gearing <sup>(1)</sup>	=	15.1%	22.8%
Cash flow / Investments	=	3.1 x	3.2 x

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

## L'ORÉAL over ten years

<b>IFRS</b> (€ millions)	<b>2006</b>	<b>2005</b>	<b>2004<sup>(1)</sup> pro forma</b>	<b>2004</b>	<b>FRENCH ACCOUNTING STANDARDS 2004</b> (€ millions)
<b>Results of operations</b>					<b>Results of operations</b>
Consolidated sales	15,790	14,533	13,641	13,641	Consolidated sales 14,534
Operating profit	2,541	2,266	2,089	2,089	Pre-tax profit of consolidated companies 2,063
As a percentage of consolidated sales	16.1	15.6	15.3	15.3	As a percentage of consolidated sales 14.2
Pre-tax profit excluding non-recurrent items	2,638	2,370	2,187	2,334	Income tax 696
Net profit excluding non-recurrent items after minority interests	1,833	1,639	1,486	–	Net operational profit 1,659
Total dividend	739	659	554	554	As a percentage of consolidated sales 11.4
<b>Balance sheet</b>					<b>Balance sheet</b>
Non-current assets	19,155	18,686	15,734	15,734	Fixed assets 11,534
Current assets	4,847	4,537	4,075	4,075	Current assets 6,645
Cash and cash equivalents	781	663	576	576	Of which cash and marketable securities 1,981
Shareholders' equity <sup>(2)</sup>	14,624	14,657	11,825	11,825	Shareholders' equity <sup>(3)</sup> 10,564
Net current and non-current debt	3,329	2,217	1,568	1,568	Borrowing and debts 2,175
<b>Cash flow</b>	<b>2,410</b>	<b>2,130</b>	<b>1,923</b>	<b>1,923</b>	
<b>Per share data (€)</b>					<b>Per share data (€) – notes 4 to 6</b>
Diluted net profit excluding non-recurrent items after minority interests	2.98	2.60	2.29	–	Net operational profit after minority interest per share <sup>(7)</sup> 2.46
Net dividend <sup>(3)(4)</sup>	1.18 <sup>(5)</sup>	1.00	0.82	0.82	Net dividend <sup>(8)(9)</sup> 0.82
Share price at December 31 <sup>st(3)</sup>	75.90	62.80	55.85	55.85	Tax credit –
Diluted weighted average number of share outstanding	615,723,220	630,892,470	649,598,404	649,598,404	Share price at December 31 <sup>st(8)</sup> 55.85
					Weighted average number of shares outstanding 673,547,541

**IFRS**

(1) For comparison purpose, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthelabo at January 1<sup>st</sup>, 2004:

- by replacing the share in net income of Sanofi-Synthelabo, €293.5 million, by the received dividends, €149.5 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 4<sup>th</sup>, 1999, where it was listed in 1963. The share capital is fixed at €127,923,282: the par value of one share is now €0.2.

(4) The dividend is fixed in euros since the Annual General Meeting of May 30<sup>th</sup>, 2000.

(5) Dividend proposed to the Annual General Meeting of April 24<sup>th</sup>, 2007

**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 Synthelabo, following its merger with Sanofi in May 1999,

- the impact in 1998 and 1999 of the application of CRC Regulation no.99-02 from January 1<sup>st</sup>, 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".

	2003	2002	2001	2000 <sup>(2)</sup>	1999 <sup>(1)(2)</sup>	1998 <sup>(1)</sup>	1998	1997	1996
	14,029	14,288	13,740	12,671	10,751	9,588	11,498	10,537	9,200
	1,870	1,698	1,502	1,322	1,125	979	1,339	1,183	1,011
	13.3	11.9	10.9	10.4	10.5	10.2	11.6	11.2	11.0
	629	580	536	488	429	375	488	422	328
	1,661	1,464	1,236	1,033	833	722	807	722	644
	11.8	10.2	9.0	8.2	7.7	7.5	7.0	6.9	7.0
	1,653	1,456	1,229	1,028	827	719	719	641	568
	494	433	365	297	230	191	191	165	144
	8,136	8,130	8,140	7,605	5,918	5,299	5,590	5,346	4,687
	6,876	6,843	6,724	6,256	5,139	4,229	4,937	4,512	4,048
	2,303	2,216	1,954	1,588	1,080	762	903	825	810
	8,136	7,434	7,210	6,179	5,470	5,123	5,428	5,015	4,429
	1,941	2,646	2,939	3,424	1,914	1,718	1,748	1,767	1,598
	2.45	2.15	1.82	1.52	1.22	1.06	1.06	0.95	0.84
	0.73	0.64	0.54	0.44	0.34	0.28	0.28	0.24	0.21
	0.37	0.32	0.27	0.22	0.17	0.14	0.14	0.12	0.11
	65.00	72.55	80.90	91.30	79.65	61.59	61.59	35.90	29.79
	676,021,722	675,990,516	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160	676,062,160

(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 1<sup>st</sup>, 2001 onwards. However, the new method had no material impact on the profit and loss account of the years concerned.

(3) Plus minority interests.

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

(5) Figures restated to reflect the one-for-ten bonus share allocation decided by the Board of Directors as of May 23<sup>rd</sup>, 1996.

(6) Ten-for-one share split (Annual General Meeting of May 30<sup>th</sup>, 2000).

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

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.

At December 31<sup>st</sup>, 2004, 8.5 million subscription options have been allocated to group executives, and could lead to the issue of the same number of shares.

(8) The L'Oréal share has been listed in euros on the Paris Bourse since January 4<sup>th</sup>, 1999, where it was listed in 1963. The share capital is fixed at €127,923,282: the par value of one share is now €0.2.

(9) The dividend is fixed in euros since the Annual General Meeting of May 30<sup>th</sup>, 2000.

# A unique portfolio of international

## Professional Products



**L'ORÉAL**  
**PROFESSIONNEL**  
PARIS



**KÉRASTASE**  
PARIS



**REDKEN**  
5TH AVENUE NYC



**MATRIX**



## Consumer Products



**L'ORÉAL**  
PARIS



**GARNIER**



**MAYBELLINE**  
NEW YORK



**SOFTSHEEN-CARSON™**



## Active Cosmetics



**VICHY**  
LABORATOIRES

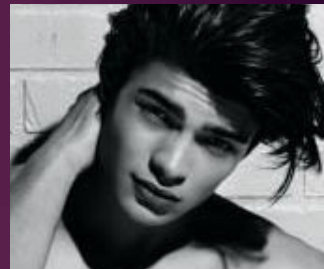
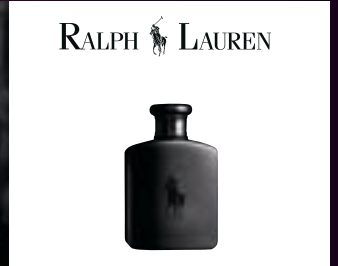


**LA ROCHE-POSAY**  
LABORATOIRE PHARMACEUTIQUE



# brands

## Luxury Products



## THE BODY SHOP.





# THE NEW SENIORS

A strategic opportunity for L'Oréal



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

The demographic revolution is under way. Increasing numbers of us are living longer, and this trend is set to continue. The frontiers of old age are being pushed back. More affluent and in good physical shape, baby boomers are the first generation of “high potential” seniors. As consumers with a focus on their well-being, they are ready, willing, and able to take full advantage of these extra years of life. For L’Oréal, this crucial market represents a strategic trend, a trend for which L’Oréal has been planning for to meet this market’s needs.

## Good growth ahead

### Increasingly numerous

The world’s population is getting older. By 2050, the number of people over 50 will have been multiplied by 2.5, and they will **represent 33.4% of the world’s population<sup>(1)</sup>**.

**All geographic zones will be affected by this trend**, including the most heavily populated countries, such as **China**.

With 20% of their population aged over 60, **developed countries are already coming to terms with this trend**.

It is particularly visible in Europe and Japan: **by 2025** the proportion of the population in Europe aged over 60 should be 28%, while in Japan the figure should be more than 35%. Women clearly outnumber men in these categories. But although women’s life expectancy in 2005 was four years greater than men’s, the difference is gradually diminishing.

### High standard of living

Today, both baby boomers and seniors are less focused on savings than they used to be and have a high purchasing power. In developed countries, these generations have earned high salaries during their working lives, and have pension systems that remain favourable.

### Who are today’s seniors?

The term “seniors” covers a wide range of ages which can be divided into three categories:

- “baby boomers”, today aged between 50 and 60, most of whom are still employed and are active consumers;
- “true seniors” aged from 60 to 85, who have a fulfilling existence in retirement and are increasingly in good health;
- “older seniors” are over the age of 85.

The medical profession encourages them to take care of themselves in order to live longer and better lives.

### Health and well-being are the objectives

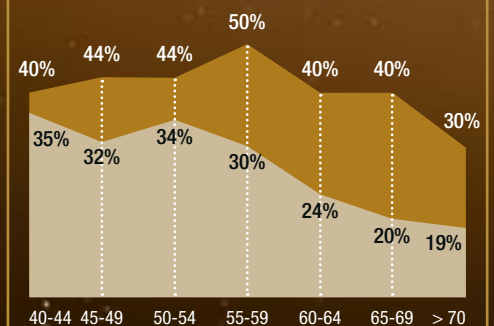
As children of the consumer society, the new seniors have developed a more hedonistic lifestyle than that of their elders, and they have no intention of changing their consumption habits just because of their age.

Aware that life expectancy is increasing, seniors (and women in particular!) are adopting preventive behaviour patterns whilst maintaining their own “health and beauty equity” in the most effective way possible.

Women in this age bracket have retained the youthful and unconventional state of mind of their twenties (from the early 1970s). They want to be attractive and see themselves as “modern” and in tune with today’s lifestyles.

### Seniors pay more attention to beauty

The effect is generational: today’s seniors consume more beauty products than their elders. Increasing numbers of women regularly use a specific skincare product (see chart below). In 1996, peak consumption was between the ages of 40 and 60. Ten years later, in 2005, peak consumption was between 45 and 70. Another telling sign is that the use of eye make-up in this age bracket is becoming increasingly popular on a yearly basis: 15% of European women over 60 regularly used it in 1997, compared with one-quarter in 2005 (source: *Health & Beauty panel*).



● 1996 ● 2005  
> Percentage of women regularly using anti-ageing skincare products, by age bracket  
(Source: growth 1996-2003, International RISC Survey UK FR SP IT GER)

(1) Source: UN, *World Population Prospect, The 2004 Revision*.



## Staying young in mind and body

### Strong investment in haircare by Seniors

Haircare plays a core role in personal appearance. Seniors in Europe visit hair salons more frequently than their younger counterparts (11 times a year on average in Europe and up to 17 times in Spain<sup>(1)</sup>). A short and feminine cut, with volume, can work magic, creating a sense of freshness and dynamism. Although hair lacquers and sprays are useful for the finishing touch, haircare products are by no means neglected. Beauty conveys itself naturally, and having beautiful thick and shiny hair becomes increasingly important with age.

Studies have shown that after the age of fifty, hair becomes less dense and the fibre tends to dry up. For many years now, L'Oréal has offered real innovations to meet the needs of seniors. **Ceramid R**, a major L'Oréal molecule, which targets and repairs damaged hair, first opened up the anti-ageing haircare segment in 1996. Since 2003, **KÉRASTASE** has been offering a range of innovative technical haircare products, called **Age Recharge**, which not only treats hair fibre but also ageing of the scalp.



### Hair colourants: increasingly natural

As time goes by, women aspire to a more natural hair colourant effect, and opt for lighter tones. They prefer shaded effects with highlights so as not to darken the face or harden the features.

The core hair colourant products, such as **Excellence Crème** from **L'ORÉAL PARIS**, are constantly being revamped with two aims in mind: to offer even more natural shades and improve fibre quality.

Launched at the end of 2006 by hairdressers, **Color Suprême** by **L'ORÉAL PROFESSIONNEL** is the first hair colourant which fully covers grey hair, producing highlight and hair-thickening effects thanks to the ingredient called **Densilum R**.

Some women accept their grey hair, and 34% of European women over 60 have white or grey hair<sup>(1)</sup>. This explains the international success of the revitalising shampoo **Silver** in the Expert Series of **L'ORÉAL PROFESSIONNEL**.



(1) Source: *Health & Beauty 2005/Europe 5*.





## Skincare products to meet new physiological needs

### Compensating for the effects of hormone deficiency

Reaching 50 brings a real change in women's skin. As a result of hormonal changes, **the skin becomes drier and less bright**. It loses density, and the first signs of sagging appear. During this transitional period, a multitude of new needs emerge. L'Oréal offers support for women between 50 and 60 with its comprehensive, multi-functional skincare products. As early as 2001, the **LANCÔME**, **VICHY** and **L'ORÉAL PARIS** brands were the first to target the whole range of effects from hormone deficiencies with **Absolué**, **Novadiol** and **Age Perfect**, three products, which have become worldwide successes with women over 50. In 2004, the most sophisticated women discovered **Life Pearl Cellular**, by **HELENA RUBINSTEIN**, a core luxury product for cell and tissue longevity. In 2006, the discovery of Pro-Xylane™, a revolutionary anti-ageing molecule for mature skin, was a major step forward: a new generation of specific skincare products has been developed, with **Absolué Premium Bx** by **LANCÔME** and **Néovadiol** by **VICHY**.

### Giving new strength to skin

From the age of 60, the skin becomes increasingly dry and fragile, the epidermis grows thinner, and the need for anti-sagging skin care is now self-evident. Leading the way in meeting these needs, in 2005 **LANCÔME** created **Platinéum Hydroxy(a)-Calcium™**, based on calcium hydroxyapatite, the first skincare product formulated for people over 60. As it outlines, the product can boost the epidermis with calcium and thus improve its strength and tautness. In 2006, **Age Perfect**, the skincare range for mature skin from **L'ORÉAL PARIS**, strengthened its product offer with **Age Re-Perfect**, a pro-calcium skincare product dedicated for women over 60.

It also includes a new kind of foundation, which is particularly soft and made out of silicone elastomers. The **L'ORÉAL PARIS** ambassadors are Jane Fonda in Europe and Diane Keaton in the United States—who embody the new kind of radiant 60-something women.

### The radiant sixties: a new winning attitude

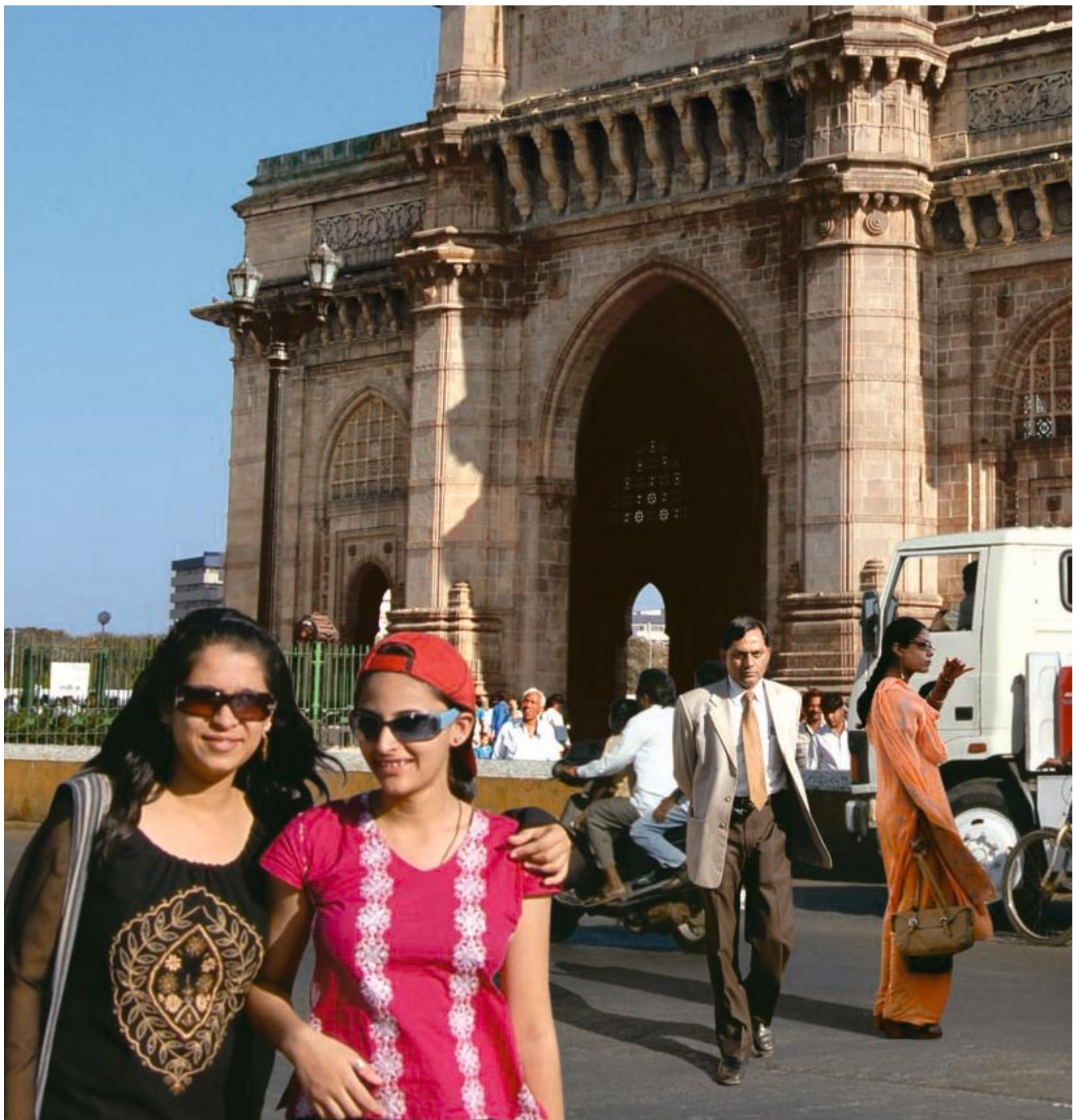
From the age of sixty, women are experiencing a new freedom. They often talk about a rebirth, without of course expecting spectacular rejuvenation. They are serene and lucid, and want to remain "at their best for their age". The efficiency, ease of use and smooth texture of products are essential considerations. Beauty routines are one of the everyday pleasures, helping to push back the frontiers of old age.



## Men: getting in on the act

Men are increasingly using cosmetic care, and the same trend applies to mature men. To meet this new need, **L'ORÉAL PARIS** now offers the anti-sagging product **Vitalift**. Enthusiastically welcomed by seniors, **Vitalift** skincare for men is one of the best-selling items in the Men Expert range of **L'ORÉAL PARIS**, which accounts for a large proportion of men's skincare sales in mass-market retail outlets (almost half in Europe and almost one-third in the United States). From 2004, **Redken for Men** has offered through hair salons the first offering of natural grey hair camouflage. In 2005 in the premium market, **BIOThERM Homme** launched **Age Refirm**, a skincare product for mature skin. This has been a real success for the brand, which has been reinforced this year by a high-tech eye-care product. This clearly demonstrates that specific skincare products for men, including seniors, are a genuine opportunity.





INTERNATIONAL

# Enhancing all forms of beauty on every continent

L'Oréal's brands are dedicated to beauty on every continent, with a constantly increasing determination to adapt to cultural diversity.



सफ़ेद बाल गायब  
सिर्फ़ सॉफ़्ट, नैचुरल कलर.

**गार्नियर**  
कलर नैचुरल्स  
परमानेंट हेअर कलर क्रीम  
नैचुरल ऑलिव ऑइल युक्त

अपना ख़याल रखना.  
**GARNIER**



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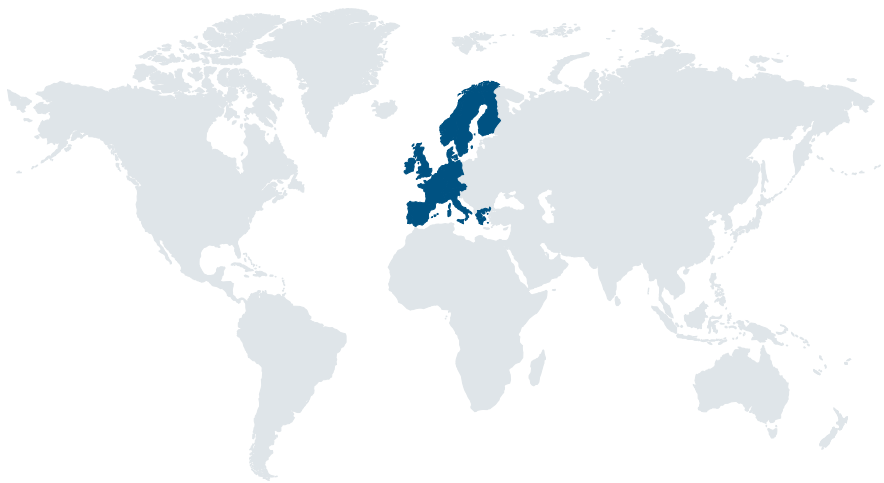
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# WESTERN EUROPE

## Growth momentum restored

Sales for all divisions confirm that markets in Western Europe are growing steadily again, particularly in Germany, the United Kingdom and Spain. Like-for-like sales growth was +3.5%. All the countries achieved positive growth scores, backed up by lively launch activity in all the group's brands.



6,992

million euros of consolidated sales in 2006

46.6%

of total group consolidated cosmetics sales

+3.5%

like-for-like growth

### GERMANY

#### Growth continues for Redken

REDKEN's growth is continuing in Germany, with another good year in 2006. Results for the hair colourant line were good, with Color Fusion and Shades EQ performing particularly well. But the star performer was haircare, with the launch of the new Blonde Glam range of tailor-made treatment for blond hair with and without highlights.

More than ever before, REDKEN 5TH AVENUE NYC is the hip American brand for salons eager to stand out from the crowd.



## SPAIN

## Kiehl's seduces Madrid

The opening of the first KIEHL'S store in Madrid at the end of April 2006 proved an immediate success. Whilst in initial market launch phase in Spain, the brand is meeting aspirations of consumers who are looking for naturally-inspired products and brands with character embodying genuine values. Thanks to the brand's individual, personalised and highly original approach, press and opinion leaders have leant unconditional support for its market entrance.

Building on attentive service and a generous sampling policy, word of mouth recommendations has done the rest, ensuring high foot-fall for the Madrid store.

In 2006, the opening of the Madrid store was followed by others in Hamburg, Milan, Barcelona and Zurich. The roll-out will continue in 2007 as more stores are opened.



## UNITED KINGDOM

## L'Oréal Paris Beauty Bars prove successful

In the United Kingdom, L'ORÉAL PARIS successfully tested a new concept: self-service beauty bars in the busiest stores. This move strengthens the image of L'ORÉAL PARIS as an "accessible luxury brand".

The design of the Beauty Bar encourages consumers to switch rapidly from make-up to skincare. Advice and application tech-

niques are offered by L'ORÉAL PARIS experts, alongside the latest fashion trends. Bright visual materials and plasma screens highlight the latest launches and make-up demonstrations, such as those of James Kaliardos at London Fashion Week. For big occasions, beauty advisors offer a personalised diagnosis and make-up suggestions. This original initiative is being rolled out in 2007.

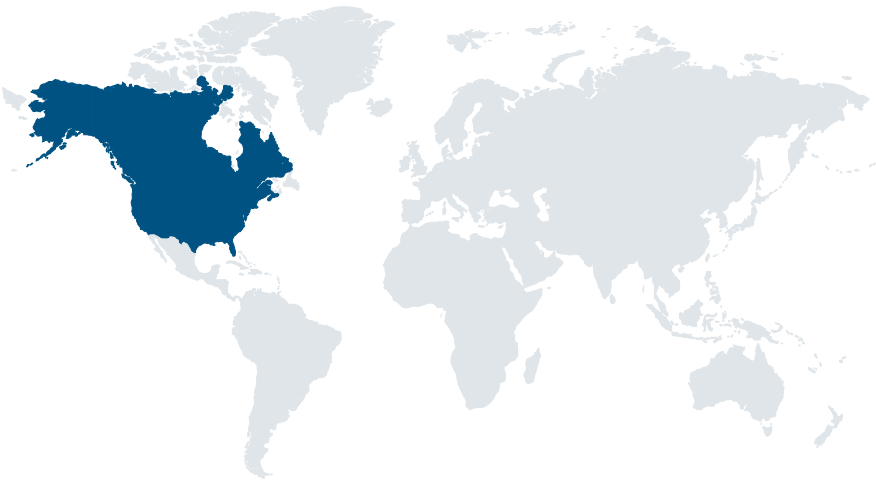


# NORTH AMERICA

## Further advances in a context of retail consolidation

Like-for-like sales growth in North America amounted to +2.7%. Against a background of consolidation in the retail sector, the divisions' development continued in 2006.

Every division won market share in a large number of market segments: in hair salons sales, consumer make-up, facial skincare and fragrances in selective channels.



3,954

million euros of consolidated sales  
in 2006

26.3%

of total group consolidated  
cosmetics sales

+2.7%

like-for-like growth



### UNITED STATES

#### Active Cosmetics: health, a path towards beauty

American consumers are increasingly well informed when it comes to health and well-being. They are constantly on the lookout for information about effective and scientifically validated skincare products. The VICHY brand was officially launched in the United States in 2006. To reach out to the maximum number of consumers, VICHY took an innovative step by creating Dermo Skincare Centers. These centres offer customers information together with personalised and professional advice about skincare. Through the opening of 400 Dermo Skincare Centers in the American drugstore network, La Roche-Posay's presence was extended in 2006. The brand also celebrated another victory when the FDA (Food and Drug Administration) agreed to authorise the marketing in the United States of Anthelios SX, a moisturising cream with sun protection. Anthelios SX is the first L'Oréal product with a patented UVA Mexoryl SX sun filter to be approved for sale in the United States.

## UNITED STATES

### L'Oréal Paris and Maybelline New York: winning make-up

With highly innovative launches, L'ORÉAL PARIS and MAYBELLINE NEW YORK strengthened their position in the consumer cosmetics market in 2006. L'ORÉAL PARIS appealed to consumers with a taste for colour with the launch of HIP High Intensity Pigments. This bold new make-up features a patented L'Oréal innovation, which enables uniform colour distribution, through the use of L'Oréal-owned technology which increases colour pigmentation. Other L'ORÉAL PARIS successes include Bare Nature Mineral Makeup, which is based on a microrefined mineral powder, and Color Riche Star Secrets, a limited edition lipstick.

MAYBELLINE NEW YORK announced Superstay Lipcolor a new generation of long-lasting lipsticks with a patented formula which lasts for 16 hours. MAYBELLINE NEW YORK also launched its Pure collection—gentle cosmetics made using natural ingredients, such as aloe and camomile. In a rapidly growing market, these innovations enabled L'ORÉAL PARIS and MAYBELLINE NEW YORK to achieve growth rates that outstripped those of the consumer cosmetics market.



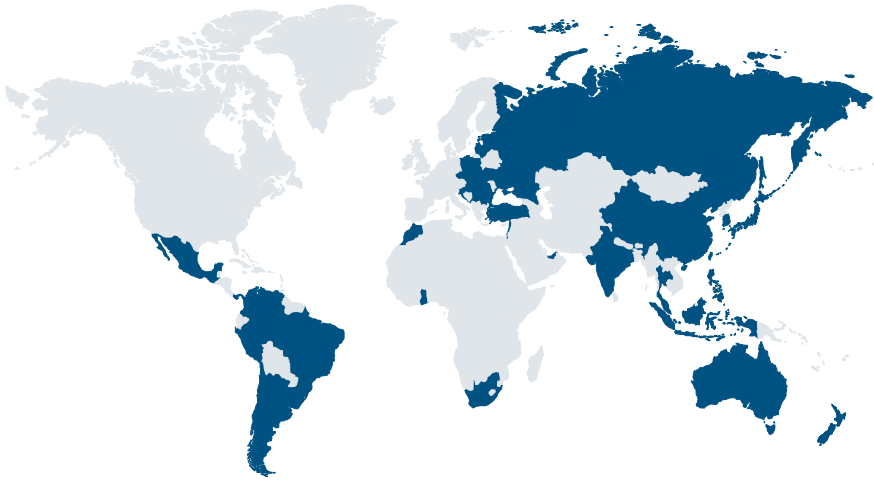
## CANADA

### Women's fragrance Armani Code Donna follows the success of men's fragrances

The GIORGIO ARMANI brand is continuing its strong growth in Canada, where Acqua di Giò pour Homme is number one in the men's fragrance market. Just behind is Armani Code Homme, number two on the market.

Following on from the success in the men's product lines, Armani Code Donna was launched in 2006. Dedicated to elegant women whose seductive powers are based on charm, power and mystery, this launch gave GIORGIO ARMANI double-digit sales growth in 2006.





4,065

million euros of consolidated sales in 2006

27.1%

of total group consolidated cosmetics sales

+12.7%

like-for-like growth

## ON THE EMERGING MARKETS... ... the story continues

All zones outside of Western Europe and North America achieved very strong sales growth in 2006: +12.7% like-for-like. Eastern Europe and Latin America recorded particularly fast growth with advances of +22% and +16% respectively. The real driving force for growth comes from the BRIMC countries (Brazil, Russia, India, Mexico and China), which account for the bulk of the increase.



### SOUTH AFRICA

#### Spectacular start for Garnier Even

With its new facial skincare range Garnier Even, the GARNIER brand offers South African consumers specially formulated products to moisturise, and enhance the texture and softness of black skin, whilst making skin tone more even.

Drawing on the latest technological advances in exfoliation, sun protection and blemish treatment, the range proved an immediate success. Backed up by a specific advertising campaign (TV, press and sales outlets), it made a substantial contribution to the spectacular growth of the whole GARNIER skincare range in South Africa.





## CHINA

### Yue-Sai: new showcases for a richer offer

The Chinese cosmetics brand YUE-SAI was repositioned in 2006, with revamped advertising and merchandising in department stores. The brand offers Chinese consumers a flawless quality of service. Customers have embraced the new approach, giving an enthusiastic welcome to the new anti-ageing line Recharge, launched in October 2006.

## INDIA

### Store openings of The Body Shop augur well for the future

In 2006, The Body Shop opened its first seven stores in India with a local partner. A rapidly developing middle class, whose purchasing power is steadily increasing, with a growing appetite for naturally inspired beauty products and toiletries, and strong interest in a brand which already has a high profile, is the key factor to have

paved the way for an enthusiastic reception for The Body Shop as it gained its first foothold in India. These initial successes suggest the brand is fully justified in targeting the opening of some sixty stores over the next five years.





## ROMANIA

### A winning bet for L'Oréal Paris

After adapting its organisation to the needs of a fast growing country, L'ORÉAL PARIS and GARNIER saw their sales growth speed up significantly in 2006 thanks to the success of their product initiatives.

The launch of Elseve Nutri-Gloss, in keeping with Romanian women's aspirations, was one of the main driving forces for L'ORÉAL PARIS in this country. Just one month after launch in June 2006, Elseve Nutri-Gloss became the top-selling Elseve product. Nutri-Gloss is the most fashionable haircare product thanks to a high-impact poster campaign and Nutri-Gloss coloured stores.



## RUSSIA

### Biotherm joins top trio of selective brands

Launched on the Russian market in 1998, BIODERM's sales growth rate is now topping 70%. The brand has become one of the top three selective skincare brands. Its expansion reflects the very close affinity of its dynamic, fresh and natural image with the beauty aspirations of Russian consumers. Its success can also be put down to a product range carefully adapted to meet the preferences of Russian women.

The best-selling products are the facial skincare line Aquasource, whose sales have increased substantially, and Biofirm Lift in the anti-ageing segment. In bodycare, Celluli intense Peel was voted Best Anti-cellulite Product of the Year by the readers of *Cosmopolitan Beauty*. Lastly, in the men's market, BIODERM Homme is the unchallenged number one in Russia.



## TURKEY

### Innéov, a promising start

Launched at the end of 2005, Innéov Nutrikozmetik produced sensational results in Turkey. They reflected the success of Innéov Firmness and of the Innéov Hair Mass launch.

The three key factors behind these successes were: the very strong increase in visibility on pharmacy shelves as soon as the first product was launched; the support of scientific spokesmen who made INNÉOV Firmness the hot news story in the skincare segment; and lastly the exceptionally intensive press and television coverage focused on the launch.

INNÉOV, strongly backed up by pharmacists' advice, is available today in 350 pharmacies in Turkey, and its conquest is continuing.

## BRAZIL

### Successful breakthrough for Matrix

Number 1 in American hair salons, MATRIX has achieved a successful breakthrough in Brazil. The product approach has been fully adapted to the needs of Brazilian salons, particularly with Biolage haircare products used for "bio-cauterisation", an exclusive MATRIX service to repair damaged hair, which involves the successive use of three products and the application of heat. Hair colourants, straightening or smoothing (*relaxamento* or *escova progressiva*): the product range covers the whole spectrum of services.

To reach out as many salons as possible, MATRIX set up a network of exclusive distributors to tap deeply into the potential of this vast market.





RESOURCES

# Constant innovation for accelerated growth

Over the years innovation has been at the heart of L'Oréal's strategy.  
This factor was once again one of the driving forces behind the group's development in 2006.



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Production and Technology p.40

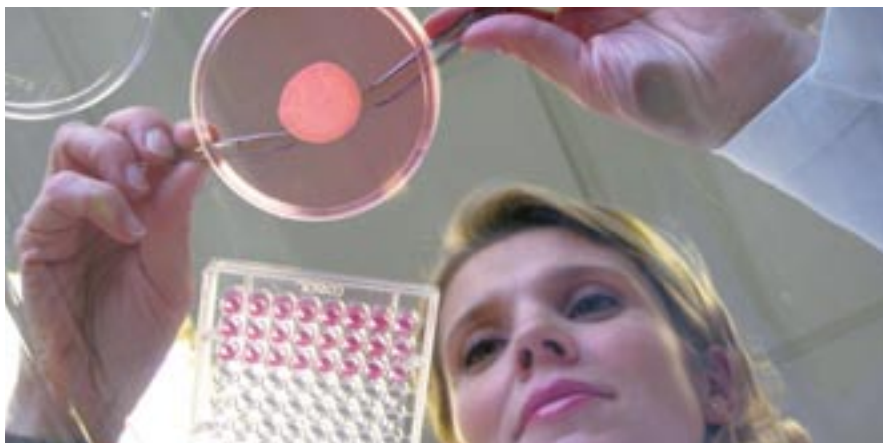
Human Resources p.42

Sustainable Development p.46

# RESEARCH AND DEVELOPMENT



Jean-François Grollier  
Executive Vice President  
Research and Development



Reconstructed skin models.

## Anticipating every aspiration for beauty to trigger innovation

The world is changing, and so is the world of beauty. The expectations of women and men are becoming more diverse. The melting pot effect is continuing, creating new kinds of beauty. Aspirations are changing: some want more natural products and accept their wrinkles in a holistic quest to achieve health and beauty through nutrition and exercise. Others adopt routines aimed at immediate results. Lastly, those most aware of the challenges facing our planet adopt a responsible attitude even when it comes to washing, or using perfume or make-up. Our challenge is to meet all these aspirations, without compromising our unchanging core values: quality, efficacy, safety and sincerity. Thanks to its open-minded approach and its technological expertise, L'Oréal is meeting all these commitments.

### 533

million euros  
invested in 2006  
(including 50% of Galderma  
research investments)

### 569

patents registered in 2006

### 2,961

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

## 2006 highlights

- Acquisition of SkinEthic, a leader in the commercialisation of tissue engineering products.
- Development of Pro-Xylane™, the first active cosmetic ingredient developed using environment-friendly green chemistry techniques.
- Creation of the international applied research and fragrance development department.
- Acquisition of The Body Shop and Sanoflore, and increased sourcing of natural, organic and fair trade raw materials.

# L'ORÉAL'S COMMITMENT

## > Sharing alternative methods

As part of its responsible research policy, L'Oréal's teams innovate while ensuring that tests on animals are avoided. To meet this imperative need, L'Oréal has developed alternative methods. In the early 1980s, the group's researchers began the work of reconstructing skin, the human organ at which its products are aimed. This advance enabled it, as early as 1989, to end the testing of finished products on animals. But European regulations, in the form of the 7<sup>th</sup> amendment to the cosmetics directive and the REACH programme (for the Registration, Evaluation, Authorisation and Restriction of Chemicals), meant that the group had to go further.

In 2000, L'Oréal built an industrial unit in Gerland for the production of reconstructed skin to be used in safety evaluations.

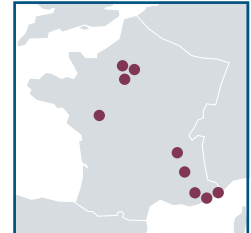
In 2006, the acquisition of SkinEthic, the leading tissue engineering company, demonstrated the group's determination to enlarge the product range by reconstructing other types of tissue for which products are made, such as corneal, oral, oesophageal, nasal and pulmonary epithelia. SkinEthic already markets a reconstructed epidermis model which has been validated as an alternative method. Validation processes are under way for two other methods, for the epidermis and the cornea.

Furthermore, L'Oréal clearly demonstrated its intention of sharing these tools with the pharmaceutical and chemical industry when it became, at the end of 2005, a founding member of EPAA (European Program for Alternative Approaches). This programme brings together the leading European players in pharmaceuticals, chemicals and cosmetics, under the aegis of the European Commission.



SkinEthic markets reconstructed tissue kits for product safety evaluations.

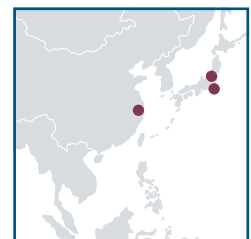
### Cosmetics and dermatological research centres worldwide



> **10 in France**  
Chevilly-Larue, Clichy (2 centres), Tours, Aulnay, Lyon, Sophia Antipolis, Monaco, Nice, Gigors-et-Lozeron



> **3 in the United States**  
Clark, Chicago, Princeton



> **3 in Asia**  
Kawasaki, Tokyo (Japan)  
Pudong (China)

## Understanding consumers in all their diversity

Once again in 2006, the product research and development strategy was guided by the expectations of consumers all over the world.

The starting point for research work is always knowledge of the consumer, and of skin, hair and beauty routines in all their diversity. A major study was thus devoted this year to skin colour, to enable a more effective response to expectations about make-up. Colour and its heterogeneity were measured on thousands of women using objective methods; at the same time, women were asked about their perceptions of colour and their application habits.

Another major study, carried out the world over thanks to the location of the group's research and assessment centres, led to the establishment of a typology of the lips and eyelashes of women of various ethnic origins. On the skin ageing front, the research teams have gone even further. They have compiled atlases, which record the clinical signs of skin ageing in men and women (wrinkles, lines, stains, sagging, etc.). The atlases contain gigantic quantities of information (more than 200,000 data), enabling mathematical and predictive modelling of signs, which take into account the age bracket concerned. This knowledge makes it possible to identify parameters to be targeted and evaluated, so that an appropriate anti-ageing product can be designed.



Evaluating the performance of a mascara begins with an observation of the consumer's application routine.



Promoting and preserving natural biodiversity.

Constantly driven by its determination to take diversity on board, the teams in charge of hair research have compiled a worldwide classification of hair, based on hair fibre shape. The classification was drawn up in conjunction with a population geneticist so as to take considerations of human geography into account. Another team, in association with the CNRS<sup>(1)</sup>, the *Ecole Normale Supérieure* and INRIA<sup>(2)</sup>, achieved a world first: a virtual model of human hair. This research project revealed and pinpointed hair parameters, which are crucial for the development of future generations of haircare products. This is the fundamental knowledge that leads to respect for differences and enables the invention of new kinds of beauty in the future.

### Respect for the environment: the advent of green chemistry

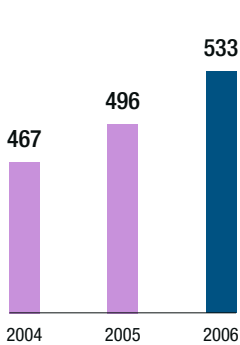
Because it is determined to continue innovating while preserving the environment, L'Oréal uses new processes to make cosmetic ingredients. After seven years of research, L'Oréal's laboratories have developed Pro-Xylane™ (see insert on Innovation). Drawing on a number of patents, this environment-friendly active ingredient is fully in line with the principles of green chemistry: use of a renewable raw material (a wood sugar in this case), synthesis in a limited number of stages (two in this case) to reduce waste, and the use of water as a solvent. The result is a product, which is not only effective in combating the signs of ageing, but also biodegradable, non-bioaccumulable and non-ecotoxic. Research papers and clinical studies have been presented at major international green chemistry and dermatology congresses. The beauty care press, and in particular the magazine *Marie-Claire* welcomed the innovation by awarding Pro-Xylane™ the Beauty Research Award for Excellence. This green chemistry active ingredient is gradually being introduced, both alone and in association with other ingredients, in the L'Oréal group's skincare products.

The drive for innovation forms part of a wider approach based on respect for the environment. In 2006, L'Oréal set up a partnership with the Paris-based *Muséum national d'Histoire naturelle* to ensure that none of its product ingredients are sourced from a vulnerable ecosystem. The acquisition of Sanoflore (a company, which

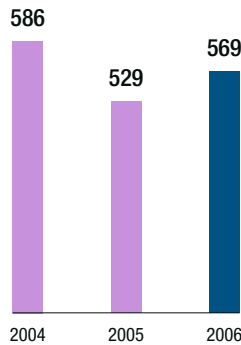
(1) CNRS: National Centre of Scientific Research.

(2) INRIA: National Institute of Applied Information Technology Research.





> Research and development budget (€ million, including 50% of Galderma research investments)



> Number of patents (cosmetics and dermatological research)

specialises in cosmetics based on organic plant formulations) and the integration of The Body Shop will strengthen the group's ability to respond to aspirations for natural beauty. They are now enabling the practical application of internal research that anticipated this trend. All the challenges are taken up with an open-minded approach, through partnerships with suppliers and the

international scientific community. "Seizing up-and-coming trends" has always been the watchword of L'Oréal's research arm. This is why it is exploring the prospects opened up by stem cell biology, genomics, traditional medicines and new optical effects. To innovate in a changing world, research must be diversified, open-minded and productive.

## INNOVATION

### > Pro-Xylane™, the first "green" cosmetic ingredient

As people grow older, signs of ageing gradually become visible: what are the underlying biological phenomena that cause them?

- 1 In 1993, L'Oréal researchers using ultrasound and nuclear magnetic resonance imaging demonstrated that skin sagging takes place in the upper dermis. This tissue is rich in glycosaminoglycans (GAGs), whose synthesis diminishes with age, and this suggested that if GAG synthesis could be reinitiated, this would combat skin sagging.
- 2 Inspired by the natural structure of GAG, L'Oréal's researchers, in collaboration with sugar chemistry expert Professor Lubineau, developed Pro-Xylane™. Its structure is close to that of the first link of a GAG, and the molecule can be obtained through methods fully in line with the principles of green chemistry defined by Professor Anastas in 1998.
- 3 The efficacy of Pro-Xylane™ was first demonstrated *in vitro* on cell cultures and models of "aged" skin. In the picture on the right, the green line indicates improved adherence between the dermis and the epidermis. Subsequently, a double-blind clinical study with biopsies and an instrumental clinical study under external dermatological control confirmed its *in vivo* performance levels on women volunteers. All the women who use it immediately notice its efficacy on wrinkles, dryness and skin sagging. LANCÔME, VICHY and LA ROCHE-POSAY all launched products containing Pro-Xylane™ at the end of 2006.

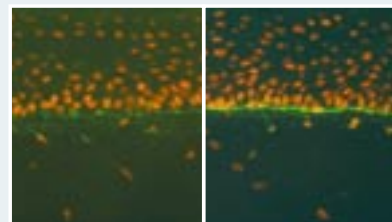
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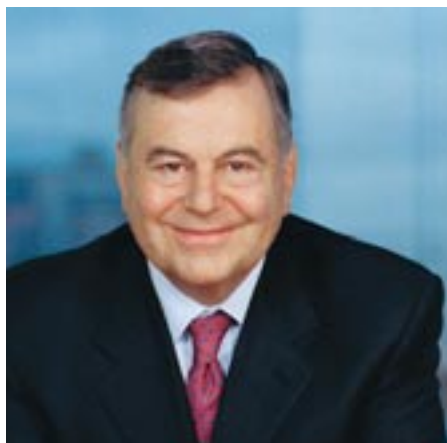
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# PRODUCTION AND TECHNOLOGY



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



The Karlsruhe factory (Germany)  
which won the Safety, Hygiene & Environment Award for Excellence in 2006.

## Optimising organisation and improving productivity

This year's acceleration in industrial performance was driven by three key leverage effects: innovation, production plant optimisation and purchasing cost reductions. Of the 71 packaging patents registered by L'Oréal, 10 were in instrumental cosmetics, a new and promising field of exploration. The innovation drive in process research, which began with shampoo lines, is continuing in other product categories. Manufacturing time gains for skincare products have been as high as 40%. Production plant optimisation is continuing. The ongoing process of merging the functions of sites in the same zone or division has been extended notably to the factories in Brazil. Two industrial sites in the United States have been closed. Performance management programmes with our suppliers have been implemented. This has led to a positive trend in purchasing indexes, despite the impact of higher raw material and energy prices.

	2004	2005	2006
Millions of units Cosmetics plant output	4,307	4,379	4,484
€ millions Cosmetics investments (production & physical distribution commitments)	293	288	270
Index (base 100 in 2004) Comparable product purchasing price index	100	96.3	93.2
Units Packaging patents	80	70	71

2006	Cosmetics output	Cosmetics sales
Western Europe	51%	47%
North America	26%	26%
Rest of the World	23%	27%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## 2006 highlights

- **Record productivity**  
The productivity gain, in terms of units produced per full-time employee, reached a record level.
- **Safety and environment**  
100% of factories are ISO 14001-certified, and 100% of the American sites are OSHA VPP-certified. L'Oréal is the only non-American company to have achieved this distinction.
- **Information systems**  
The new shared information system has been successfully set up in three European sites. The aim is to cover America and Europe by the end of 2008.
- **Social audits**  
100% of L'Oréal's industrial sites were audited by an external organisation in compliance with standard SA 8000. Only minor remarks were made.

# L'ORÉAL'S COMMITMENT

## > Purchasing: ethics and performance

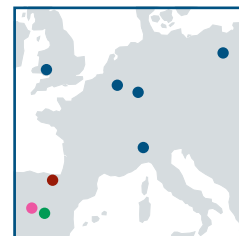
Performance management with suppliers has been reinforced, with the implementation of an ambitious programme of social audits (based on the SA 8000 standard) conducted on the production sites of suppliers and subcontractors. More than 300 audits were conducted under this programme in 2006.

In order to rapidly globalise markets and purchasing, the teams of buyers located in each factory have been replaced by a centralised organisation. Seven Sourcing Centers now handle this function for all Divisions and geographic zones, using a leadbuying approach (centralised purchasing for each category).

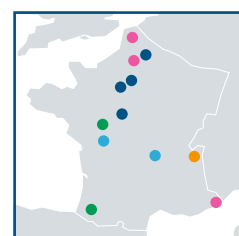


An audited supplier, Shya Hsin Plastic, Suzhou (China).

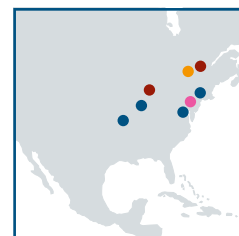
## Industrial factories in the world



> Europe  
20 factories



> of which France  
12 factories



> North America  
8 factories



> Latin America  
4 factories



> Asia – Africa  
8 factories

- Consumer Products: 24 factories
- Luxury Products: 6 factories
- Professional Products: 3 factories
- Active Cosmetics: 2 factories
- Dermatology: 2 factories
- Raw materials: 3 factories

## Optimising production

Industrial projects started up in 2005, such as the expansion of the Suzhou factory in China and the redeployment of the Mexican factory, are completed. These enable the group to keep up with the fast pace of growth in these countries.

The production transfers in the factories of the Luxury Products Division have been completed. Each unit is now specialised in a particular technology.

The positive effects of rolling out the new shampoo process, first introduced in 2005, are continuing: capital expenditure was reduced again, and production regrouping possibilities have been opened up, as at Rambouillet in France where the two shampoo production units have been merged.

Furthermore, agreements have been signed to increase the working hours of staff at three European industrial sites, while agreements to lengthen shifts have been extended to cover all the factories in the United States.

## Improving performance

New prospects are opening up for improving performance. The overhaul of the supply chain will enable increased performance levels in terms of cost and service. The setting up of a centralised purchasing organisation will lead to new cost reduction opportunities (see box above).

## Quality, safety and the environment

There was another remarkable increase in safety indicator levels: the industrial accident rate has been reduced by 25% at group level and by 32% in the factories. 57% of the sites are certified in accordance with OHSAS<sup>(1)</sup> or OSHA VPP<sup>(2)</sup>. 95% of production was carried out under ISO 9001 (2000 version) certification.

## Cost reduction

Productivity gains have reached a record level. There are three reasons for this: an upturn in the production growth rate, simplified organisation of production and improved investment productivity.



Quality station, Rio de Janeiro factory (Brazil).

(1) OHSAS : Occupation Health and Safety Assessment Series.  
(2) OSHA VPP : Occupational Safety and Health Administration Voluntary Protection Program.

# HUMAN RESOURCES



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



Recruitment targets a diversity of talents.

## Developing talent whilst respecting diversity

At L'Oréal, employee development is a key factor in economic performance. The group's goal is to foster the harmonious and sustainable development of its activities. To do so, L'Oréal must spot and develop talent, constantly strengthen its appeal, and ensure that careers are managed responsibly. Every year, a large number of people join the group from around the world. To make their induction easier, in 2006 L'Oréal set up a personalised worldwide induction programme called L'Oréal FIT (Follow-up and Integration Track). The group remains in tune with its employees' expectations through its worldwide human resources network, and through its internal satisfaction surveys which are conducted at regular intervals. And today more than ever, diversity is an essential factor of progress. Encouraged and highlighted by the group's corporate culture, diversity is a powerful creator of prosperity and creativity, based on respect for other people.

### 2006 highlights

- The Brazil team won the Finals of the 2<sup>nd</sup> "L'Oréal Ingenius Contest" for young engineers, ahead of France, Germany, Mexico, the United States and China.
- L'Oréal topped rankings as the ideal employer in Europe for marketing students in the Universum survey. At the same time, for the third year running, L'Oréal came out top in the Trendence survey with European business school students.
- The first European forum on social responsibility and employment opportunities was attended by more than 75 human resources managers from all over Europe.
- In the United States, the *Business Week* magazine ranked L'Oréal as the best non-American company in which to start a career. The group was 16<sup>th</sup> in the overall rankings.

### Diversifying recruitment profiles also means diversifying tools to recruit new talent

L'Oréal is innovating in its recruitment approach by taking new initiatives. In 2006 the group launched "Creativity & Business" workshops in several countries. Aimed at uniting creativity and business sense, these workshops enable up-and-coming young talents to meet acknowledged creative specialists in fields such as design, fragrances or advertising. From Paris to New York and São Paulo, the best creative figureheads of the time are invited to attend the workshops along with the group's marketing teams.

Furthermore, to allow a greater number of students to be part of the company's recruitment process, L'Oréal has set up its own "Assessment Centres", specially adapted to the group's corporate culture. Students are invited to attend a full-day session of group and then individual interviews. More than 1,500 young people took part in the programme in 2006.

## BUSINESS GAMES

### > “L’Oréal Brandstorm”

#### *Turn ideas into products*

Since this game was created in 1993, more than 23,000 students have taken up the challenge of experiencing what marketing really involves. The 14<sup>th</sup> edition covered 32 countries and more than 4,400 students, representing 176 universities, were asked to focus on a bodycare line for the LANCÔME brand. The joint winners were students from Sciences Po Paris (France) and Korean University (South Korea).

### > “L’Oréal e-strat Challenge”

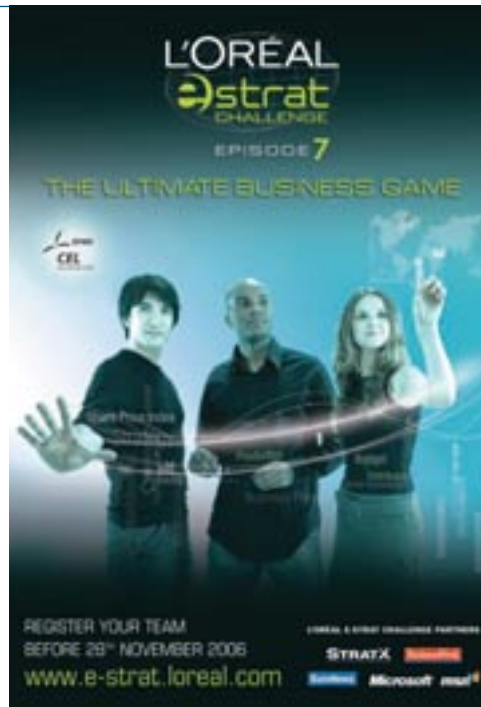
#### *The ultimate business game*

The 6<sup>th</sup> edition of the online business strategy game brought together some 40,000 students from 125 countries. The “L’Oréal e-strat Challenge” game has been awarded CEL (teChnology Enhanced Learning) accreditation from the prestigious European Foundation for Management Development, for the educational and innovative qualities of its online simulation.

### > “L’Oréal Ingenius Contest”

#### *Manage your innovative industrial project*

In the 2<sup>nd</sup> edition of this competition, 118 students in engineering from six countries demonstrated their inventive talent of putting an ambitious industrial challenge into practice.



Each year 50,000 students worldwide take up a real-life challenge in the group’s businesses.

### Management Development Centres



> Europe  
Paris (France)



> Americas  
New York (United States),  
Rio de Janeiro (Brazil)



> Asia  
Shanghai (China)



### Supporting and personalising integration

L’Oréal FIT—Follow-up and Integration Track—is a two-year personalised integration programme. The six-phase process enables each new employees to equip themselves with the rules with which the group operates. The programme involves management committees, managers, human resources teams and the new employee.

In 2006, L’Oréal FIT was rolled out worldwide and the programme is continuously reinforced with best practices from subsidiaries which are then shared around the world *via* a dedicated intranet site.

The first Discovery integration seminar now incorporates the “Reflections on the meaning of beauty” module, which provides new recruits with a basis for reflection about the beauty care profession.

### Understanding the businesses, developing skills and relaying corporate culture

To provide easier access for employees to training programmes and allow for their cultural diversity, L’Oréal has decentralised its activity through four “Manage-

ment Development Centres” in New York, Paris, Rio de Janeiro and Shanghai.

CEDEP (European Centre for Continuing Education), which is located on the Insead business school campus, has organised international programmes providing ideal opportunities for exchanges and dialogue between the group’s Senior Management and managers.

A support programme has been set up for senior executives. It includes leadership courses and innovative schemes to broaden experience, such as the “Global Learning Alliance” with four other leading worldwide companies.

### Creativity and diversity drive innovation

A full creativity development programme has been put together for marketing staff in each of the four divisions. It includes for example the “360° Launch Excellence” seminar, which provides creative coaching for the marketing team of a particular country. The “Osmose” course is designed to stimulate the scientific awareness of marketing development teams.

A major training project is under way, and is initially aimed at raising all European executives’ awareness of diversity issues by the end of 2007. Both the analysis



Developing product expertise and sharing experience and know-how.

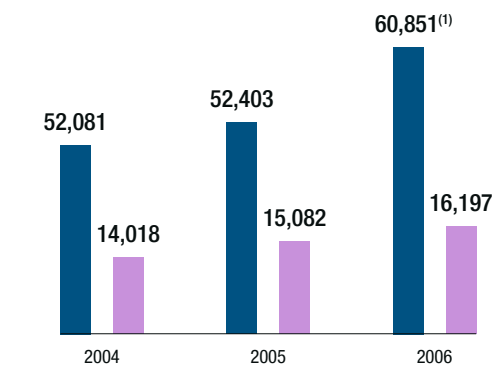
of the needs of each entity, together with training courses, were launched in Autumn 2006.

### Conducting internal opinion surveys

At a time of rapid globalisation and growth, it is crucially important to constantly gather the views of everyone on the ground.

To gain a better insight into the specific characteristics and changing expectations of group employees worldwide, L'Oréal started conducting internal opinion surveys in 35 countries across five continents several years ago.

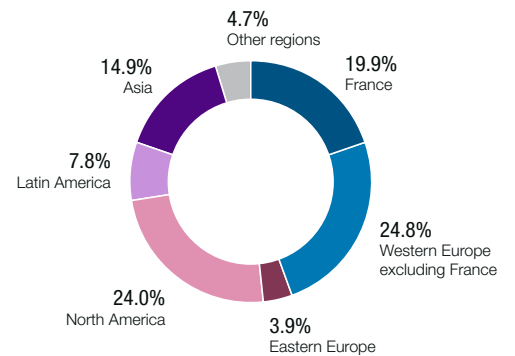
L'Oréal puts the individual at the centre of its development. Everything possible is done to monitor, understand and respond to employee expectations, whilst measuring their degree of commitment and satisfaction.



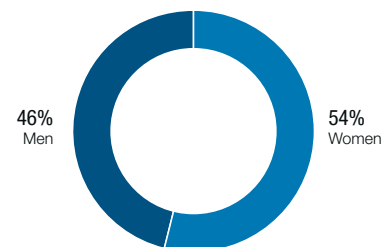
● Global workforce ● Global number of executives<sup>(2)</sup>

#### > Change in workforce

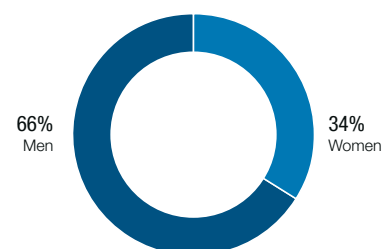
(1) Including The Body Shop.  
(2) Global number of executives in the cosmetics branch.



> Breakdown of employees by geographic zone<sup>(1)</sup> at December 31<sup>st</sup>, 2006



> Breakdown of female and male executives in 2006<sup>(2)</sup>



> Breakdown of female and male management committee members in 2006<sup>(2)</sup>

# L'ORÉAL'S COMMITMENT

## > Making diversity an everyday reality

### Interview with Edward Bullock, Vice-President for Diversity at L'Oréal USA and Jean-Claude Le Grand, Global Director for Strategic Recruitment and Diversity

**You are the first-ever head of diversity at L'Oréal USA.**

**In your opinion, what is the foundation block to this policy?**

E. Bullock: Diversity at L'Oréal USA goes hand in hand with our core principle of respect for the individual. This is one of our essential values.

In our opinion, it is so mandatory that we have incorporated it into our ethics charter. It is also part of our employee assessment criteria. Respect guides the whole of our human resources policy. It is the basis of all our efforts in the field of diversity. Embracing and respecting differences is a way of experiencing diversity to the fullest.

**Fostering diversity: what does that mean in practice for a group like L'Oréal?**

E. Bullock and J.-C. Le Grand: The diversity of our teams and the blending of talents are key factors in L'Oréal's success. That is why the group wants to continue to be enriched by employees from a wide range of backgrounds. The group is opposed to all ideas and behaviour which discriminate between people, particularly on grounds of gender, age, disability, ethnic or social origin, or nationality. L'Oréal runs a large number of schemes in five key areas of leverage: recruitment and integration, training, career development, management and communication.

**How do you put this policy into practice?**

J.-C. Le Grand: To apply our policy and initiatives in everyday working situations, in spring 2006 we created 22 diversity and social cohesion observatories in France. These are places where human resources managers, personnel representatives and employees can interact and exchange. Their purpose is to promote diversity and raise the awareness of employees about all forms of discrimination.



Edward Bullock and Jean-Claude Le Grand.

In partnership with IMS (*Institut du mécénat et de la solidarité*), we took an innovative step forward with the "Employment and Diversity" Forum held on February 28<sup>th</sup>, 2006 at our site at Aulnay-sous-Bois, near Paris. This was the first recruitment forum to be jointly organised by and in a company aimed at recent graduates (with for 4-5 years study after high school) who are from visible minorities and/or difficult areas. The objective of this is to make employment easier for some 200 candidates, by putting them in direct contact with recruitment teams of 16 major companies. Candidates were pre-selected by IMS on the basis of their skills and job vacancies in the partner companies.

Diversity is a remarkably effective way of enriching experience and boosting creativity in exchanges between employees.



# SUSTAINABLE DEVELOPMENT



The laureates and scholarship fellows of the 2006 L'Oréal-Unesco "For Women in Science" Awards.

## Sharing commitment and a sense of responsibility across our business



Looking beyond its financial results and successful business model, L'Oréal carries out its operations within a framework of values shared by all its employees. The group's approach is based on rules of conduct, which reflect founding ethical principles and convictions. L'Oréal's goal is to combine sustainable growth with a sense of responsibility. The following pages set out some of the most emblematic examples of the group's actions in this field, particularly in the two international programmes "For Women in Science" and "Hairdressers of the World against AIDS".

### 2006 highlights

- Presentation of the L'Oréal-Unesco Awards to five laureates as part of the "For Women in Science" programme.
- International roll-out of the "Hairdressers of the World against AIDS" programme.
- Publication of the 2005 Sustainable Development Report and presentation of the Code of Business Ethics on the loreal.com website.
- Official opening of a building heated by geothermal energy: located at Chevilly-Larue near Paris, it is being used by make-up research teams.
- L'Oréal is included for the first time in the European Dow Jones Sustainability Stoxx index.
- L'Oréal is ranked equal first by Vigeo in the luxury goods and cosmetics sector in terms of corporate social responsibility.

### "For Women in Science"

Established in 1998 to acknowledge and encourage women's remarkable achievements in science, the L'Oréal-Unesco "For Women in Science" programme is unique and has an ambitious goal: to recognise excellence through the granting of L'Oréal-Unesco Awards and encourage new talents through international scholarships.

The L'Oréal-Unesco Awards are made to five distinguished female scientists (one from each of five continents). Each scientist receives a prize of \$100,000 USD. The candidates are selected by an international network of some 2,000 scientists, including several Nobel Prize winners. 47 women scientists from 21 countries have already received awards.

On March 2<sup>nd</sup>, 2006, awards were presented to five laureates:

- for Africa, Habiba Bouhamed Chaabouni (Tunisia),
- for Latin America, Esther Orozco (Mexico),
- for North America, Pamela Bjorkman (United States),
- for Asia/Pacific, Jennifer Graves (Australia),
- for Europe, Christine Van Broeckhoven (Belgium).



**The world needs science, and science needs women**

Unesco-L'Oréal scholarships are intended to encourage the most talented scientists through two financial aid programmes: international Unesco-L'Oréal fellowships and national L'Oréal scholarships. Each year, the international Unesco-L'Oréal fellowships are awarded to fifteen post-doctorate students, who wish to continue their research. Up to now, 105 young female researchers have been helped under the scheme. National L'Oréal scholarships, supported by the National Commissions for Unesco, have been created by L'Oréal subsidiaries in conjunction with the national commissions. Scholarships of this type are usually granted to doctorate students. More than 200 students and researchers have already been awarded national scholarships.

**Hairdressers of the World against AIDS**

In partnership with Unesco, L'Oréal launched "Hairdressers of the World against AIDS" in 2005. This preventive education programme is both simple and ambitious, and makes use of a powerful asset, i.e. the group's network: more than 3,000 internal and external instructors, 190 academies and training studios, and 500,000 partner salons. Set in motion in 2003 by L'Oréal in South Africa, the initiative has since been extended to the whole of Sub-Saharan Africa, India, Brazil, France, the United King-

**ETHICAL PRINCIPLES OF SUSTAINABLE DEVELOPMENT**

- To take responsibility for our employees, our consumers and local communities.
- To respect today the environment of tomorrow, and limit the environmental impact of our activities.
- To continue to develop our social policy, whilst sharing the benefits of our growth with employees.
- To foster education and inclusion for the unemployed and the handicapped.
- To make a long-term commitment, alongside communities, to promote projects that serve the wider community in the countries in which we operate.



The ethical values and principles of L'Oréal, particularly with regard to sustainable development, have been stated in a Code of Business Ethics since 2000.

dom, China and Italy. In the first half of 2007, launches are scheduled in Germany, Japan, Spain, Portugal, the Netherlands, Belgium, Thailand, Malaysia, Mexico and Argentina. The initiative will be extended to all continents in the second half of 2007, particularly to Russia and Ukraine.

Launch of the L'Oréal-Unesco "Hairdressers of the World against AIDS" programme in China.





L'Oréal encourages cultural, ethnic and social diversity within the group.



Ville Saint-Laurent factory (Canada), the winner of the 2006 Award for Best Environmental Initiative.

The programme set up by L'Oréal has been steadily gaining pace year by year. The group first devised and implemented this plan as generic supporting mechanism for aids prevention within its 700-strong workforce in South Africa. The next stage involved HIV prevention learning modules being included in hairdresser training courses in South Africa.

The purpose of the programme is to supply reliable, simple and useful information about HIV and AIDS to all participants. L'Oréal has compiled a range of materials (educational materials, posters for hair salons, brochures for consumers) to support hairdresser training courses in each country. In 2006 the group dedicated €400,000 for the provision of equipment and staff.

**Encouraging initial results**

By the end of 2006, already tens of thousands of hairdressers have been trained. In 2007 the aim is to train hundreds of thousands of hairdressers, whether through our salon education network, during internships or professional events and *via* professional training schools.

This group initiative has already been acknowledged with an award. In May 2006, L'Oréal received the Professional Excellence Award from the GBC<sup>(1)</sup> for directing its key training expertise towards the fight against AIDS.

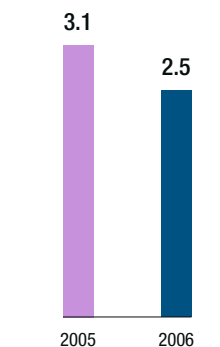
On December 1<sup>st</sup>, 2006, to mark International AIDS Day, L'Oréal launched a website: [www.hairdressersagainstaids.com](http://www.hairdressersagainstaids.com).

**1996-2006:  
10 years of European social dialogue**

In 2006, the L'Oréal European Works Council (IEDS) celebrated its tenth anniversary, and the tenure of IEDS employees' representatives was renewed for the third consecutive time.

The Council was set up by an agreement concluded in 1996 between the management and French and European trade union organisations (FECCIA<sup>(2)</sup> and EMCEF<sup>(3)</sup>), which created what was to later become the L'Oréal European Works Council (IEDS).

The aim of the IEDS is to provide employees' representatives with information and exchange ideas with them about the group's situation and the economic, financial and social outlook. It has 30 members representing 16 European Union and European Economic Area countries. Each representative is provided with economic and social training. In all, 24,000 employees are represented at the European Works Council.



> 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 fell by 19.4%.

(1) GBC: The Global Business Coalition against HIV/AIDS is an alliance of 220 multinational companies (including 75 based in Europe).

(2) FECCIA: European Federation of Managers in the Chemical and Allied Industries.

(3) EMCEF: European Mine, Chemical and Energy Workers Federation.

# L'ORÉAL'S COMMITMENT

## > A research building which meets HQE® standards

In August 2006 the make-up research teams moved into a new building, which complies with HQE® (*Haute Qualité Environnementale*) standards for high environmental quality.

At the long-established site at Chevilly-Larue, an innovative architectural approach was adopted for the 10,000 square metres of laboratories and offices. The building complied with HQE® standards from the design stage onwards. The two main priorities for project management were:

- optimisation of the energy balance through connection to the local geothermal energy network, high-performance insulation and an efficient heat recovery system,
- respect for the immediate environment with a system of rainwater collection for the watering of lawn areas, abundant plantations and a design aimed at maximising working comfort.



Chevilly-Larue site (France): new research buildings meet HQE® standards.

The project was given the status of "pilot project of an HQE® approach in the service sector" by the sector's certifying organisation. This project will act as a benchmark of HQE® buildings in the service sector and thus benefit the community at large.

The Council meets twice a year for a preparatory meeting and a plenary meeting. Between meetings a Secretariat for Liaison, with at least two nationalities represented, is responsible for maintaining links between management and the members.

The ten-year period that the Council has been in existence demonstrates L'Oréal's commitment to the development of social dialogue in all the countries in which it operates.

## A recognised commitment

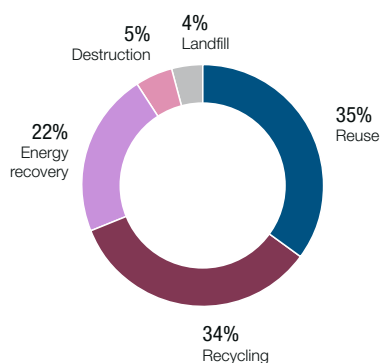
In light of all these undertakings, L'Oréal is included in most of the international sustainable development stock market indexes (Vigeo's ASPI Eurozone, FTSE-4Good, Ethibel Sustainability and Dow Jones Sustainability).

In 2006, Vigeo, an independent agency, which rates and evaluates social and environmental responsibility, ranked L'Oréal equal first for corporate social responsibility in the luxury goods and cosmetics category.

	2005	2006	Change
Litre/finished product			
Water consumption	0.717	0.696	-2.9%
kWh/1,000 finished products			
Energy consumption	187	176	-5.9%
In %			
Waste reuse and recycling index	89%	91%	+2.2%

For more information, please consult the group's Sustainable Development Report, or the online version at the website [www.loreal.com](http://www.loreal.com)

## > Change in environmental indicators (group factories and distribution centres)



## > Waste reuse and recycling in 2006



## > CO<sub>2</sub> emissions in grams/finished product

## Professional Products



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## Consumer Products



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## Luxury



## COSMETICS

# Excelling in all our distribution channels

In both mass-market and specialised outlets, L'Oréal affirmed strong performance for 2006. The integration of The Body Shop strengthens the group's ability to adapt to new consumer aspirations.



Products

Active Cosmetics

THE BODY SHOP®





# Professional Products

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

# PROFESSIONAL PRODUCTS



**Jean-Jacques Lebel**  
President  
Professional Products

## Challenges & strategy

The Division's key focus is to be the partner of the greatest number of hair salons around the world. Firstly, through offering differentiated brands, enabling different kinds of salons to express their individuality. Secondly, through increasingly targeted innovations to improve the quality of services in hair colourants, permanent waves, styling and haircare. These new products help salons to build up their customer base by focusing on new target groups. Finally, the Division's educational efforts support and inspire hair salons and are tailored according to their stage of development as well as their aspirations and in a way which is adapted to each region of the world. Furthermore, we took on a particularly important commitment for sustainable development in 2005 with Unesco, teaming up with hairdressers all over the world to help combat AIDS.

### CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Western Europe	960.1	980.3	46.1%	+2.1%	+2.1%
North America	649.6	635.5	29.9%	-1.2%	-2.2%
Rest of the World	451.2	510.0	24.0%	+14.3%	+13.0%
<b>TOTAL</b>	<b>2,060.9</b>	<b>2,125.9</b>	<b>100%</b>	<b>+3.8%</b>	<b>+3.2%</b>

### CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Hair colourants	813.9	842.8	39.6%	+3.8%	+3.5%
Styling & waves	359.4	349.5	16.4%	-2.4%	-2.8%
Shampoos and haircare	887.6	933.6	43.9%	+6.2%	+5.2%
<b>TOTAL</b>	<b>2,060.9</b>	<b>2,125.9</b>	<b>100%</b>	<b>+3.8%</b>	<b>+3.2%</b>

## // 2006 review

In 2006, growth was stronger in Western Europe (+2.1%). In North America, although the brands were in excellent health, sales were held back by turbulence in the distribution sector triggering inventory reductions and a decision, made at the end of the year, to adjust the network to best-performing partners. In the Rest of the World zone, growth continued to accelerate, particularly in Russia (+42%), Latin America (+17%), China (+23%), Japan (+6.4%) and India (+46%). The Division's growth continued to outstrip the hair colourant and haircare market. Styling and hair wave sales followed the trends in the United States market.

## // 2007 outlook

Several factors should favour the Division's development: the strengthening of the partnership with the top distributors in the United States; the Division's ongoing expansion in the highly lucrative luxury sector; and the acceleration of the geographical roll-out of all the Division's brands, particularly REDKEN and MATRIX.



## 2006 highlights

- Worldwide success for Richesse/Hi Richesse hair colourants from L'ORÉAL PROFESSIONNEL.
- Relaunch across the globe of the Nutritive range with Gluco Active technology by KÉRASTASE.
- Powerful expansion in the growth-relay countries, particularly in the strategic countries of the BRIC zone (Brazil, Russia, India, China).
- Significant growth acceleration in Europe and strong growth in Japan for all the Division's businesses.
- Strengthening of the Division's worldwide leadership in education, given the intensification and modernisation of its training programmes and the international development of new Academies.
- Distributor network in the United States refocused at the end of 2006 to concentrate on top partners.

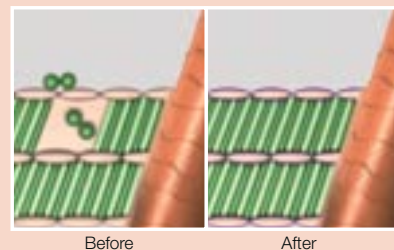
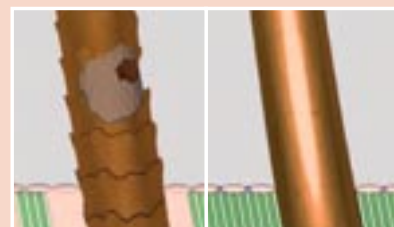


L'Oréal Professionnel, Lumino Contrast range for highlighted hair.

## INNOVATION

### > Age Recharge by Kérastase: the first total anti-ageing haircare programme

- 1 For the first time, by simultaneously acting on both the hair fibre and the scalp, Age Recharge has re-established the potential of hair rejuvenation.
- 2 The key underlying ethos is based on the link between the scalp epidermis and the external form of the follicle. By bringing nutrients to the surface of the scalp, the follicle environment may be improved, thus encouraging the production of thicker hair. Which nutrient? P-Liposome, a patented L'Oréal ingredient used in Lipo-Recharge massage-lipodensifier.
- 3 The Age Recharge programme: during stage 1 in the haircare process, the Age Recharge bath moisturises the scalp and makes it suppler. The Age Recharge mask then provides nourishment and repairs damage caused over time. In the final stage, Lipo-Recharge encourages the scalp back to its former role as a nutrient supplier.



The Professional Products Division has a portfolio of unique and complementary brands. However mature the local hair professional market is, the Division is in a position to meet 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 haircare.

### L'Oréal Professionnel

The brand has continued to win market share on all continents and in core segments through its strong value-added innovations.

In hair colourants, Richesse has established a successful footing and Symbio is performing strongly in the direct colour segment.

In haircare, the relaunch of Vitamino Color, and the launch of the Lumino Contrast range for highlighted hair, ensured continuing strong growth for the Série Expert line.

In styling, the strengthening of the Play-Ball product's position and the launch of the Hair Mix range for mixed-race hair have proved a success.

In the textures sector, the brand is continuing to win market share in a region with strong potential, namely Asia.

### Kérastase

KÉRASTASE stepped up its worldwide leadership in the luxury salon market. The brand has a high growth rate in countries, such as the United States and Japan, whose growth driver effect for the brand across the world has been established. In 2006, KÉRASTASE continued to apply its innovation strategy.

The relaunch of Nutritive with Gluco Active technology has been a success, led by the range's star haircare product Oléo Fusion.

A pioneer in the baby-boomer market with its anti-ageing strategy, the brand has extended its Age-Recharge line with a new programme combining a bath and a lipodensifier for the scalp.

Densitive, extremely popular with hairdressers, is developing a new approach to hair beauty in the nutritional complements sector.

Lastly, the success of new services such as Kérathermie, an original salon-exclusive haircare treatment programme, is a major breakthrough, and is moving the development of KÉRASTASE salons up a gear.

### Redken

REDKEN is gaining ground in all the brand's markets:

- launch of Shimmer One and relaunch of Color Fusion in hair colourants,

- launch of Blonde Glam in the haircare sector and the new Chemistry System haircare range.

REDKEN is recognised as a key brand by the whole hair-dressing profession in the United States. In 2006 the brand received seven distinctions from the American Stylists' Community: best company; best Academy; best education programme; best offer in permanent hair colourants, semi-permanent hair colourants and haircare products; and best brand identity.

L'Oréal Professionnel, Brazil.



Redken, United States.





Matrix, Russia.



Mizani, France.

### Matrix

The brand's geographical expansion continued at a very rapid pace. MATRIX is today present in 49 countries and 255,000 hair salons, with substantial growth prospects in all the BRIC countries.

There was a series of successful launches in 2006. Vavoom and Biolage are continuing to prove highly successful, and they are opening up a substantial growth potential. In the hair wave segment, Relaxima and Opti Smooth provide solutions ideally suited to the different geographic zones.

Through its education activity, MATRIX also provided hairdressers with ways to develop and modernise their salons.

### Mizani

This expert brand for Afro-American and mixed-race hair is continuing its geographical roll-out in new countries, by moving into upmarket salons with services whose quality is acknowledged by top professionals. In 2006, MIZANI launched Thermasmooth and Butterblend.

## PARTNERSHIP



> SYMPOSIUM REDKEN //  
The Best Education Event

**REDKEN Symposium voted Best Education Event by the American Stylists' Community.**

More than 10,000 REDKEN hairdressers from all over the world took part in the Las Vegas Symposium, the largest hairdressing event in the world organised by any single brand. Over three days, enthusiastic participants eager to improve their expertise, attended 15 seminars covering all aspects of the profession. REDKEN was also acknowledged by a panel of 20,000 American hairdressers as the number one partner of the profession, and the number one partner for education, thanks to its Academy: The Exchange 5<sup>th</sup> Avenue.



# Consumer Products

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

# CONSUMER PRODUCTS



Patrick Rabain  
President  
Consumer Products

## Challenges & strategy

The most important focus for the Consumer Products Division is accelerating the geographic roll-out of the brands, in particular GARNIER, while taking full advantage of the dynamic trends in emerging markets as tens of millions of new consumers become able to afford cosmetics for the first time. Our aim is also to create new subsidiaries in these countries (Ukraine, Serbia and Bulgaria for example in 2006), whilst moving into all the segments in which we are not yet operating.

The second focus is preparing the Division's two core brands for an offensive. L'ORÉAL PARIS has successfully tailored its affordable and mass prestige product range to become the number one beauty brand worldwide. Today, there is a new impetus at GARNIER, which is to become the favoured brand of billions of consumers who share its key values of health, nature and proximity.

Finally, the third focus is to differentiate and enhance the value of the Division's product ranges through innovation, whilst developing blockbuster products to drive market growth. The imaginative and constantly renewed product range means we can win market share and justify price differences as compared with low-priced products and retailer brands.

### CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Western Europe	3,520.1	3,640.9	46.1%	+3.1%	+3.4%
North America	2,077.1	2,130.9	27.0%	+3.4%	+2.6%
Rest of the World	1,902.2	2,131.6	27.0%	+13.3%	+12.1%
<b>TOTAL</b>	<b>7,499.4</b>	<b>7,903.5</b>	<b>100%</b>	<b>+5.8%</b>	<b>+5.4%</b>

### CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Hair colourants	1,543.2	1,587.2	20.1%	+2.8%	+2.8%
Haircare and styling	2,196.0	2,269.4	28.7%	+3.2%	+3.3%
Make-up	2,026.2	2,136.5	27.0%	+6.3%	+5.4%
Skincare	1,414.6	1,616.5	20.5%	+14.6%	+14.3%
Other	319.3	293.8	3.7%	-4.8%	-8.0%
<b>TOTAL</b>	<b>7,499.4</b>	<b>7,903.5</b>	<b>100%</b>	<b>+5.8%</b>	<b>+5.4%</b>

## // 2006 review

In 2006, like-for-like sales in the Consumer Products Division increased by +5.8%. The upturn in Western Europe was confirmed (+3.1%) in markets which returned to growth, including those offering hair colourants. Sales in North America continued to grow (+3.4%).

Growth in the Rest of the World accelerated with a growth rate of +13.3%. The Division made progress in each of its core business segments. There was outstanding sales performance in skincare products (+14.6%), which now account for more than 20% of the Division's sales.

## // 2007 outlook

The fourth quarter's good sales performance (+6.5% like-for-like) was driven by accelerating sales in the Rest of the World zone (at +14.8%) and excellent performance in the make-up and skincare segments. This sets good expectations for 2007 with this new growth set to continue.

## 2006 highlights

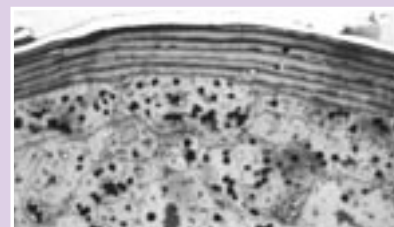
- In 2006, accelerating growth (+16%) in the BRIMC countries (Brazil, Russia, India, Mexico and China) meant the Rest of the World zone contributed 27% of the worldwide total, i.e. as much as North America.
- Return to growth in Western Europe (+3.1%), boosted by buoyant markets, market share growth in haircare and skincare, and the enhanced value of our new products.
- GARNIER has broken the 2 billion euro barrier, reflecting strong growth (+9.7%), particularly in North America where the brand has reached 500 million dollars, an excellent launch pad for conquering the very promising United States skincare market.
- Good performance from the productivity programmes: gross profit has increased significantly, reflecting a robust increase in units sold, improved production costs, and supply chain gains.
- Increased good control of selling, general and administrative expenses allowed the Division to release additional business means for developing markets and products.



## INNOVATION

### > Casting Crème Gloss by L'Oréal Paris: an ammonia-free hair colourant

- 1 To give hair a lighter or darker colour, colourant compounds are inserted into the hair shafts. This is done by opening up the hair shafts using ammonia which allows the penetration of oxygenated water and colourant precursors, both combining to form a colourant in the hair fibre.
- 2 Efficacy, resilience, respect for hair integrity: the cosmetic qualities of conventional colourants are undeniable; but there is a major drawback: users object to the strong smell generated by ammonia. After repeated attempts, L'Oréal researchers succeeded in overcoming the difficulties, and identified an odour-free ingredient which has similar properties to ammonia.
- 3 This method is very effective for one-shade permanent hair. This innovation, which was eagerly anticipated for over ten years, has been a worldwide success for several brands, including L'ORÉAL PARIS with Casting Crème Gloss.





L'Oréal Paris, Mexico.



L'Oréal Paris, Russia.

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

L'ORÉAL PARIS demonstrated that it is ideally positioned as the high technology and affordable luxury brand for exacting consumers. The brand embodies the diversity of beauty across the world through its multi-national ambassadors (Indian, Chinese, American, European, African), and through its wide age diversity (Jane Fonda and Diane Keaton joined the Dream Team in 2006). The world number one cosmetics brand, L'ORÉAL PARIS achieved +5.2% like-for-like growth in 2006, with sales of more than €4 billion. Skincare, make-up and hair-care all recorded good results. Hair colourant sales improved, while styling remained sluggish. Sales in Western Europe increased in all the Division's business segments. It was a mixed year in North America: remarkably good in make-up, solid in hair colourants, and more difficult in skincare. L'ORÉAL PARIS had an exceptional year in the emerging markets: +29% in China, +31% in Russia and +23% in Brazil. In facial skincare, China became the second largest market for L'ORÉAL PARIS, after the United States.

Sales were spectacularly high in China in skincare, thanks to simultaneous success stories for Revitalift White and UV Perfect with Mexoryl XL technology. Men Expert successfully continued its growth. Lastly, L'ORÉAL PARIS strengthened its position in the self-tanning market with its Nutri-Bronze range.

In make-up, the brand had a very good year thanks to the success of Telescopic mascara, Infaillible foundation and the wider availability of True Match foundation in Asia.

With the launch of Star Secrets lipstick, L'ORÉAL PARIS has created a unique concept, associating a mini-range of lipsticks and eye make-up with the signature of each star in the Dream Team, corresponding to the complexion and eye colour of each of our ambassadors. This success made L'ORÉAL PARIS lipsticks number one on the American market during the last quarter of 2006. Furthermore, the brand confirmed its foundation leadership thanks to Age Re-Perfect, a foundation for mature skin.

In haircare, Elsève continued its worldwide success story with Nutri-Gloss, particularly in Latin America. The brand launched Elsève Intensif, the first mass-market anti-dandruff line to use Selenium S Active. This technology, widely recognised to eliminate dandruff faster, has enabled Elsève to gain a foothold in the anti-dandruff shampoo market. In the hair colourants segment, L'ORÉAL PARIS innovated with a technology that covers grey hair without using ammonia, which was launched in the Casting Crème Gloss range (Natural Match in the United States). The dynamic sales of Elnett and the successful relaunch of Studio Line enabled the brand to preserve its leadership in the styling segment.



## Garnier

In 2006, the GARNIER brand achieved an excellent growth rate of +9.7% and sales topped the €2 billion mark for the first time. GARNIER's business model is particularly effective not only in the United States, but also in the BRIMC countries: GARNIER offers quality products adapted to local needs, which are in tune with consumer preferences.

The brand's new slogan, "Garnier, Take care", is a response to a deep-lying and universal aspiration, and respects the diversity of consumers whilst responding to the wave of appeal for healthy, natural products. All products in GARNIER's catalogue made a contribution to growth in 2006. Fructis haircare sales grew by +8%, with market share records in the United States (number 2 in haircare and styling). The Ultra Doux brand also recorded strong growth in its traditional markets. Nutrisse hair colourant is continuing to conquer markets across the world. It is set to become the number two hair colourant brand in terms of units sold worldwide.

Growth in sales of GARNIER skincare products accelerated. In facial skincare, the brand improved its market share in Western Europe. It is now number one in this market in several countries in Eastern Europe. There was outstanding performance from products, such as the UltraLift anti-wrinkle line, the Pure anti-bacteria line, Nutritionist skincare and the skin lightening products sold under the Light brand in Asia.

2006 was an excellent year for the brand in bodycare, with its two star franchises: Body Repair for dry skin and Body Tonic for slimming and firmness. GARNIER also scored another success in the "gradual tanning" segment with Body Summer.

Lastly, in sun protection products, GARNIER's market share in Western Europe climbed sharply thanks to its franchises UV Sensitive and Clear Protect (a transparent, trace-free product for a high level of protection). The acquisition of Delial has also enabled GARNIER to become the market leader in Spain.

Finally, 2006 also saw the launch of Garnier skincare in China. The store sales of this range are promising, backed up by advertisements featuring Chinese actress Zhang Ziyi.



Garnier,  
Light range.

Garnier, China.





Maybelline, India.

### Maybelline New York

Acquired by the L'Oréal group in 1996, MAYBELLINE NEW YORK today operates in 114 countries. It is a universally appealing American brand, which is urban and affordable, with formulas tailored to suit specific local needs.

The like-for-like growth of MAYBELLINE, the world's number one make-up brand, achieved sustained growth at +5.0%. MAYBELLINE sales have increased in all regions of the world. In the United States, sales performance figures ranked amongst the top for the last five years. Growth was also high in Latin America and the United Kingdom, but not as fast in the rest of Europe. In 2006, MAYBELLINE reinforced its market share through its core range of products, whilst benefiting from new advances in its lipstick and mascara ranges.

It was a good year for Dream Matte Mousse foundations, with success for both Dream White Mousse in Asia and Dream Mousse Blush. The success of Instant Age Rewind foundation was established in the mature skin segment.

In eye make-up, Lash Stylist was the year's most important innovation, with its patented brush for bold lash sculpting. Volume Express mascara was revamped, and boosted by a new advertising campaign. Specially developed for Asian markets, the smudge-free lengthening mascara Unstoppable, was given an excellent welcome.

Moisture Extreme and Superstay lipstick both achieved double-digit sales growth. The revamped Water-Shine lipstick won back market share, following the very promising launch of Water Shine Elixir.

Lastly, the brand's communication is again focusing on the famous model Christy Turlington. She will be the ambassador of the Instant Age Rewind and Moisture Extreme brands for more mature customers.



SoftSheen-Carson, Optimum Care range.

### SoftSheen-Carson

This was a disappointing year for the brand, affected by the poor season in South Africa for the deodorants Sadie and Blue Ice. However, total sales of ethnic hair relaxing, hair colourant and haircare products increased, maintaining their world leader position with the Dark & Lovely, Optimum Care and Let's Jam ranges. Finally, in the United States market, Dark & Lovely hair colourants posted excellent results, and the relaunch of the Let's Jam range met with a good response.

## Club des Créateurs de Beauté

2006 was a year of contrast for cosmetics mail order and Internet sales specialist CLUB DES CRÉATEURS DE BEAUTÉ (CCB), jointly owned 50/50 by L'Oréal and 3 Suisses: a good performance in Japan (the second largest CCB subsidiary), but a more difficult position in Europe, where the catalogue sales market environment is very tough. For the second year running, Internet sales grew very rapidly, accounting for one quarter of CCB's total sales at end-2006. The trend was very strong, particularly in France (29%) and Taiwan (38%). With 26 million visits in 2006, the ccb-paris.com site is the second most popular e-commerce site in France. As the Internet is a key development vector, in October 2006, CLUB DES CRÉATEURS DE BEAUTÉ launched a new version of its e-commerce site, which is particularly effective in consumer advice and user-friendliness. Furthermore, CCB was awarded the *Marie-Claire* French Beauty Grand Prix award for its facial skincare line Norméa 28 Prof. Christine Poelman.



Club des Créateurs de Beauté, France.

Club des Créateurs de Beauté,  
Hydrastretch Agnès b range  
and Cosmence.



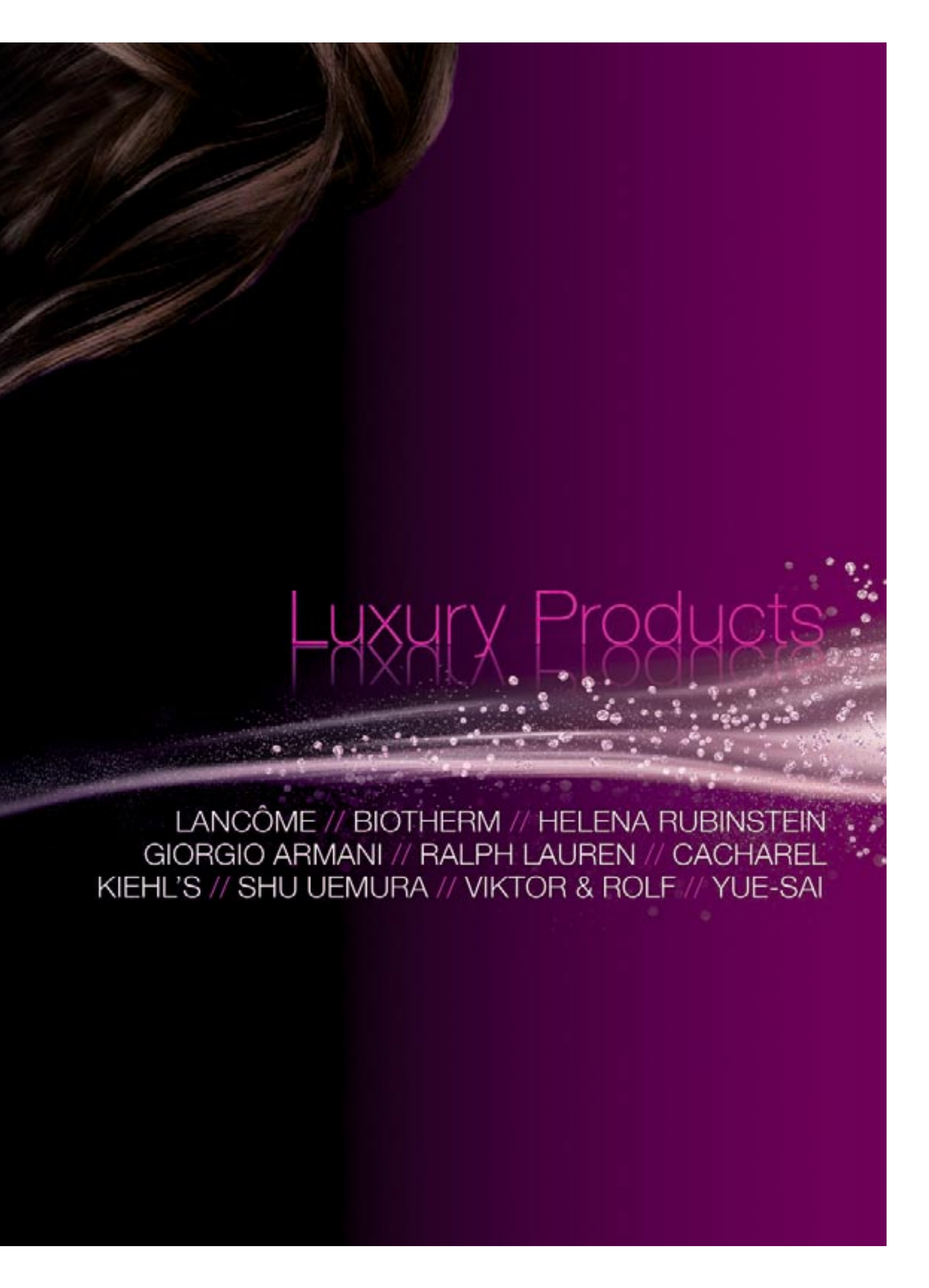
## PARTNERSHIP



### > CHRISTOPHE ROBIN // Hair Colourant specialist for L'Oréal Paris

"I started working for L'Oréal in the early 1990s as a colourant specialist for ads. Our collaboration took on another dimension a few years ago when the teams of L'ORÉAL PARIS asked if I would work with them in terms of new hair colourant products. Basically, I act as an advisor to the marketing teams at L'ORÉAL PARIS. With them I share my experience and my vision of the profession, its changes, and the main trends I pick out when I am immersed in the universe of fashion designers and major couturiers. Like make-up, hair colourants have now become a real fashion accessory. The profession of the hair colourant specialist has changed. The products available today mean that colourants have become a sort of hair make-up. This means that customers can be offered a way of setting off their complexion, their eye colour... so that they can change their look discreetly. The current trend is for gentler hair products, whose shades fit in better with natural colours. I am very pleased with Casting Crème Gloss from L'ORÉAL PARIS, which uses an ammonia-free formulation. Another advantage of this product is the fine palette of colours. Tomorrow's hair colourants will be even gentler and more comfortable, with natural shades, as we are seeing today. In two to three years' time, very bright and unusual colours should come back into fashion."





# Luxury Products

LANCÔME // BIOTHERM // HELENA RUBINSTEIN  
GIORGIO ARMANI // RALPH LAUREN // CACHAREL  
KIEHL'S // SHU UEMURA // VIKTOR & ROLF // YUE-SAI

# LUXURY PRODUCTS



**Marc Menesguen**  
President  
Luxury Products

## Challenges & strategy

The dynamism of the selective goods market is sustained by the constantly renewed consumer demand for innovation and luxury. This is just as true of mature Western markets as of emerging markets where the luxury product customer base is growing fast. The Luxury Products Division's rich portfolio of complementary brands means it can meet a diverse range of requests, in terms of products and services, within the framework of a global strategy based on innovation and added-value, as well as enhanced high-end technological advances from the Division's latest scientific innovations in skincare and make-up. Sales in the fragrance category were particularly high, a reflection on the development of major global brands such as **GIORGIO ARMANI**, and of new brands such as **VIKTOR & ROLF**. The geographic expansion of our emerging brands is continuing: **KIEHL'S** in Asia and Europe, and **SHU UEMURA** in North America and Europe. Lastly, constant efforts are being made to control costs and increase the productivity of the Division's structures, in order to improve efficiency and responsiveness. This strategy will enable the Division to generate sustainable growth and win new market share over the coming years.

## // 2006 review

2006 confirmed the dynamism of the worldwide selective goods market. The most significant development was the strong upturn in Europe, where the Division achieved 5.3% growth, reflecting broadly similar trends across our main markets. Accelerating sales in the emerging markets generated a powerful growth relay effect, particularly in China, Eastern Europe, Latin America and the Middle East.

The Division continued its skincare offensive with new products such as Absolu Premium Bx, the anti-ageing breakthrough product in 2006, based on enhanced technological advances. There was significant progress in perfumes, reflecting the powerful growth of **GIORGIO ARMANI** and the increasingly strong appeal of **VIKTOR & ROLF**. Lastly, the Division bolstered its position as the men's market leader (in perfumes and cosmetics), thanks to the resounding success of **BIOOTHERM Homme**.

In North America, restructuring in the retail sector had a negative impact on the market, but our brands proved extremely resilient, and we were able to win market share in women's fragrances.

### CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Western Europe	1,545.7	1,627.3	43.1%	+5.3%	+5.3%
North America	1,072.3	1,087.6	28.8%	+2.4%	+1.4%
Rest of the World	964.4	1,058.2	28.0%	+7.6%	+9.7%
<b>TOTAL</b>	<b>3,582.4</b>	<b>3,773.1</b>	<b>100%</b>	<b>+5.1%</b>	<b>+5.3%</b>

### CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Skincare	1,319.8	1,405.2	37.2%	+5.2%	+6.5%
Perfumes	1,372.3	1,488.3	39.4%	+8.8%	+8.5%
Make-up	890.3	879.5	23.3%	-0.9%	-1.2%
<b>TOTAL</b>	<b>3,582.4</b>	<b>3,773.1</b>	<b>100%</b>	<b>+5.1%</b>	<b>+5.3%</b>

// 2007 outlook

Worldwide trends in the selective market are favourable, offering very promising prospects, while the retail environment is now healthier in Western Europe and North America.

The quality and diversity of the brand portfolio means the Division is able to cover the market comprehensively. At the end of 2007, the new DIESEL brand will further strengthen this strategic position.

The Division's solid international presence, its acknowledged expertise and the quality of its teams enable it to coordinate and boost the success of the innovations launched by the brands.

Finally, ongoing efforts to increase efficiency and productivity will provide the resources required for the development of new brands and businesses, while also ensuring a steady improvement in results.



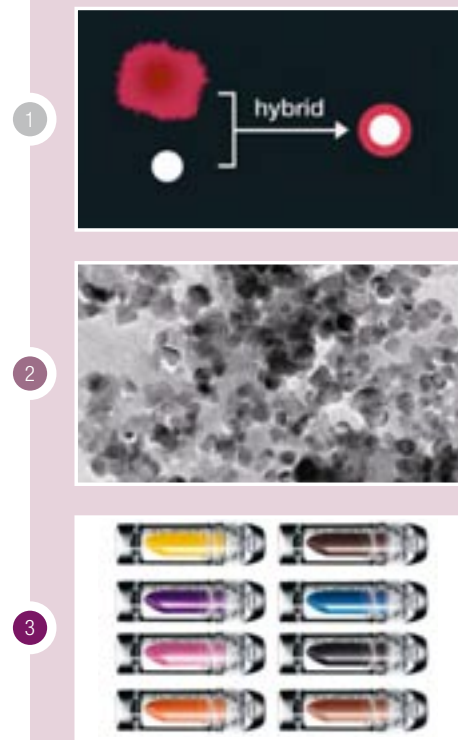
Lancôme, Absolué Premium Bx range.

INNOVATION

> **Shu Uemura:**  
getting the colour you choose on your lips

Women can be disappointed when they apply a lip colour which does not seem identical to that of the lipstick itself.

- 1 After three years of collaboration with the Japanese company Toda Kogyo, L'Oréal's teams have found the solution: hybrid pigments (red, blue and yellow), which consist of a layer of organic cosmetics pigments on top of a core layer of spherical particles.
  - 2 This technological feat means that the pigment layer has unusual optical properties: the shades of colour are brighter, cover the lips more completely, and are very intense.
  - 3 Formulated in a lipstick, the three hybrid pigments, used singly or together, reveal incredible levels of performance: a multitude of purer colours, and above all the colour of the lipstick and the colour obtained on the lips are identical.
- Consumers of Rouge Unlimited from SHU UEMURA can truly say that their wish has been our command.



All over the world, the Luxury Products Division markets prestigious brands, embodying highly diverse cultural roots. Each brand has its own history and expertise, which it develops through a specific strategy. Sold in a high-end retail environment (department stores, perfumeries and the brand's own boutiques), each of the Division's brands provides customers with products combining very high levels of performance, user delight, and the service of experts.

### Lancôme

LANCÔME, the world's number one luxury cosmetics brand, saw a return to steady growth in Europe, particularly in France, Spain and Italy. It had to deal with turbulence in the American retail sector, which cost the brand almost four percentage points of growth. On the other hand, LANCÔME proved particularly dynamic in emerging markets such as Russia (+38%), China (+28%), the Middle East (+24%) and Argentina (+18%).

LANCÔME went on to the offensive in skincare, launching Absolu Premium βx, an anti-ageing skincare product with Pro-Xylane™, which proved a winner with women in the 50-60 age brackets. Blanc expert XW, a skin-whitening product specially developed for Asia, also proved extremely successful and demonstrated LANCÔME's gathered expertise in Asian skin types.

In make-up, the success of Color Fever enabled LANCÔME to increase lipstick sales, capturing very strong positions in Europe. The make-up collections created by Gucci Westman also attracted a lot of attention. Lastly, LANCÔME perfume sales were boosted by the global roll-out of Hypnôse. Miracle Forever, launched at the end of 2006, successfully strengthened the sales of the Miracle franchise.

### Biotherm

BIOThERM delivered a year of double-digit growth, bolstered by expansion in Asia and Eastern Europe. BIOThERM's natural and affordable positioning make it particularly attractive in countries with large numbers of young consumers.

The brand is making progress in all areas of skincare: in facial skincare, thanks to the solid performance of its star products (such as Aquasource and Line Peel) and the launch of Biofirm Lift; in bodycare with the success of Celluli intense Peel and Eau d'énergie; and in sun protection with a completely revamped range.

BIOThERM is continuing to progress in men's skincare (+18%), with a very solid product catalogue and the introduction of the High recharge anti-fatigue line.

Lancôme, Russia.



Biotherm, China.







Helena Rubinstein, Dubai.

## Helena Rubinstein

This brand, embodied by actress Demi Moore, is continuing to move upmarket.

In anti-ageing skincare, two major initiatives enable the brand to take on the offensive: the excellent customer product feedback to both Prodigy Tissular and Life Pearl cellular.

Following the introduction of Wanted Rouge lipstick last year, the renewal of the make-up range was completed by the launch of Prodigy foundation and Surrealist mascara.

## Giorgio Armani

The brand achieved another year of double-digit growth and is today clearly one of the most glamorous luxury brands in the world. It further consolidated its number one position in men's fragrances. Sales of Acqua di Giò, the world's top-selling male fragrance, are still growing. Armani Code, launched in 2005, has now joined it in the world's top five.

Thanks to the success of Code Donna, **GIORGIO ARMANI** perfumes have significantly strengthened their positions in the women's market, opening up excellent future growth prospects for the brand.

The Emporio line has been reinforced by the Re-Mix fragrance, which is extremely successful in Europe.

The Giorgio Armani Cosmetics make-up line is continuing to focus on its ultra-high quality development strategy, and considerably increased its presence both in Europe (+56%) and the United States (+29%).

## 2006 highlights

- **Hypnôse** by **LANCÔME** becomes one of the top ten women's fragrances worldwide.
- **Absolue Premium Bx** from **LANCÔME**, with **Pro-Xylane™**, proves highly successful in the selective retail market.
- **LANCÔME** opens its first counters in India and Vietnam.
- **GIORGIO ARMANI** strengthens its world number one position in men's fragrances, with two products in the top five (**Acqua di Giò** and **Armani Code**), and has a strong position in the women's market with the launch of **Code Donna**.
- **BIOThERM** scores major successes in markets the brand has only recently entered: +82% in Russia and +36% in the United Kingdom.
- **BIOThERM** is consolidating its leadership in men's skincare through the success of **High Recharge**.
- **KIEHL'S** continues to expand in Europe, with the opening of new boutiques in Italy, Spain, Switzerland, Sweden and France.
- **VIKTOR & ROLF** confirms its success with **Flowerbomb** and the new men's fragrance **Antidote**, launched in France and the United States.
- After two years of existence, the Russian subsidiary posts a growth rate of 37%, and becomes one of the top twenty Luxury Products Division subsidiaries.
- **SHU UEMURA** launches **Rouge Unlimited** and innovates with a new approach to colour using hybrid pigments.

### Ralph Lauren

This was a year of consolidation for the brand, which concentrated on its classic products, and in particular, the Polo and Romance franchises. The launch of Polo Double Black in the United States was extremely successful, enabling the brand to strengthen its nationwide leadership in men's fragrances.

The launch of Ralph Hot in the first half of 2006 extended the brand's appeal to include younger customers.

### Cacharel

The brand's growth was particularly focused on France, Italy, Eastern Europe and Latin America.

The introduction of Amor pour homme, alongside the women's fragrance Amor Amor, was very warmly received by consumers. An unconventional launch strategy was adopted, featuring an original Internet strategy, which proved very effective.

The launch of Noa Perle also put the spotlight on this major franchise.

### Kiehl's

The brand's development gathered pace with the opening of new boutiques in Milan, Madrid, Barcelona, Zurich, Stockholm and Paris.

Its growth is based on a strategy of the highest service quality. The skincare line was bolstered by the success of the Dermatologist solutions line and the solid performance of the core products. Growth in men's skincare products was particularly dynamic, with sales rising by 54%.

### Shu Uemura

The brand's fast international expansion is continuing, particularly in the United States (+26%). In Europe, the brand is being rolled out with a strong emphasis on upmarket quality, with the opening of new boutiques in London and Milan.

The brand is continuing its winning ways in skincare, with strong sales of skin-lightening products and the success of White Recovery SC.

In make-up, SHU UEMURA took advantage of the latest technological advances in pigments to offer Rouge Unlimited, which met with immediate post-launch success.



Viktor & Rolf, Antidote.

Viktor & Rolf, France.



Yue-Sai, China.



**Viktor & Rolf**

The success of the women's fragrance Flowerbomb, launched in 2005, came of age. The brand's profile was raised quite substantially by its presence in exclusive, high quality retail channels and across the media. The men's fragrance Antidote was launched in 2006 in France and the United States. Straightaway it was extremely successful, becoming one of the top-selling fragrances.

**Yue-Sai**

Work has begun on repositioning the brand. YUE-SAI is the embodiment of modern Chinese beauty, capitalising on its intimate knowledge of women and the market. More than 200 department store counters have been revamped, and the brand's advertising image has been modernised. The growth of the YUE-SAI brand was boosted by the launch of the anti-ageing skincare line Recharge, which was given an excellent reception on its launch, rising to top position in the brand's sales rankings and showing a great ability to attract new customers.



Shu Uemura, United States.

**PARTNERSHIP**



> KIEHL'S // A different kind of luxury

Founded in 1851 by a New York apothecary, KIEHL'S SINCE 1851 has become the cult brand for the best informed and most exacting consumers.

Over several generations, the mission of KIEHL'S SINCE 1851 has been to develop a unique range of top quality products of proven efficacy, and the highest standards of personalised service. The KIEHL'S brand is sold only in its own stores, or in personalised counters in selected department stores. It does not advertise, but focuses on the efficacy of its formulas, presents its products in simple packs, and offers attentive service and a generous sampling policy. The quality of both products and advice, spread by word of mouth by enthusiastic customers, has won the brand a reputation amongst a highly selective consumer base known as the "Kiehl's community".

Building on its strongly established American presence, with dozens of exclusive stores in the United States and Canada, from 2000 KIEHL'S began to expand beyond the United States. KIEHL'S opened its first outlets in 2002 in the United Kingdom, in France and in Asia. London, Paris and Hong Kong were followed by Hamburg, Milan, Madrid, Barcelona and Zurich in 2006. In 2007, its presence will be stepped up by further openings in Amsterdam, Vienna, Athens and Lisbon. Always situated close to places frequented by the brand's enthusiasts, in the most cosmopolitan and fashionable districts of major capital cities, each KIEHL'S store has its own personality, but all are inspired by the authentic and inimitable decor of the original apothecary's shop in New York.

With a track record of fast growth over the last few years, the winning KIEHL'S formula keeps on going from strength to strength.



# Active Cosmetics

VICHY // LA ROCHE-POSAY  
SKINCEUTICALS // SANOFLORE // INNÉOV

# ACTIVE COSMETICS



**Brigitte Liberman**  
Managing Director  
Active Cosmetics

## Challenges & strategy

The dynamism of the dermocosmetics market stems from three key developments: the increasing importance of health in the demand for beauty products, the modernisation of the pharmacy channel on all continents, and the growing role played by dermatologists in beauty care.

In this context, three strategic goals underpin the whole of our policy: to diversify our brand portfolio and innovate in new product categories to cover all consumer trends in which health is linked to beauty; to strengthen our special relationship with pharmacists and dermatologists through new training programmes and new services for consumers; and to accelerate the roll-out of our brands in geographic zones with very high growth and development potential, not only in Eastern Europe, Asia and Latin America, but also in the United States.

## // 2006 review

In 2006, the sales of the Active Cosmetics Division topped one billion euros thanks to another year of strong growth (+12.2% like-for-like).

It was a year in which all the brands recorded strong growth in all regions of the world. The continuing dynamism in Western Europe, the powerful growth in North America and the resounding success in growth-relay countries—in Latin America, Asia and Eastern Europe—were reflected in market share gains, particularly in skincare.

## // 2007 outlook

For several years now, the worldwide market for dermocosmetics has been growing faster than the market as a whole. In addition to this underlying trend, several favourable factors will bolster sales in 2007:

- brand portfolio diversification is clearly a vital asset in responding to new health/beauty aspirations on each continent,
- the success of the 2006 launches and the solidity of the core catalogue products will have a positive impact,
- the planned initiatives, particularly in skincare, will help strengthen the Division's positions in all regions of the world.

### CONSOLIDATED SALES BY GEOGRAPHIC ZONE

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Western Europe	649.7	688.0	61.0%	+5.6%	+5.9%
North America	69.3	99.7	8.8%	+18.9%	+43.8%
Rest of the World	266.9	340.2	30.2%	+25.8%	+27.5%
<b>TOTAL</b>	<b>985.9</b>	<b>1,127.9</b>	<b>100%</b>	<b>+12.2%</b>	<b>+14.4%</b>

### CONSOLIDATED SALES BY BUSINESS SEGMENT

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Skincare	755.8	879.6	78.0%	+14.3%	+16.4%
Haircare	88.4	98.9	8.8%	+11.4%	+11.8%
Make-up	78.6	81.0	7.2%	+2.8%	+3.1%
Other	63.1	68.4	6.1%	-0.3%	+8.5%
<b>TOTAL</b>	<b>985.9</b>	<b>1,127.9</b>	<b>100%</b>	<b>+12.2%</b>	<b>+14.4%</b>

## 2006 highlights

- The Active Cosmetics Division acquired the French laboratory Sanoflore, a pioneer in the design, manufacture and marketing of natural, certified organic cosmetics products.
- VICHY, the number one dermocosmetics brand in the pharmacy channel in Europe, Asia and Latin America, was launched in the United States in 2006.
- The growth of LA ROCHE-POSAY has accelerated on all continents, particularly in facial skincare.
- SKINCEUTICALS has strengthened its position in the lucrative medi-spa market in the United States.
- INNÉOV is continuing to conquer the nutritional cosmetics market, by launching the first sun preparation product with Skin-probiotic™.



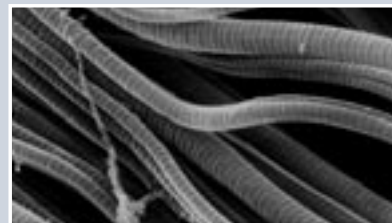
La Roche-Posay, Nutritic.  
Vichy, Néovadiol.  
Innéov, Solaire.  
SkinCeuticals, CE Ferulic.

## INNOVATION

### > Redermic by La Roche-Posay: scarring and nature come to the rescue of the ageing dermis

As a result of ageing and sun exposure, the structure of the dermis is weakened. The fibroblasts are less active, and the collagen and elastine fibres are less cohesive.

- 1 In young skin, the fibres are perpendicular to the epidermis, symbolising the role of the dermis as a supporting pillar. As they age, the fibres become less resilient, causing slackening and wrinkles. Is it possible to restimulate the fibroblasts?
- 2 Drawing on research into scarring, a process, which also involves fibroblasts and the repair of the skin fabric, L'Oréal's researchers identified an extract of the plant Centella Asiatica: madecassoside. When this is formulated in the right proportions in Redermic, the researches obtained real anti-ageing efficacy, demonstrated by several clinical studies carried out under dermatological control. As in scarring, the skin fabric is reconstructed and reorganised, and the wrinkles are corrected by a recharge effect.
- 3 The product has proved highly successful with demanding women, who are both inspired by nature and by the advice of their dermatologists.





Vichy, Russia.



La Roche-Posay, China.

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

### Vichy

VICHY is committed to helping everyone achieve optimum skin health through effective products, which incorporate the latest scientific advances. VICHY's sales growth reached +10.2% in 2006, an excellent performance that reflected three key trends: dynamic sales growth both in Asia (+41.4% in China) and Latin America (+26.7%), together with steady growth in Europe (+4.2% in the West and +18.9% in the East). Well-established facial skincare products recorded a high growth rate. Néovadiol was relaunched. This product, which corrects skin effects triggered by menopause, features Pro-Xylane™, a new anti-ageing compound developed by the group's research arm. Thanks to a number of innovative launches, Normaderm, a skincare line for oily skin, was successfully rolled out on all continents. Following its success in Asia, Bi-White Advanced posted high sales growth in Mexico. Lastly, the good growth prospects in fields other than facial skincare were confirmed, particularly in corrective foundations with Dermablend, and in footcare with Podexine, whose sales grew strongly for the second consecutive year.

### La Roche-Posay

LA ROCHE-POSAY develops daily skincare and make-up products, recommended by dermatologists and pharmacies, for all skin types, including sensitive skin. Prescribed by more than 25,000 dermatologists across the world, the brand's sales grew strongly in 2006 in all the geographic zones (+15.8%). Sales growth is strong in Western Europe (+7.4%) and accelerating fast in all the other areas: Eastern Europe (+39.7%), North America (+28.6%), Latin America (+36.3%) and Asia (+45.5%).

2006 was a year of strong growth for the brand's skincare products. The remarkable success of Redermic, an anti-wrinkle firmness skincare product, enabled LA ROCHE-POSAY to virtually double its market share in this segment. Brand events in pharmacies focusing on Sensitest, a patented expert diagnosis for sensitive skin, bolstered the performance of LA ROCHE-POSAY's core toiletry and moisturising products.

Major initiatives were taken to strengthen relations with the medical world (congresses, Melanoma Screening Day, Research Award), enabling LA ROCHE-POSAY once again this year to step up its drive to be the number one dermatologists' brand.

### SkinCeuticals

SKINCEUTICALS, a major player in the United States market for professional skincare products, recorded robust growth (+13.4%) in its distribution through premium spas, dermatologists, plastic surgeons and other doctors working in aesthetic medicine.



In its first full year as part of the L'Oréal group, SKINCEUTICALS adjusted its distribution approach in spas, a sector which is enjoying double-digit growth. The brand thus increased its penetration in the emerging channel of medi-spas.

Lastly, the strong growth of CE Ferulic serum, with its leading anti-oxidant technology hailed by professionals for its efficacy, strengthened the leadership of SKINCEUTICALS in the anti-ageing skincare market.

### Sanoflore

The acquisition in October 2006 of Sanoflore, the pioneering French laboratory for the design, manufacture and marketing of certified organic cosmetics products, is opening up strong prospects for the growth of the Active Cosmetics Division in the natural cosmetics segment. Created 20 years ago, SANOFLORE brings together all the aromatic and medicinal plant professions, from cultivation to the manufacture of organic cosmetics products, certified by Ecocert. In 2006 SANOFLORE turned in a fine performance, with a strong sales growth thanks to the increasing consumer interest in organic products.

### Innéov

With four products, Laboratoires Innéov, a joint venture between Nestlé and L'Oréal, is today present in 14 European countries. It is number two in the nutritional cosmetics markets in which it operates<sup>(1)</sup>.

A major development in 2006 was the launch of Innéov Solaire, a new generation of sun protection preparation products with Skin-probiotic™, which strengthen the skin's defences, so as to protect the skin and ensure sublime tanning. Innéov Solaire is already number three in the European sun protection market<sup>(1)</sup>. In the second half, the high-profile relaunch of Innéov Masse Capillaire, the first-ever anti-hair loss product with taurine, enabled the brand to consolidate its position in the haircare market, with sales increasing by +42%<sup>(1)</sup>.

Pharmacists play a key role in many countries by advising and educating consumers about nutritional cosmetics. To encourage this pedagogical approach, INNÉOV organised the first Nutritional Cosmetics Congress.

(1) Source: IMS December 2006 – Europe 7 (value).

## PARTNERSHIP



### > PHARMACISTS // Developing dermocosmetics

For the first time, at a conference in May 2006 chaired by Brigitte Liberman, 230 pharmacists from 12 countries met in Cannes.

All these opinion leaders had one thing in common: they took part in the "Pharmacist Manager" programme set up by the Active Cosmetics Division.

The aim was to enable these pro-active pharmacists to share and exchange their views, and to reflect together about their future: how to develop the customer base and ensure loyalty, modernise the sales area, set up a policy of special events and services for different segments, and manage and motivate staff; indeed, a whole series of important issues. In addition to the working sessions, there were plenty of opportunities to exchange views in a friendly setting.

Awards were made for the best initiatives at a dermocosmetics prize-giving evening. Many pharmacists made contacts and are continuing to exchange views with pharmacists in other countries.

This first international convention was an immediate success with the attending pharmacists who are always on the lookout for new ideas and advances. Following the success of the event, which was widely covered by the trade press across the world, the Active Cosmetics Division has decided that this major initiative will be repeated.



The Body Shop  
THE BODY SHOP

# THE BODY SHOP



**Peter Saunders**  
Chief Executive Officer  
The Body Shop

## Challenges and strategy

Finalised in July 2006, the acquisition by L'Oréal is an important milestone in the life of The Body Shop. A naturally inspired cosmetics brand with extremely strong values embodied by its founder Dame Anita Roddick, The Body Shop has extended its presence to 57 countries over the last 30 years. The Body Shop fits ideally into L'Oréal's brand portfolio. The group's research and development resources and marketing know-how should enable The Body Shop to enrich its product lines and speed up its growth.

NUMBER OF STORES			
	At december 31 <sup>st</sup> , 2005	At december 31 <sup>st</sup> , 2006	Variation in 2006
Company-owned stores	794	886	92
Franchisees	1,325	1,379	54
<b>TOTAL number of stores</b>	<b>2,119</b>	<b>2,265</b>	<b>146</b>

SALES			
€ millions		2 <sup>nd</sup> half-year 2006	Like-for-like growth
Retail sales <sup>(1)</sup>		703.3	+6.6%
Retail sales with a comparable store base <sup>(2)</sup>		594.8	+3.2%
Consolidated sales		435.0	+9.7%

RETAIL SALES <sup>(1)</sup> BY GEOGRAPHIC ZONE			
€ millions	2 <sup>nd</sup> half-year 2006	% of 2006 retail sales	Like-for-like growth
Western Europe	320.3	45.5%	+6.1%
North America	151.0	21.5%	+0.8%
Rest of the World	231.9	33.0%	+11.4%
<b>TOTAL</b>	<b>703.3</b>	<b>100%</b>	<b>+6.6%</b>

(1) Total sales to consumers through all channels.

(2) Total sales to consumers by stores which operated continuously from July 1<sup>st</sup> to December 31<sup>st</sup>, 2005, and over the same period in 2006.

## // 2006 review

Consolidated since July 1<sup>st</sup>, 2006, The Body Shop recorded a second half-year of solid growth, with a large increase in sales at the end of the year. Net consolidated sales grew by +9.7%. Retail sales<sup>(1)</sup> increased by +6.6% (+3.2% with a comparable store base<sup>(2)</sup>). The number of stores increased by 89 in the second half of 2006. At December 31<sup>st</sup>, the total number of stores was 2,265, of which 886 are owned by The Body Shop. These figures reflect particularly good results in Europe and Asia, with very strong performances in the United Kingdom, Norway and Japan. Growth was strengthened by the success of launches such as the aloe vera skincare range and the Neroli Jasmin fragrance, and by gift sets, which sold very well at the end of the year.

## // 2007 outlook

Growing sales in recently entered markets, such as India and Russia, a rapid succession of product introductions and the continued focus on multi-channel retailing, mean that another year of growth can be confidently expected.

True to its values, The Body Shop will continue with its "Stop Violence in the Home" campaign, which is active in 45 countries across the world. As well, The Body Shop will demonstrate social commitment with the launch of an AIDS prevention campaign in partnership with MTV television channel.

The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 50 countries), at home, and on-line sales.

Maintaining its growth momentum, while staying focused on its core values, remains the major objective for The Body Shop.



The growth of The Body Shop is underpinned by three strategic concepts.

Geographic expansion establishes the brand in countries with a high growth potential, while offering consumers the benefits of its highly original positioning.

A rapid succession of new product launches continuously stimulates interest in the brand and boosts sales across all channels.

The development of a multi-channel strategy with multiple contact points between the brand and the consumer extends the range of purchase opportunities. The Body Shop At Home operates in the United Kingdom, the United States, Australia, and Germany. E-commerce websites sell in the United Kingdom and in the United States.

With its outstanding retailing expertise, The Body Shop reinforces its strategy by constantly improving its quality of service to consumers.

### 2006 highlights

- Announcement of acquisition of The Body Shop by L'Oréal in March 2006.
- Opening of the first The Body Shop store in India.
- Launch of the new "Make me fabulous" make-up range.
- Worldwide innovation with the launch of the Aloe Vera skincare range featuring Community Trade aloe vera.
- Launch of "The Body Shop At Home" in Germany.
- Presentation at the United Nations General Assembly of the "Stop Violence in the Home" campaign, now under way in 45 countries.



The Body Shop, Aloe Vera skincare range.

## PARTNERSHIP



### > COMMUNITY TRADE // A wholehearted commitment

At The Body Shop, product innovation has always been based on the use of natural raw materials from all over the world. Over the last 20 years this has led The Body Shop to make a very strong commitment to a Community Trade approach.

Since 1987, collaboration with the company Teddy Exports in Tamil Nadu in India for the purchase of an assortment of wooden massagers has enabled the building of a school for children, the setting up of medical services for employees, and the development of AIDS prevention programmes.

Today, 31 Community Trade suppliers in 24 countries provide raw materials such as cocoa butter, shea butter and marula oil. All told, these programmes provide income for more than 15,000 people across the world.

The latest programme led to the supply of aloe vera for the launch in September 2006 of the new face and body range of products for sensitive skin. As a result, the farmers of Guastatoyan in Guatemala have received, in addition to a fair price for their aloe vera harvest, equipment for more than 200 schools in this region.

# GALDERMA



Smart science and an unrivalled reputation in the dermatologic medical community: two reasons why Galderma retains its leading position in the topical dermatology prescription market.

The R&D centre in Sophia-Antipolis (France) is the largest centre dedicated to dermatology worldwide.

Galderma boasts three of the top twenty five best selling drugs in dermatology in a highly competitive specialty market. The Differin® range for acne treatment is the leading worldwide topical retinoid product for this indication, while Metrogel® 1% is the most prescribed product for rosacea. In Europe, Loceryl® is the leading prescription treatment for onychomycosis (fungal nail infection). In the United States, Galderma holds top market shares for its branded topical psoriasis (Clobex®) and melasma (Tri-Luma®) treatments.

The future looks promising with the completion of the new R&D buildings in Sophia-Antipolis (France). With 437 employees working for the scientific division, Galderma R&D is the largest R&D centre dedicated exclusively to dermatology worldwide. These state-of-the-art facilities are complemented by development facilities in Princeton (USA), and Tokyo (Japan). Several new drug applications were filed in 2006, with anticipated approval in 2007: Silkis® (calcitriol), a topical drug for psoriasis, was filed with the American Food and Drug Administration; a combination of Differin® (adapalene) and benzoyl peroxide for acne was filed for European launch, and is on track for American submission as well.

## Living the commitment to the future of dermatology

Galderma has broadened its reach by entering into a sales and marketing alliance with Shionogi & Co, Ltd for Differin®, which is currently developed by Galderma in Japan. The company has also entered into an alliance with Anika Therapeutics for the development of a range of innovative soft tissue augmentation products (for the correction of facial wrinkles, scar remediation, and lip augmentation).

### CONSOLIDATED SALES BY GEOGRAPHIC ZONE<sup>(1)</sup>

€ millions	2005	2006	% of 2006 sales	Growth 2006/2005	
				Like-for-like	Published figures
Western Europe	160.6	174.6	25.4%	+8.8%	+8.7%
North America	367.4	388.0	56.5%	+7.0%	+5.7%
Rest of the World	107.6	124.6	18.1%	+13.5%	+15.7%
<b>TOTAL</b>	<b>635.6</b>	<b>687.2</b>	<b>100%</b>	<b>+8.6%</b>	<b>+8.1%</b>

(1) 100% of Galderma's sales.

## // 2006 review

In 2006, the Nestlé-L'Oréal joint venture reported sales of 687.2 million euros, a growth of 8.6% over 2005 on a like-for-like basis, by delivering several new products to the market, including Clobex® Spray, a novel treatment option for psoriasis. Metvix® PDT (photodynamic therapy for the treatment of skin cancer) was launched in Brazil. Curanail®, a lacquer treatment for mild fungal nail infections was introduced in the United Kingdom.

## // 2007 outlook

In 2007, Galderma intends to reinforce its hold on the global dermatology market, by developing both its core medical business and its move into the corrective dermatology domain.

For further information, please consult Galderma's website:  
[www.galderma.com](http://www.galderma.com)

Clobex® Spray:  
a new innovative  
delivery  
formulation of  
the Clobex®  
range.



# ACCESSIBLE AND REGULARLY UPDATED FINANCIAL INFORMATION



[www.loreal-finance.com](http://www.loreal-finance.com)

## Meeting shareholders and responding to their expectations

Always committed to responding to shareholders' questions, L'Oréal took part in several shareholder meetings which were organised by the Cliff<sup>(1)</sup> and the FFCI<sup>(2)</sup> in major French cities. For the third consecutive year, L'Oréal took part in the Actionaria exhibition show to meet a growing number of visitors on the quest for Autumn shareholder information. This exhibition show was held in Paris on November 17<sup>th</sup> and 18<sup>th</sup> 2006.

In addition, the Investor Relations Department organised a large number of meetings with financial analysts and investors.

The rolling shareholder panel, which met on two occasions, also gave dozens of shareholders the opportunity to contribute to preparation of the Annual General Meeting and to discuss the 2006 Annual Report.

The [www.loreal-finance.com](http://www.loreal-finance.com) website, which is regularly updated, completes the range of communication mediums for the shareholder and investor, along with the Annual Report, the Reference Document, the shareholder digest, Letters to shareholders, and all press releases about the group.

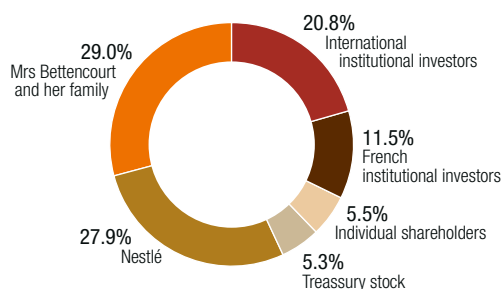
(1) Cliff: Society of Investor Relations Managers in France.

(2) FFCI: French Investment Club Federation.

In 2006, as in previous years, the financial information issued to shareholders and the financial community has been supplemented, updated and made available to its users in a wide range of forms.

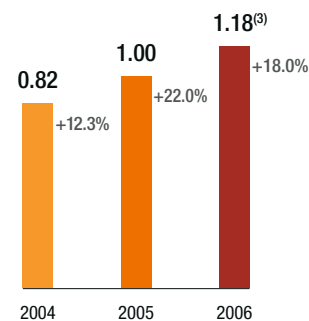
Once again this year, the financial information meetings and the Annual General Meeting were both important events for conveying the message from General Management and ensuring wide dissemination of the financial information.

## > BREAKDOWN OF SHARE OWNERSHIP AS AT DECEMBER 31<sup>ST</sup>, 2006



## > DIVIDEND PER SHARE

(in euro)



(3) Dividend proposed to the Annual General Meeting of April 24<sup>th</sup>, 2007.

## // Financial information calendar for 2007

**Thursday, January 25<sup>th</sup>**  
2006 annual sales release

**Thursday, February 15<sup>th</sup>**  
2006 annual results release and annual financial information meeting

**April**  
First quarter 2007 sales release

**Tuesday, April 24<sup>th</sup>**  
Annual General Meeting of Shareholders at the Carrousel du Louvre (Paris, France)

**July**  
First half 2007 sales release

**Friday, August 31<sup>st</sup>**  
First half 2007 results release and financial information meeting

**October**  
First nine months 2007 sales release

**Friday and Saturday, November, 16<sup>th</sup> and 17<sup>th</sup>**  
Actionaria exhibition show for shareholders

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# L'ORÉAL

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L'ORÉAL

**2** 2006 financial statements  
Management Report of the Board of Directors  
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The Reference Document of L'Oréal comprises two separate volumes:

- a general brochure "2006 Annual Report",
- the 2006 financial statements, plus additional information as required by law, available prior to the Annual General Meeting convened for Tuesday, April 24<sup>th</sup>, 2007.

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# 2006 Consolidated financial statements

## COMPARED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

€ millions

	2006	2005	2004 pro forma <sup>(1)</sup>	2004
<b>Net sales</b> (note 3)	<b>15,790.1</b>	<b>14,532.5</b>	<b>13,641.3</b>	<b>13,641.3</b>
Cost of sales	-4,569.1	-4,347.3	-4,101.1	-4,101.1
<b>Gross profit</b>	<b>11,221.0</b>	<b>10,185.2</b>	<b>9,540.2</b>	<b>9,540.2</b>
Research and development	-532.5	-496.2	-466.6	-466.6
Advertising and promotion	-4,783.0	-4,367.2	-4,176.9	-4,176.9
Selling, general and administrative expenses	-3,309.4	-3,009.3	-2,844.3	-2,844.3
<b>Operating profit before foreign exchange gains and losses</b>	<b>2,596.1</b>	<b>2,312.5</b>	<b>2,052.4</b>	<b>2,052.4</b>
Foreign exchange gains and losses	-55.2	-46.5	36.5	36.5
<b>Operating profit</b>	<b>2,540.9</b>	<b>2,266.0</b>	<b>2,088.9</b>	<b>2,088.9</b>
Other income and expenses (note 6)	-60.8	9.3	-126.2	2,728.3
<b>Operational profit</b>	<b>2,480.1</b>	<b>2,275.3</b>	<b>1,962.7</b>	<b>4,817.2</b>
Finance costs (note 7)	-115.9	-63.8	-43.1	-43.1
Other financial income (expense)	-3.6	-3.3	-3.9	-3.9
Sanofi-Aventis dividends	217.4	171.6	145.9	-
Share in net profit (loss) of equity affiliates	-1.2	-0.7	-1.2	292.3
<b>Profit before tax and minority interests</b>	<b>2,576.8</b>	<b>2,379.1</b>	<b>2,060.4</b>	<b>5,062.5</b>
Income tax (note 8)	-514.7	-405.9	-618.6	-1,089.7
<b>Net profit</b>	<b>2,062.1</b>	<b>1,973.2</b>	<b>1,441.8</b>	<b>3,972.8</b>
<b>Attributable to:</b>				
- group share	2,061.0	1,972.3	1,438.7	3,969.7
- minority interests	1.1	0.9	3.1	3.1
Net profit attributable to the group per share (euros) (note 9)	3.36	3.13	2.22	6.13
Diluted profit attributable to the group per share (euros) (note 9)	3.35	3.13	2.21	6.11
Net profit before non-recurrent items attributable to the group per share (euros) (note 9)	2.99	2.60	2.29	-
Diluted profit before non-recurrent items attributable to the group per share (euros) (note 9)	2.98	2.60	2.29	-

(1) For comparison purposes, pro forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthelabo at January 1<sup>st</sup>, 2004:

- by replacing the share in net income of Sanofi-Synthelabo, €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

€ millions

	12.31.2006	12.31.2005	12.31.2004
<b>Assets</b>			
<b>Non-current assets</b>	<b>19,155.4</b>	<b>18,686.0</b>	<b>15,734.0</b>
Goodwill (note 10)	4,053.9	3,837.1	3,513.8
Other intangible assets (note 11)	1,792.8	1,201.0	1,064.9
Tangible assets (note 13)	2,628.4	2,466.0	2,185.0
Non-current financial assets (note 14)	10,168.5	10,757.1	8,542.4
Investments in equity affiliates	82.0		
Deferred tax assets (note 8)	429.8	424.8	427.9
<b>Current assets</b>	<b>5,627.6</b>	<b>5,200.1</b>	<b>4,651.2</b>
Inventories (note 15)	1,404.4	1,261.8	1,123.4
Trade accounts receivable (note 16)	2,558.5	2,379.7	2,063.4
Other current assets (note 17)	851.8	829.0	831.0
Current tax assets	31.7	66.4	57.2
Cash and cash equivalents (note 18)	781.2	663.2	576.2
<b>TOTAL ASSETS</b>	<b>24,783.0</b>	<b>23,886.1</b>	<b>20,385.2</b>



€ millions

	12.31.2006	12.31.2005	12.31.2004
<b>Liabilities</b>			
<b>Shareholders' equity</b> (note 19)	<b>14,624.2</b>	<b>14,657.2</b>	<b>11,825.4</b>
Capital stock	127.9	131.7	135.2
Additional paid-in capital	958.5	953.9	953.5
Other reserves	8,974.4	8,824.8	6,325.6
Items directly recognised in equity	5,066.9	5,197.2	3,031.0
Cumulative translation adjustments	-70.3	214.0	-139.9
Treasury stock	-2,496.3	-2,638.2	-2,450.9
Net profit attributable to the group	2,061.0	1,972.3	3,969.7
<b>Shareholders' equity excluding minority interests</b>	<b>14,622.1</b>	<b>14,655.7</b>	<b>11,824.2</b>
Minority interests	2.1	1.5	1.2
<b>Non-current liabilities</b>	<b>3,396.9</b>	<b>2,460.5</b>	<b>3,218.8</b>
Provisions for employee retirement obligation and related benefits (note 20)	837.9	960.6	995.6
Provisions for liabilities and charges (note 21)	154.1	157.0	188.0
Deferred tax liabilities (note 8)	512.5	914.7	1,322.2
Non-current borrowings and debts (note 22)	1,892.4	428.2	713.0
<b>Current liabilities</b>	<b>6,761.9</b>	<b>6,768.4</b>	<b>5,341.0</b>
Trade accounts payable	2,485.0	2,276.5	2,108.7
Provisions for liabilities and charges (note 21)	272.0	289.3	286.6
Other current liabilities (note 24)	1,613.9	1,523.2	1,310.9
Current tax liabilities	173.0	227.3	203.6
Current borrowings and debts (note 22)	2,218.0	2,452.1	1,431.2
<b>TOTAL LIABILITIES</b>	<b>24,783.0</b>	<b>23,886.1</b>	<b>20,385.2</b>

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

€ millions

	Common share outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
<b>At 12.31.2003</b>	<b>649,575,760</b>	<b>135.2</b>	<b>953.4</b>	<b>6,773.6</b>	<b>73.7</b>	<b>-1,792.6</b>		<b>6,143.3</b>	<b>8.3</b>	<b>6,151.6</b>
Pro forma restatements <sup>(1)</sup>				2,531.0	2,800.1			5,331.1		5,331.1
<b>At 12.31.2003</b>	<b>649,575,760</b>	<b>135.2</b>	<b>953.4</b>	<b>9,304.6</b>	<b>2,873.8</b>	<b>-1,792.6</b>		<b>11,474.4</b>	<b>8.3</b>	<b>11,482.7</b>
Dividends paid (not paid in treasury stock)				-513.8				-513.8	-6.0	-519.8
<i>Cumulative translation adjustments</i>							-139.9	-139.9	-0.3	-140.2
<i>Financial assets available for sale</i>					174.0			174.0		174.0
<i>Cash flows hedging</i>					-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
<b>Total income and expenses</b>				<b>1,438.7</b>	<b>157.2</b>		<b>-139.9</b>	<b>1,456.0</b>	<b>2.5</b>	<b>1,458.5</b>
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 <sup>(2)</sup>			0.1	45.4				45.5	-3.7	41.8
<b>At 12.31.2004</b>	<b>638,274,360</b>	<b>135.2</b>	<b>953.5</b>	<b>10,295.3</b>	<b>3,031.0</b>	<b>-2,450.9</b>	<b>-139.9</b>	<b>11,824.2</b>	<b>1.2</b>	<b>11,825.4</b>
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 in treasury stock)				-518.8				-518.8	-0.6	-519.4
<i>Cumulative translation adjustments</i>							353.9	353.9	0.2	354.1
<i>Financial assets available for sale</i>					2,255.8			2,255.8		2,255.8
<i>Cash flows hedging</i>					-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
<b>Total income and expenses</b>				<b>1,972.3</b>	<b>2,166.2</b>		<b>353.9</b>	<b>4,492.4</b>	<b>1.0</b>	<b>4,493.4</b>
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
<b>At 12.31.2005</b>	<b>619,973,610</b>	<b>131.7</b>	<b>953.9</b>	<b>10,797.1</b>	<b>5,197.2</b>	<b>-2,638.2</b>	<b>214.0</b>	<b>14,655.7</b>	<b>1.5</b>	<b>14,657.2</b>

(1) For comparison purposes, the pro forma shareholders' equity at December 31<sup>st</sup>, 2003 is restated in order to reflect the deconsolidation of Sanofi-Synthélabo at this date.

(2) Other movements mainly relate for 2004 to adjustments linked to Sanofi-Synthélabo transition to IFRS standards as well as 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 (PRO FORMA 2004)**  
**(continued)**

€ millions

	Common share outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
<b>At 12.31.2005</b>	<b>619,973,610</b>	<b>131.7</b>	<b>953.9</b>	<b>10,797.1</b>	<b>5,197.2</b>	<b>-2,638.2</b>	<b>214.0</b>	<b>14,655.7</b>	<b>1.5</b>	<b>14,657.2</b>
Capital increase	76,000	0.0	4.6					4.6		4.6
Cancellation of treasury stock		-3.8		-1,255.6		1,259.4		-		-
Dividends paid (not paid in treasury stock)				-616.1				-616.1	-0.9	-617.0
<i>Cumulative translation adjustments</i>							-284.3	-284.3	0.2	-284.1
<i>Financial assets available for sale</i>					-194.5			-194.5		-194.5
<i>Cash flows hedging</i>					64.2			64.2		64.2
Items directly recognised in equity					-130.3		-284.3	-414.6	0.2	-414.4
Consolidated net income of the period				2,061.0				2,061.0	1.1	2,062.1
<b>Total income and expenses</b>				<b>2,061.0</b>	<b>-130.3</b>		<b>-284.3</b>	<b>1,646.4</b>	<b>1.3</b>	<b>1,647.7</b>
Deferred share-based payment				49.4				49.4		49.4
Net changes in treasury stock	-14,327,500			-1.5		-1,117.5		-1,119.0		-1,119.0
Other movements				1.1				1.1	0.2	1.3
<b>At 12.31.2006</b>	<b>605,722,110</b>	<b>127.9</b>	<b>958.5</b>	<b>11,035.4</b>	<b>5,066.9</b>	<b>-2,496.3</b>	<b>-70.3</b>	<b>14,622.1</b>	<b>2.1</b>	<b>14,624.2</b>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

€ millions

	Common share outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
<b>At 12.31.2003</b>	<b>649,575,760</b>	<b>135.2</b>	<b>953.4</b>	<b>6,773.6</b>	<b>73.7</b>	<b>-1,792.6</b>		<b>6,143.3</b>	<b>8.3</b>	<b>6,151.6</b>
Dividends paid (not paid in treasury stock)				-513.8				-513.8	-6.0	-519.8
<i>Cumulative translation adjustments</i>							-139.9	-139.9	-0.3	-140.2
<i>Financial assets available for sale</i>					2,974.1			2,974.1		2,974.1
<i>Cash flows hedging</i>					-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
<b>Total income and expenses</b>				<b>3,969.7</b>	<b>2,957.3</b>		<b>-139.9</b>	<b>6,787.1</b>	<b>2.5</b>	<b>6,789.6</b>
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 <sup>(1)</sup>			0.1	45.4				45.5	-3.7	41.8
<b>At 12.31.2004</b>	<b>638,274,360</b>	<b>135.2</b>	<b>953.5</b>	<b>10,295.3</b>	<b>3,031.0</b>	<b>-2,450.9</b>	<b>-139.9</b>	<b>11,824.2</b>	<b>1.2</b>	<b>11,825.4</b>
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 in treasury stock)				-518.8				-518.8	-0.6	-519.4
<i>Cumulative translation adjustments</i>							353.9	353.9	0.2	354.1
<i>Financial assets available for sale</i>					2,255.8			2,255.8		2,255.8
<i>Cash flows hedging</i>					-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
<b>Total income and expenses</b>				<b>1,972.3</b>	<b>2,166.2</b>		<b>353.9</b>	<b>4,492.4</b>	<b>1.0</b>	<b>4,493.4</b>
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
<b>At 12.31.2005</b>	<b>619,973,610</b>	<b>131.7</b>	<b>953.9</b>	<b>10,797.1</b>	<b>5,197.2</b>	<b>-2,638.2</b>	<b>214.0</b>	<b>14,655.7</b>	<b>1.5</b>	<b>14,657.2</b>

(1) Relate to adjustments linked to Sanofi-Synthelabo transition to IFRS standards as well as 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 (continued)**

€ millions

	Common share outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
<b>At 12.31.2005</b>	<b>619,973,610</b>	<b>131.7</b>	<b>953.9</b>	<b>10,797.1</b>	<b>5,197.2</b>	<b>-2,638.2</b>	<b>214.0</b>	<b>14,655.7</b>	<b>1.5</b>	<b>14,657.2</b>
Capital increase	76,000	0.0	4.6					4.6		4.6
Cancellation of treasury stock		-3.8		-1,255.6		1,259.4		-		-
Dividends paid (not paid in treasury stock)				-616.1				-616.1	-0.9	-617.0
<i>Cumulative translation adjustments</i>							-284.3	-284.3	0.2	-284.1
<i>Financial assets available for sale</i>					-194.5			-194.5		-194.5
<i>Cash flows hedging</i>					64.2			64.2		64.2
Items directly recognised in equity					-130.3		-284.3	-414.6	0.2	-414.4
Consolidated net income of the period				2,061.0				2,061.0	1.1	2,062.1
<b>Total income and expenses</b>				<b>2,061.0</b>	<b>-130.3</b>		<b>-284.3</b>	<b>1,646.4</b>	<b>1.3</b>	<b>1,647.7</b>
Deferred share-based payment				49.4				49.4		49.4
Net changes in treasury stock	-14,327,500			-1.5		-1,117.5		-1,119.0		-1,119.0
Other movements				1.1				1.1	0.2	1.3
<b>At 12.31.2006</b>	<b>605,722,110</b>	<b>127.9</b>	<b>958.5</b>	<b>11,035.4</b>	<b>5,066.9</b>	<b>-2,496.3</b>	<b>-70.3</b>	<b>14,622.1</b>	<b>2.1</b>	<b>14,624.2</b>

## COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions

	2006	2005	2004 pro forma <sup>(1)</sup>	2004
<b>Cash flows from operating activities</b>				
Net profit attributable to the group	2,061.0	1,972.3	1,438.7	3,969.7
Minority interests	1.1	0.9	3.1	3.1
Elimination of expenses and income with no impact on cash flows:				
• depreciation and charges to provisions	579.4	426.9	413.2	413.2
• changes in deferred taxes	-273.3	-290.1	-19.2	451.9
• share-based payment	49.4	29.9	20.4	20.4
• capital gains and losses	-8.5	-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	1.2	0.7	1.3	-146.3
• other non-cash movements	-	0.4	2.5	2.5
<b>Gross cash flow</b>	<b>2,410.3</b>	<b>2,129.6</b>	<b>1,922.8</b>	<b>1,922.8</b>
Cash used for working capital	65.6	-35.7	-76.4	-76.4
<b>Net cash provided by operating activities (A)</b>	<b>2,475.9</b>	<b>2,093.9</b>	<b>1,846.4</b>	<b>1,846.4</b>
<b>Cash flows from investing activities</b>				
Investments in tangible and intangible assets	-745.2	-662.3	-677.1	-677.1
Disposals of tangible and intangible assets	28.9	11.9	32.2	32.2
Changes in other financial assets (including investments in non-consolidated companies)	-3.9	-37.7	-11.6	-11.6
Effect of changes in the scope of consolidation	-1,065.7	-181.7	-465.4	-465.4
<b>Net cash used by investing activities (B)</b>	<b>-1,785.9</b>	<b>-869.8</b>	<b>-1,121.9</b>	<b>-1,121.9</b>
<b>Cash flows from financing activities</b>				
Dividends paid	-633.8	-563.3	-542.9	-542.9
Capital increase of the parent company	4.6	0.4		
Disposal (acquisition) of treasury stock	-1,119.0	-1,193.9	-637.0	-637.0
Issuance (repayment) of short-term loans	209.3	582.0	382.9	382.9
Issuance of long-term borrowings	1,563.5	100.0	50.0	50.0
Repayment of long-term borrowings	-577.0	-85.0	-111.9	-111.9
<b>Net cash used by financing activities (C)</b>	<b>-552.4</b>	<b>-1,159.8</b>	<b>-858.9</b>	<b>-858.9</b>
Net effect of exchange rate changes and fair value changes (D))	-19.6	22.7	-8.8	-8.8
<b>Change in cash and cash equivalents (A+B+C+D)</b>	<b>118.0</b>	<b>87.0</b>	<b>-143.2</b>	<b>-143.2</b>
<b>Cash and cash equivalents at beginning of the year (E)</b>	<b>663.2</b>	<b>576.2</b>	<b>719.4</b>	<b>719.4</b>
<b>Cash and cash equivalents at end of the year (A+B+C+D+E)</b>	<b>781.2</b>	<b>663.2</b>	<b>576.2</b>	<b>576.2</b>

(1) For comparison purpose, pro forma statements of cash flows are restated in order to reflect the deconsolidation of Sanofi-Synthelabo at January 1<sup>st</sup>, 2004:

- by replacing the share in net income of Sanofi-Synthelabo by received dividends,
- and by neutralizing the net of tax capital gain relating to these shares.

Income taxes paid amount to €725.6 millions, €688.3 millions and €644.3 millions respectively for years 2006, 2005 and 2004.

Interests paid amount to €133.9 millions, €82.5 millions and €69.3 millions respectively for years 2006, 2005 and 2004.

Dividends received amount to €217.4 millions, €171.6 millions and €145.9 millions for years 2006, 2005 and 2004.

## NOTE 1 - ACCOUNTING PRINCIPLES

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") published for 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union on December 31<sup>st</sup>, 2006.

On February 14<sup>th</sup>, 2007 the Board of Directors closed the consolidated financial statements at December 31<sup>st</sup>, 2006. The financial statements will not become definitive until they have been approved by the Annual General Meeting of Shareholders to be held on April 24<sup>th</sup>, 2007.

The consolidated financial statements of L'Oréal and its subsidiaries ("the group") published prior to 2005, were prepared from January 1<sup>st</sup>, 2000 onwards in accordance with "the new accounting rules and methods for the consolidated financial statements", approved by the decree dated June 22<sup>nd</sup>, 1999 homologating Regulation CRC 99-02.

The IFRS standards have been applied retroactively at January 1<sup>st</sup>, 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 1<sup>st</sup>, 2004,
- actuarial gains and losses on pension obligations fully recognised against opening equity at January 1<sup>st</sup>, 2004,
- cumulative translation adjustments at January 1<sup>st</sup>, 2004 merged with consolidated reserves,
- no revaluation of tangible assets at January 1<sup>st</sup>, 2004,
- no recognition of share purchase or subscription options plans prior to November 7<sup>th</sup>, 2002.

Furthermore, standards IAS 32 and 39 relating to financial instruments have been applied from January 1<sup>st</sup>, 2004 onwards for purposes of comparison. The amendment to IAS 39 "Recognition of the hedging of future financial flows relating to intra-group transactions", which is compulsory from January 1<sup>st</sup>, 2006 onwards, has been applied.

No retrospective application of accounting standards or amendments to existing standards at December 31<sup>st</sup>, 2006 whose effective application date is subsequent to January 1<sup>st</sup>, 2007, has been carried out.

Standards and interpretations that are likely to affect the group are as follows:

- IFRS 7: "Financial Instruments - Disclosures",
- IFRS 8: "Operating Segments",
- IFRS 2 amendment "Share-based payment".

The group is currently assessing the potential impacts that application of the 2 new standards – IFRS 7 and 8 – will have on notes to the consolidated financial statements. IFRS2 amendment does not affect the consolidated financial statements.

### a - Use of estimates

The preparation of the consolidated financial statements in accordance with international accounting standards implies that the group makes a certain number of estimates and assumptions that may affect the value of the group's assets, liabilities, shareholders' equity and net income (loss).

These estimates and assumptions mainly concern the valuation of goodwill and other intangible assets, provisions, pension obligations, deferred taxes and share-based payments measurement. Estimates used by the group in relation to these different areas are detailed in each specific associated note.

### b - Scope and methods of consolidation

All companies included in the scope of consolidation have a fiscal year ending December 31<sup>st</sup> 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.

### c - Foreign currency translation

#### 1 - Accounting for foreign currency transactions in consolidated companies

Foreign currency transactions are translated at the rate effective at the transaction date.

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 variation of the market value linked to variations in the time value (forward points and premiums paid for options) is recorded in the profit and loss account,
- the variation of market value linked to variations in the spot rate between the inception of the hedge and the closing date is charged to shareholders' equity, and accumulated amount in equity impacts the profit and loss account at the date on which the transactions hedged are completed. Any remaining ineffectiveness is recognised 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 1<sup>st</sup>, 2004 has been kept in euros, at the historic exchange rate.

### d - 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.

### e - 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.

### f - 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.

### g - 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.

### h - 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.

### i - 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-c).

### j - 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.

### k - 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.



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 - Intangible**

### **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. Unfavourable events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

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. Cash flows are determined in local currency and translated, along with the net equity to which they are compared, at estimated exchange rates for the coming year. The net equity is based on the latest half-year accounts. The discount rate used for these calculations is the weighted average cost of capital (WACC), which amounts to 8.0% for 2006, 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 (generally around 3% except in specific case).

The use of discounted cash flows is preferred in order to determine recoverable value, due to the lack of similar recent transactions easily available.

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.

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.

Growth rate in perpetuity are consistent with available market data (generally around 3%, except in specific cases).

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. Unfavourable events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

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* for the application of IFRS standards on January 1<sup>st</sup>, 2004.

**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 7<sup>th</sup>, 2002 and not fully vested at January 1<sup>st</sup>, 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-c.

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 - Year 2006

At the end of February 2006, EpiSkin, a subsidiary of L'Oréal, acquired SkinEthic, a company listed on the *Marché libre* of Euronext Paris. SkinEthic produces and markets reconstructed epidermis, skin and epithelial tissues which can be used to carry out in vitro tests on the safety and effectiveness of many products (cosmetics, pharmaceuticals, chemicals, etc). In 2005 SkinEthic sales totalled €1.5 million.

On March 17<sup>th</sup>, 2006, L'Oréal announced a cash offer for The Body Shop International PLC.

Listed on the London Stock Exchange, The Body Shop is a successful cosmetics brand with strong growth potential. With 2,133 dedicated and franchise retail outlets in 54 countries, The Body Shop posted a revenue of £486 million and retail sales of £772 million in the year ending February 25<sup>th</sup>, 2006. The Body Shop has acquired a strong reputation as a naturally-oriented brand with expertise in retail and deeply-rooted values.

On June 9<sup>th</sup>, 2006, L'Oréal declared the offer wholly unconditional and had acquired or received at that date valid acceptances in respect of 208,098,583 The Body Shop shares in aggregate (representing approximately 95.5% of the existing issued share capital of The Body Shop). L'Oréal decided to compulsorily acquire the remaining The Body Shop shares. As the operation is finalised at a date close to the half-year closing date, The Body Shop has been fully consolidated from June 30<sup>th</sup>, 2006 onwards and constitutes a separate branch (see note 3).

The main items of the acquisition balance sheet of The Body Shop are as follows:

€ millions	
Non-current assets <sup>(1)</sup>	814.4
Current assets	268.3
Non-current liabilities	-228.2
Current liabilities	-222.9
<b>Total net equity acquired</b>	<b>631.6</b>

(1) Out of which intangible assets (except goodwill) resulting from the acquisition for € 645.5 million.

At the end of July 2006, L'Oréal USA Inc. has claimed a 30% stake in the distribution company Beauty Alliance International (BAI), which services 115,000 hair salons in the US. This investment is accounted for under the equity method from August 1<sup>st</sup>, 2006.

At the end of October 2006, L'Oréal acquired the French Laboratoire Sanoflore, a pioneer in the design, manufacture and marketing of certified organic cosmetics products.

Sanoflore manufactures and distributes through pharmacies and specialist shops its ranges of cosmetics and aromatherapy products. Sanoflore handles all the stages in the aromatic and medicinal plant chain, from cultivation with partner farmers to the finished product.

The sales of Sanoflore amounted to about €15 million in 2006, including 20% outside France.

The total cost of these new acquisitions amounts to €1,150.4 million. The total amount of goodwill and other intangible assets resulting from these acquisitions amounted to €482.7 million and €704.4 million respectively out of which €108.4 million booked under the caption *Investment in equity affiliates*.

## b - Year 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 1<sup>st</sup>, 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.

## c - Year 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 1<sup>st</sup>, 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 amounted to at €412 million and €110 million respectively.

The definitive results of Sanofi-Synthelabo's offer for Aventis published by the French securities regulator (*Autorité des Marchés Financiers, AMF*) on August 12<sup>th</sup>, 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-Synthelabo on August 12<sup>th</sup>, 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 2<sup>nd</sup>, 2004.

At L'Oréal's Extraordinary General Meeting on April 29<sup>th</sup>, 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 "The Body Shop" branch: The Body Shop offers a wide range of naturally inspired cosmetics and toiletry products. The brand, originally created in the United Kingdom, distributes its products and expresses its values through a large multi-channel network of exclusive retail shops (in more than 50 countries), at home, and on-line sales.

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	Sales	Operating profit	Operational assets <sup>(1)</sup>	Operational liabilities <sup>(2)</sup>	Investments in tangible and intangible assets	Depreciation and provisions
2006						
Professional Products	2,125.9	443.0	1,756.1	544.0	68.3	62.3
Consumer Products	7,903.5	1,421.3	5,394.4	2,162.0	379.9	341.8
Luxury Products	3,773.1	775.9	2,559.5	1,075.3	151.1	126.1
Active Cosmetics	1,127.9	220.8	785.2	281.8	30.4	33.4
Other Cosmetics	81.1	-0.8	22.4	29.2	0.7	2.9
<b>Cosmetics divisions total</b>	<b>15,011.4</b>	<b>2,860.2</b>	<b>10,517.7</b>	<b>4,092.4</b>	<b>630.4</b>	<b>566.5</b>
Non-allocated		-437.0	333.1	506.6	59.7	46.6
<b>Cosmetics branch</b>	<b>15,011.4</b>	<b>2,423.2</b>	<b>10,850.8</b>	<b>4,599.0</b>	<b>690.0</b>	<b>613.0</b>
<b>The Body Shop branch <sup>(3)</sup></b>	<b>435.0</b>	<b>58.3</b>	<b>1,371.0</b>	<b>65.2</b>	<b>47.3</b>	<b>28.5</b>
<b>Dermatology branch</b>	<b>343.7</b>	<b>59.4</b>	<b>342.5</b>	<b>74.5</b>	<b>19.7</b>	<b>24.5</b>
<b>Group</b>	<b>15,790.1</b>	<b>2,540.9</b>	<b>12,564.3</b>	<b>4,738.7</b>	<b>757.1</b>	<b>666.0</b>

€ millions	Sales	Operating profit	Operational assets <sup>(1)</sup>	Operational liabilities <sup>(2)</sup>	Investments in tangible and intangible assets	Depreciation and provisions
2005						
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
<b>Cosmetics divisions total</b>	<b>14,214.7</b>	<b>2,608.6</b>	<b>10,580.0</b>	<b>3,954.8</b>	<b>601.2</b>	<b>552.3</b>
Non-allocated		-396.4	326.3	549.4	57.3	46.2
<b>Cosmetics branch</b>	<b>14,214.7</b>	<b>2,212.2</b>	<b>10,906.3</b>	<b>4,504.2</b>	<b>658.4</b>	<b>598.5</b>
<b>Dermatology branch</b>	<b>317.8</b>	<b>53.8</b>	<b>359.1</b>	<b>73.6</b>	<b>15.5</b>	<b>26.7</b>
<b>Group</b>	<b>14,532.5</b>	<b>2,266.0</b>	<b>11,265.5</b>	<b>4,577.8</b>	<b>673.9</b>	<b>625.3</b>

€ millions	Sales	Operating profit	Operational assets <sup>(1)</sup>	Operational liabilities <sup>(2)</sup>	Investments in tangible and intangible assets	Depreciation and provisions
2004						
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
<b>Cosmetics divisions total</b>	<b>13,347.9</b>	<b>2,406.3</b>	<b>9,433.7</b>	<b>3,685.7</b>	<b>567.1</b>	<b>477.4</b>
Non-allocated		-368.0	298.5	588.7	74.4	48.2
<b>Cosmetics branch</b>	<b>13,347.9</b>	<b>2,038.3</b>	<b>9,732.2</b>	<b>4,274.3</b>	<b>641.4</b>	<b>525.6</b>
<b>Dermatology branch</b>	<b>293.4</b>	<b>50.6</b>	<b>333.6</b>	<b>66.4</b>	<b>31.5</b>	<b>19.9</b>
<b>Group</b>	<b>13,641.3</b>	<b>2,088.9</b>	<b>10,065.8</b>	<b>4,340.7</b>	<b>672.9</b>	<b>545.6</b>

(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.

(3) 2006 data for The Body Shop relate only to second half of the year 2006. Sales for full year 2006 would have amounted to €733.4 million.

Operational assets and operational liabilities can be reconciled to the 2006, 2005 and 2004 balance sheets as follows:

€ millions	2006	2005	2004		2006	2005	2004
<b>Operational assets</b>	<b>12,564.3</b>	<b>11,265.5</b>	<b>10,065.8</b>	<b>Operational liabilities</b>	<b>4,738.7</b>	<b>4,577.8</b>	<b>4,340.7</b>
Non-current financial assets	10,250.5	10,757.1	8,542.4	Shareholders' equity	14,624.2	14,657.2	11,825.4
				Non-current borrowings and loans	1,892.4	428.2	713.0
Deferred tax assets	429.8	424.8	427.9	Provision for liabilities and charges	138.9	113.1	107.4
				Current borrowings and loans	2,218.0	2,452.1	1,431.2
Other current assets	757.2	775.5	772.8	Deferred tax liabilities	512.6	914.7	1,322.2
Cash and cash equivalent	781.2	663.2	576.2	Other current liabilities	658.4	743.0	645.3
<b>Non-allocated assets</b>	<b>12,218.7</b>	<b>12,620.6</b>	<b>10,319.4</b>	<b>Non-allocated liabilities</b>	<b>20,044.3</b>	<b>19,308.4</b>	<b>16,044.5</b>
<b>Total Assets</b>	<b>24,783.0</b>	<b>23,886.1</b>	<b>20,385.2</b>	<b>Total Liabilities</b>	<b>24,783.0</b>	<b>23,886.1</b>	<b>20,385.2</b>

**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**

	2006		Growth (%)		2005		2004	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	7,347.7	46.5	7.7	7.7	6,822.4	46.9	6,805.5	49.9
North America	4,288.0	27.2	5.8	6.7	4,051.9	27.9	3,750.0	27.5
Rest of the World	4,154.4	26.3	13.6	13.7	3,658.2	25.2	3,085.9	22.6
<b>Group</b>	<b>15,790.1</b>	<b>100.0</b>	<b>8.7</b>	<b>8.9</b>	<b>14,532.5</b>	<b>100.0</b>	<b>13,641.3</b>	<b>100.0</b>

**2 - Consolidated sales by geographic zone by destination**

The breakdown of sales for each geographic zone by destination for 2006, 2005 and 2004 is as follows:

- Western Europe: 44%, 45.8% and 48.5%,
- North America: 27.6%, 27.4% and 27.1%,
- Rest of the World: 28.4%, 26.8% and 24.4%.

**3 - Cosmetics sales by geographic zone**

	2006		Growth (%)		2005		2004	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	6,992.3	46.6	3.7	3.7	6,742.1	47.4	6,732.8	50.4
North America	3,953.7	26.3	2.2	3.1	3,868.2	27.2	3,570.5	26.7
Rest of the World	4,065.4	27.1	12.8	12.9	3,604.4	25.4	3,044.6	22.8
<b>Cosmetics branch</b>	<b>15,011.4</b>	<b>100.0</b>	<b>5.6</b>	<b>5.9</b>	<b>14,214.7</b>	<b>100.0</b>	<b>13,347.9</b>	<b>100.0</b>

**4 - Breakdown of operating profit of cosmetics branch by geographic zone**

€ millions	2006	2005	2004
Western Europe	1,527.3	1,415.1	1,362.9
North America	744.4	708.0	632.0
Rest of the World	588.5	485.5	411.4
<b>Cosmetics divisions total</b>	<b>2,860.2</b>	<b>2,608.6</b>	<b>2,406.3</b>
Non-allocated	-437.0	-396.4	-368.0
<b>Cosmetics branch</b>	<b>2,423.2</b>	<b>2,212.2</b>	<b>2,038.3</b>

**5 - Breakdown of operational assets and consolidated investments by geographic zone**

€ millions	2006		2005		2004	
	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets	Operational assets	Investments in tangible and intangible assets
Western Europe	6,989.0	315.7	5,512.6	269.2	5,746.4	274.0
North America	3,116.8	228.2	3,289.8	206.1	2,594.5	204.1
Rest of the World	2,125.3	169.1	2,136.7	141.4	1,426.5	120.4
Non-allocated	333.1	44.1	326.3	57.3	298.5	74.4
<b>Group</b>	<b>12,564.3</b>	<b>757.1</b>	<b>11,265.5</b>	<b>673.9</b>	<b>10,065.9</b>	<b>672.9</b>



## NOTE 4 - PERSONNEL COSTS AND NUMBER OF EMPLOYEES

### a - Number of employees<sup>(1)</sup>

	12.31.2006	12.31.2005	12.31.2004
Western Europe	27,237	23,903	24,237
North America	14,576	9,622	9,077
Rest of the World	19,038	18,878	18,767
<b>Total <sup>(2)</sup></b>	<b>60,851</b>	<b>52,403</b>	<b>52,081</b>

(1) Including companies consolidated by the proportional method.

(2) Out of which 8,937 for The Body Shop in 2006.

### b - Personnel costs

€ millions	2006	2005	2004
<b>Personnel costs</b> (including welfare contributions)	<b>3,034.9</b>	<b>2,851.7</b>	<b>2,719.0</b>

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	2006	2005	2004
Directors' fees	0.9	0.9	0.9
Salaries and benefits including employer welfare contributions	20.2	23.4	20.5
Employee retirement obligation charges	13.1	14.5	12.8
Stock option charges	19.7	9.1	7.5

## NOTE 5 - AMORTISATION EXPENSE

Amortisation of tangible and intangible assets included in operating expenses amount to €589.5, €541.6 and €496.8 million respectively for 2006, 2005 and 2004.

## NOTE 6 - OTHER INCOME AND EXPENSES

This item may be divided into the following:

€ millions	2006	2005	2004 pro forma
Capital gains or losses on disposals of tangible and intangible assets	8.5	11.5	-62.7
Impairment of tangible and intangible assets <sup>(1)</sup>	-69.4	-	-24.0
Restructuring costs	0.1	-2.2	-39.5
<b>Total</b>	<b>-60.8</b>	<b>9.3</b>	<b>-126.2</b>

(1) These impairment charges relate to SOFTSHEEN-CARSON goodwill for €53.7 million in 2006 and €24 million in 2004 and to YUE-SAI brand for €15.7 million in 2006.

## NOTE 7 - FINANCE COSTS

This item may be divided into the following:

€ millions	2006	2005	2004
Financial interests related to the gross debt	-140.6	-84.3	-64.6
Financial interests related to cash and cash equivalents	24.7	20.5	21.5
<b>Finance costs</b>	<b>-115.9</b>	<b>-63.8</b>	<b>-43.1</b>

**NOTE 8 - INCOME TAX****a - Detailed breakdown of income tax**

€ millions	2006	2005	2004 pro forma
Current tax	788.0	696.0	640.7
Deferred tax	-273.3	-290.1	-22.1
<b>Income tax</b>	<b>514.7</b>	<b>405.9</b>	<b>618.6</b>

**b - Analysis of tax charge**

The income tax charge may be analysed as follows:

En millions d'euros	2006	2005	2004
<b>Pre-tax income of consolidated companies</b>	<b>2,576.8</b>	<b>2,379.1</b>	<b>5,062.5</b>
Theoretical tax rate	31.74%	32.29%	34.67%
<b>Expected tax charge</b>	<b>817.9</b>	<b>768.2</b>	<b>1,755.2</b>
Impact of permanent differences	59.7	37.0	117.5
Impact of tax rate differences <sup>(1)</sup>	-361.6	-398.3	-187.9
Change in non-recorded deferred taxes	-9.8	12.6	1.6
Impact on Sanofi-Aventis dilution capital gains <sup>(2)</sup>	-	-	-564.8
Other <sup>(3)</sup>	8.5	-13.6	-31.9
<b>Group tax charge</b>	<b>514.7</b>	<b>405.9</b>	<b>1,089.7</b>

(1) Includes the impact of the decrease in long term tax rates on disposal of investments from 15% to 8% and 2% applicable to the Sanofi-Aventis stake.

(2) Capital gain calculated at 15.72% on the tax base corresponding to the cost of the shares held.

(3) 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	
<b>Balance of deferred tax assets at December 31<sup>st</sup>, 2003</b>	<b>439.6</b>
<b>Balance of deferred tax liabilities at December 31<sup>st</sup>, 2003</b>	<b>-287.6</b>
Profit and loss effect	-452.9
Translation differences	-0.3
Sanofi-Aventis restatement	-555.0
Other effects	-38.0
<b>Balance of deferred tax assets at December 31<sup>st</sup>, 2004</b>	<b>427.9</b>
<b>Balance of deferred tax liabilities at December 31<sup>st</sup>, 2004</b>	<b>-1,322.2</b>
Profit and loss effect	290.1
Translation differences	-0.8
Other effects	115.1
<b>Balance of deferred tax assets at December 31<sup>st</sup>, 2005</b>	<b>424.8</b>
<b>Balance of deferred tax liabilities at December 31<sup>st</sup>, 2005</b>	<b>-914.7</b>
Profit and loss effect	273.3
Translation differences	-1.5
Other effects	135.4
<b>Balance of deferred tax assets at December 31<sup>st</sup>, 2006</b>	<b>429.8</b>
<b>Balance of deferred tax liabilities at December 31<sup>st</sup>, 2006</b>	<b>-512.5</b>

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

€ millions	12.31.2006		12.31.2005		12.31.2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Temporary differences	421.2	349.1	416.9	82.7	419.2	80.7
Deferred tax liability on Sanofi-Aventis restatement	–	163.4		832.0		1,241.5
Tax credits and tax loss carry-forwards	8.6	–	7.9		8.7	
<b>Deferred tax total</b>	<b>429.8</b>	<b>512.5</b>	<b>424.8</b>	<b>914.7</b>	<b>427.9</b>	<b>1,322.2</b>

Deferred tax assets relative to temporary differences mainly concerns provisions for pensions and early retirement (€244.8 million, €298.7 million and €303.9 million at the end of 2006, 2005 and 2004 respectively), and provisions for liabilities and charges (€109.8 million, €102.7 million and €106.6 million at the end of 2006, 2005 and 2004 respectively).

Deferred tax liabilities relative to temporary differences mainly concern intangible assets acquired in the frame of business combinations except non tax deductible goodwill.

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 31<sup>st</sup>, 2004.

The maintenance of L'Oréal's stake in Sanofi-Aventis at December 31<sup>st</sup>, 2005 led to a €325.8 million and a €83.8 million write-back respectively through income and equity in connection with the deferred tax liability in 2005.

The maintenance of L'Oréal's stake in Sanofi-Aventis at December 31<sup>st</sup>, 2006 leads to a €285.6 million and a €383 million write-back respectively through income and equity 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 €75.1 at December 31<sup>st</sup>, 2006 compared with €81.3 million at December 31<sup>st</sup>, 2005 and with €61.6 million at December 31<sup>st</sup>, 2004.

## NOTE 9 - 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	2006	2005	2004 pro forma
<b>Net profit attributable to the group</b>	<b>2,061.0</b>	<b>1,972.3</b>	<b>1,438.7</b>
Capital gains and losses on tangible and intangible asset disposals	–8.5	–11.5	62.7
Tangible and intangible assets depreciation	69.4	–	24.0
Restructuring cost	–0.1	2.2	39.5
Tax effect on non-recurrent items	–2.8	1.3	–18.5
Effect of change in tax rate on Sanofi-Aventis deferred tax liability	–285.6	–325.8	–60.3
Minority interests	–	–	–0.2
<b>Deferred tax total</b>	<b>1,833.4</b>	<b>1,638.5</b>	<b>1,485.9</b>

**b - Net profit per share**

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

	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
2006			
Net profit per share	2,061.0	613,281,887	3.36
Stock options plan		2,441,333	
<b>Diluted net profit per share</b>	<b>2,061.0</b>	<b>615,723,220</b>	<b>3.35</b>

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

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

**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:

	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests per share (€)
2006			
Net profit before non-recurrent items per share	1,833.4	613,281,887	2.99
Stock options plan		2,441,333	
<b>Diluted net profit before non-recurrent items per share</b>	<b>1,833.4</b>	<b>615,723,220</b>	<b>2.98</b>

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

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

## NOTE 10 - 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	12.31.2005	Acquisitions	Other	12.31.2006
2006		Disposals	movements	
L'ORÉAL PROFESSIONNEL/KÉRASTASE	316.6		-12.3	304.3
MATRIX	195.7		-15.0	180.6
REDKEN	101.4		0.0	101.4
<b>Professional Products Total</b>	<b>613.7</b>		<b>-27.4</b>	<b>586.3</b>
L'ORÉAL PARIS	749.0		-7.9	741.1
MAYBELLINE/GARNIER	1,093.4		-77.0	1,016.4
SOFTSHEEN-CARSON	144.3		-67.8	76.5
<b>Consumer Products Total</b>	<b>1,986.6</b>		<b>-152.6</b>	<b>1,834.0</b>
LANCÔME	567.3		-4.9	562.4
SHU UEMURA	124.0		-14.6	109.4
Other	195.7		-2.7	193.0
<b>Luxury Products Total</b>	<b>887.0</b>		<b>-22.2</b>	<b>864.8</b>
VICHY/DERMABLEND	204.8		-1.6	203.2
Other	142.9	38.7	-9.1	172.5
<b>Active Cosmetics Total</b>	<b>347.7</b>	<b>38.7</b>	<b>-10.7</b>	<b>375.7</b>
Other cosmetics	2.1	5.3	-0.1	7.3
<b>The Body Shop</b>		<b>379.0</b>	<b>6.9</b>	<b>385.8</b>
<b>Group Total</b>	<b>3,837.1</b>	<b>423.0</b>	<b>-206.2</b>	<b>4,053.9</b>

2006 acquisitions relate to The Body Shop, SkinEthic and the Laboratoire Sanoflore. No disposal took place during 2006. The other movements consist mainly of changes in exchange rates during the period, as well as an impairment loss of €53.7 million relating to SOFTSHEEN-CARSON. This impairment loss is generated by an increase in the interest rates for €29.1 million. The accumulated impairment losses for SOFTSHEEN-CARSON amount to €72.9 million at December 31<sup>st</sup>, 2006.

€ millions	12.31.2004	Acquisitions	Other	12.31.2005
2005		Disposals	movements	
L'ORÉAL PROFESSIONNEL/KÉRASTASE	300.2	-	16.5	316.6
MATRIX	175.8	-	19.9	195.7
REDKEN	107.2	-	-5.8	101.4
<b>Professional Products Total</b>	<b>583.2</b>	<b>-</b>	<b>30.5</b>	<b>613.7</b>
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
<b>Consumer Products Total</b>	<b>1,815.8</b>	<b>29.7</b>	<b>141.1</b>	<b>1,986.6</b>
LANCÔME	559.0	0.1	8.2	567.3
SHU UEMURA	120.3	-	3.8	124.0
Other	190.8	-	4.9	195.7
<b>Luxury Products Total</b>	<b>870.0</b>	<b>0.1</b>	<b>16.9</b>	<b>887.0</b>
VICHY/DERMABLEND	201.9	-	2.9	204.8
Other	42.3	97.4	3.3	142.9
<b>Active Cosmetics Total</b>	<b>244.2</b>	<b>97.4</b>	<b>6.2</b>	<b>347.7</b>
Other cosmetics	0.6	1.5	-	2.1
<b>Group Total</b>	<b>3,513.8</b>	<b>128.7</b>	<b>194.7</b>	<b>3,837.1</b>

The acquisitions in 2005 involved SKINCEUTICALS, Delial and le CLUB DES CRÉATEURS DE BEAUTÉ Japon. No disposal took place in 2005. The other movements consisted mainly of changes in exchange rates during the period.

€ millions	12.31.2003	Acquisitions Disposals	Other movements	12.31.2004
2004				
L'ORÉAL PROFESSIONNEL/KÉRASTASE	308.0	–	–7.9	300.2
MATRIX	184.7	–	–8.9	175.8
REDKEN	107.2	–	–	107.2
<b>Professional Products Total</b>	<b>600.0</b>	<b>–</b>	<b>–16.8</b>	<b>583.2</b>
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
<b>Consumer Products Total</b>	<b>1,684.6</b>	<b>213.0</b>	<b>–81.8</b>	<b>1,815.8</b>
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
<b>Luxury Products Total</b>	<b>741.5</b>	<b>164.7</b>	<b>–36.1</b>	<b>870.0</b>
VICHY/DERMABLEND	191.1	12.2	–1.4	201.9
Other	41.5	1.0	–0.2	42.3
<b>Active Cosmetics Total</b>	<b>232.6</b>	<b>13.2</b>	<b>–1.7</b>	<b>244.2</b>
Other cosmetics	0.6	–	–	0.6
<b>Group Total</b>	<b>3,259.3</b>	<b>390.9</b>	<b>–136.4</b>	<b>3,513.8</b>

The acquisitions in 2004 mainly concerned MININURSE, YUE-SAI and SHU UEMURA. No disposal took place in 2004. The other movements consisted of changes in exchange rates over the period and a €24 million write-off for SOFTSHEEN-CARSON.

## NOTE 11 - OTHER INTANGIBLE ASSETS

€ millions	12.31.2005	Acquisitions Amortization	Disposals Takeovers	Changes in the scope of consolidation <sup>(1)</sup>	Other movements	12.31.2006
2006						
Brands with an indefinite life span <sup>(2)</sup>	707.4	0.1		605.4	–44.1	1,268.8
Depreciable brands and product ranges	42.4	0.6		8.7	–2.2	49.6
Licences and patents	462.6	5.8	–1.9	3.1	–11.4	458.1
Other	276.6	49.6	–15.0	63.9	5.8	381.0
<b>Gross value</b>	<b>1,489.0</b>	<b>56.2</b>	<b>–17.0</b>	<b>681.2</b>	<b>–51.9</b>	<b>2,157.5</b>
Brands with an indefinite life span <sup>(3)</sup>		15.7			–0.4	15.3
Depreciable brands and product ranges	16.5	3.5			–1.1	18.8
Licences and patents	131.0	18.6	–1.9		–4.1	143.6
Other	140.6	42.6	–14.9	13.4	5.4	187.1
<b>Amortisation and provisions</b>	<b>288.0</b>	<b>80.4</b>	<b>–16.8</b>	<b>13.4</b>	<b>–0.3</b>	<b>364.8</b>
<b>Other intangible assets - net</b>	<b>1,201.0</b>	<b>–24.3</b>	<b>–0.2</b>	<b>667.8</b>	<b>–51.6</b>	<b>1,792.8</b>

(1) This item consists mainly of changes in the scope of consolidation (The Body Shop, SkinEthic and Sanoflore).

(2) At December 31<sup>st</sup>, 2006, the brands with an indefinite life span consist mainly of the brands THE BODY SHOP (€616.9 million), MATRIX (€277.8 million), KIEHL'S (€124.2 million) and SHU UEMURA (€93.5 million).

(3) An impairment loss of €15.7 million has been recognised for the Yue-Sai brand during 2006.

The other movements consisted of changes in exchange rates over the period.

€ millions	12.31.2004	Acquisitions Amortisation	Disposals Takeovers	Changes in the scope of consolidation <sup>(1)</sup>	Other movements	12.31.2005
<b>2005</b>						
Brands with an indefinite life span <sup>(2)</sup>	618.5	0.1	–	28.8	60.0	707.4
Depreciable brands and product ranges	28.5	0.2	–	5.9	7.9	42.4
Licences and patents	453.6	5.9	–1.7	1.5	3.3	462.6
Other	184.0	67.4	–8.3	24.3	9.2	276.6
<b>Gross value</b>	<b>1,284.6</b>	<b>73.5</b>	<b>–9.9</b>	<b>60.4</b>	<b>80.4</b>	<b>1,489.0</b>
Brands with an indefinite life span	–	–	–	–	–	–
Depreciable brands and product ranges <sup>(3)</sup>	1.8	13.0	–	–	1.7	16.5
Licences and patents	107.4	22.2	–1.6	–	3.0	131.0
Other	110.5	35.8	–7.8	0.2	1.9	140.6
<b>Amortisation and provisions</b>	<b>219.7</b>	<b>70.9</b>	<b>–9.4</b>	<b>0.2</b>	<b>6.6</b>	<b>288.0</b>
<b>Other intangible assets - net</b>	<b>1,064.9</b>	<b>2.6</b>	<b>–0.5</b>	<b>60.2</b>	<b>73.8</b>	<b>1,201.0</b>

(1) This item consists mainly of changes in the scope of consolidation (SkinCeuticals and Delial).

(2) At December 31<sup>st</sup>, 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).

(3) An exceptional amortisation of €9.2 million has been recorded for the MININURSE brand during 2005.

The other movements consisted of changes in exchange rates over the period.

€ millions	12.31.2003	Acquisitions Amortisation	Disposals Takeovers	Changes in the scope of consolidation <sup>(1)</sup>	Other movements	12.31.2004
<b>2004</b>						
Brands with an indefinite life span <sup>(2)</sup>	559.3	–	–	89.6	–30.3	618.5
Depreciable brands and product ranges	3.5	–	–0.3	28.6	–3.3	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
<b>Gross value</b>	<b>1,218.4</b>	<b>54.8</b>	<b>–74.6</b>	<b>118.2</b>	<b>–32.3</b>	<b>1,284.6</b>
Brands with an indefinite life span	–	–	–	–	–	–
Depreciable brands and product ranges <sup>(3)</sup>	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
<b>Amortisation and provisions</b>	<b>182.0</b>	<b>58.0</b>	<b>–22.3</b>	<b>–</b>	<b>2.0</b>	<b>219.7</b>
<b>Other intangible assets - net</b>	<b>1,036.4</b>	<b>–3.2</b>	<b>–52.3</b>	<b>118.2</b>	<b>–34.3</b>	<b>1,064.9</b>

(1) This item consists mainly of changes in the scope of consolidation (YUE-SAI, MININURSE and SHU UEMURA).

(2) At December 31<sup>st</sup>, 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).

The other movements consisted of changes in exchange rates over the period.

## NOTE 12 - IMPAIRMENT TESTS ON INTANGIBLE ASSETS

Impairment tests on Cash Generating Units for which the carrying amount of goodwill and intangible assets with indefinite useful lives is significant, are realized based on the following data and assumptions:

€ millions	Goodwill and brands with indefinite useful lives net book value	Discount rate in %	
		International without United States	United States
<b>2006 Test</b>			
LANCÔME	562.4	8.00	9.10
L'ORÉAL PARIS	741.1	8.00	9.10
MAYBELLINE/GARNIER	1,016.4	8.00	9.10
<b>2005 Test</b>			
LANCÔME	567.3	7.20	8.50
L'ORÉAL PARIS	749.0	7.20	8.50
MAYBELLINE/GARNIER	1,093.4	7.20	8.50
<b>2004 Test</b>			
LANCÔME	559.0	8.15	8.15
L'ORÉAL PARIS	735.3	8.15	8.15
MAYBELLINE/GARNIER	952.6	8.15	8.15

1 point increase in the discount rate for these Cash Generating Units would not generate any impairment loss.

Growth rate in perpetuity is in accordance with market data i.e. 3%.

1 point decrease in the growth rate in perpetuity would not generate any impairment loss.

### NOTE 13 - TANGIBLE ASSETS

€ millions	12.31.2005	Acquisitions	Disposals	Translation	Other	12.31.2006
2006		Amortisation	Takeovers	difference	movements <sup>(1)</sup>	
Land and buildings	1,379.0	41.1	-34.9	-37.0	185.2	1,533.4
Machinery and equipment	2,140.5	177.4	-98.6	-86.3	43.1	2,176.1
POS, stands and displays	722.9	199.3	-140.6	-39.4	96.9	839.1
Other tangible assets and work-in-progress	1,056.4	269.5	-63.9	-59.9	-95.4	1,106.7
<b>Gross value</b>	<b>5,298.8</b>	<b>687.3</b>	<b>-338.0</b>	<b>-222.6</b>	<b>229.8</b>	<b>5,655.3</b>
Land and buildings	643.8	61.6	-23.2	-13.3	64.9	733.8
Machinery and equipment	1,231.1	197.4	-102.3	-47.6	-7.1	1,271.5
POS, stands and displays	446.8	178.7	-138.8	-21.9	27.9	492.7
Other tangible assets and work-in-progress	511.1	87.1	-61.8	-25.4	17.9	528.9
<b>Depreciation and provisions</b>	<b>2,832.8</b>	<b>524.8</b>	<b>-326.1</b>	<b>-108.2</b>	<b>103.6</b>	<b>3,026.9</b>
<b>Tangible assets - net</b>	<b>2,466.0</b>	<b>162.5</b>	<b>-11.9</b>	<b>-114.4</b>	<b>126.2</b>	<b>2,628.4</b>

(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	12.31.2004	Acquisitions	Disposals	Translation	Other	12.31.2005
2005		Amortisation	Takeovers	difference	movements <sup>(1)</sup>	
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
<b>Gross value</b>	<b>4,734.6</b>	<b>600.4</b>	<b>-321.7</b>	<b>306.4</b>	<b>-20.9</b>	<b>5,298.8</b>
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
<b>Depreciation and provisions</b>	<b>2,549.6</b>	<b>470.7</b>	<b>-314.4</b>	<b>149.7</b>	<b>-22.7</b>	<b>2,832.9</b>
<b>Tangible assets - net</b>	<b>2,185.0</b>	<b>129.7</b>	<b>-7.3</b>	<b>156.7</b>	<b>1.8</b>	<b>2,466.0</b>

(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	12.31.2003	Acquisitions	Disposals	Translation	Other	12.31.2004
2004		Amortisation	Takeovers	difference	movements <sup>(1)</sup>	
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
<b>Gross value</b>	<b>4,397.6</b>	<b>634.1</b>	<b>-213.3</b>	<b>-96.2</b>	<b>12.4</b>	<b>4,734.6</b>
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
<b>Depreciation and provisions</b>	<b>2,348.7</b>	<b>414.9</b>	<b>-190.8</b>	<b>-49.8</b>	<b>26.7</b>	<b>2,549.6</b>
<b>Tangible assets - net</b>	<b>2,048.9</b>	<b>219.2</b>	<b>-22.4</b>	<b>-46.4</b>	<b>-14.3</b>	<b>2,185.0</b>

(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	12.31.2006	12.31.2005	12.31.2004
Land and buildings	100.9	167.5	170.5
Machinery and equipment	8.6	6.2	6.5
Other tangible assets and work-in-progress	20.3	21.6	12.2
<b>Gross value</b>	<b>129.8</b>	<b>195.3</b>	<b>189.2</b>
Depreciation	43.1	98.0	92.9
<b>Net value</b>	<b>86.7</b>	<b>97.3</b>	<b>96.3</b>

## NOTE 14 - NON-CURRENT FINANCIAL ASSETS

€ millions	12.31.2006		12.31.2005		12.31.2004	
	Balance sheet value	Acquisition cost/ amortised cost	Balance sheet value	Acquisition cost/ amortised cost	Balance sheet value	Acquisition cost/ amortised cost
Investments in non-consolidated companies						
• Sanofi-Aventis <sup>(1)</sup>	10,005.8	4,880.1	10,585.0	4,880.1	8,410.8	4,880.1
• Unlisted securities <sup>(2)</sup>	4.2	4.2	4.4	4.4	4.0	4.0
Non-current loans and receivables <sup>(3)</sup>	158.5	158.5	167.7	167.7	127.6	127.5
<b>Total</b>	<b>10,168.5</b>	<b>5,042.8</b>	<b>10,757.1</b>	<b>5,052.2</b>	<b>8,542.4</b>	<b>5,011.6</b>

(1) Sanofi-Aventis was deconsolidated on August 12th, 2004 (see note 2-c). The balance sheet value at December 31<sup>st</sup>, 2004, December 31<sup>st</sup>, 2005 and December 31<sup>st</sup>, 2006 of €8,410.8 million, €10,585 million and €10,005.8 million respectively, corresponds to the market value of the shares based on the closing price on December 31<sup>st</sup>, 2004, 2005 and 2006 respectively of €58.80, €74.00 and €69.95.

(2) As their fair value cannot be reliably determined, they are stated at cost.

(3) The amortised cost takes into account recognised impairment losses.

## NOTE 15 - INVENTORIES

€ millions	12.31.2006	12.31.2005	12.31.2004
Finished products and consumables	1,257.0	1,147.3	1,005.9
Raw materials, packaging end semi-finished products	307.7	289.9	290.8
<b>Gross value</b>	<b>1,564.7</b>	<b>1,437.2</b>	<b>1,296.7</b>
Valuation allowance	160.3	175.4	173.3
<b>Inventories - net</b>	<b>1,404.4</b>	<b>1,261.8</b>	<b>1,123.4</b>

## NOTE 16 - TRADE ACCOUNTS RECEIVABLE

€ millions	12.31.2006	12.31.2005	12.31.2004
Gross value	2,599.0	2,422.8	2,115.2
Valuation allowance	40.5	43.2	51.8
<b>Net value</b>	<b>2,558.5</b>	<b>2,379.7</b>	<b>2,063.4</b>

Trade accounts receivable are due within one year.

## NOTE 17 - OTHER CURRENT ASSETS

€ millions	12.31.2006	12.31.2005	12.31.2004
Fiscal and social accounts receivable (excluding income tax)	221.4	198.4	173.0
Prepaid expenses	167.0	163.7	128.3
Point of sales advertising	125.8	119.8	115.5
Derivatives	109.1	73.3	183.3
Other current assets	228.5	273.8	230.9
<b>Total</b>	<b>851.8</b>	<b>829.0</b>	<b>831.0</b>

**NOTE 18 - CASH AND CASH EQUIVALENT**

€ millions	12.31.2006		12.31.2005		12.31.2004	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Marketable securities	132.3	123.5	142.7	136.6	180.4	170.9
Bank accounts and other cash and cash equivalents	648.9	648.9	520.5	520.5	395.8	395.8
<b>Total</b>	<b>781.2</b>	<b>772.4</b>	<b>663.2</b>	<b>657.1</b>	<b>576.2</b>	<b>566.7</b>

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 €8.8 million compared with €6.1 and €9.5 million in 2005 and in 2004 and are recorded directly through shareholders' equity.

**NOTE 19 - SHAREHOLDERS' EQUITY****a - Share capital and additional paid-in capital**

The share capital consists of 639,616,410 shares with a par value of €0.20 at December 31<sup>st</sup>, 2006 following the decision made by the Board of Directors on April 25<sup>th</sup>, 2006 to cancel 19,229,250 shares and the exercise of subscription options for 76,000 shares.

The share capital consisted of 658,769,660 shares with a par value of €0.20 euro at December 31<sup>st</sup>, 2005 following the decision made by the Board of Directors on April 26<sup>th</sup>, 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 31<sup>st</sup>, 2004.

**b - Treasury stock**

A L'Oréal share buyback programme was authorised by the Annual General Meetings of Shareholders on May 29<sup>th</sup>, 2002, May 22<sup>nd</sup>, 2003, April 29<sup>th</sup>, 2004, April 26<sup>th</sup>, 2005 and April 25<sup>th</sup>, 2006. 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 31<sup>st</sup>, 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 were held at December 31<sup>st</sup>, 2005 for €932.0 million, of which 1,800,000 shares are allocated to the share option plan of November 30<sup>th</sup>, 2005.

In 2006, L'Oréal purchased 16,813,000 shares for €1,241.8 million. In view of the 17,660,000 shares cancelled in April 2006 and 6,000 options exercised, 14,187,000 shares are held at December 31<sup>st</sup>, 2006 for €1,033.8 million, of which 1,794,000 shares are allocated to the share option plan of November 30<sup>th</sup>, 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 31<sup>st</sup>, 2004 for an acquisition price of €1,759.1 million. At December 31<sup>st</sup>, 2005 these shares amounted to 23,756,050 for an acquisition price of €1,706.2 million. At December 31<sup>st</sup>, 2006 these shares amounted to 19,707,300 for an acquisition price of €1,462.5 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.

In 2006, no shares were bought or sold for this purpose, and options relating to 2,479,500 shares were exercised and 1,569,250 shares were cancelled.

### c - Share subscription or purchase options

The table below sets out the data concerning option plans issued after November 7<sup>th</sup>, 2002 and in force at December 31<sup>st</sup>, 2006.

Allocation date	Number of options	Number of options not yet exercised	Exercise period		Exercise price
			From	To	
12.03.2003	2,500,000	2,476,000	12.04.2008	12.03.2013	63.02
12.03.2003	2,500,000	2,416,250	12.04.2008	12.03.2013	71.90
03.24.2004	2,000,000	1,984,500	03.25.2009	03.24.2014	64.69
12.01.2004	4,000,000	3,970,000	12.02.2009	12.01.2014	55.54
06.29.2005	400,000	400,000	06.30.2010	06.29.2015	60.17
11.30.2005	4,200,000	4,186,000	12.01.2010	11.30.2015	61.37
11.30.2005	1,800,000	1,794,000	12.01.2010	11.30.2015	62.94
04.25.2006	2,000,000	2,000,000	04.26.2011	04.25.2016	72.60
12.01.2006	5,500,000	5,500,000	12.02.2011	12.01.2016	78.06

All the plans have a 5 years exercise period and no performance conditions.

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	April 2006	December 2006
Risk-free rate of return	4.22%	3.16%	3.92%	3.39%	3.17%	2.63%	3.16%	3.80%	3.62%
Expected life span	8 years	6 years	6 years	7 years	6 years	6 years	6 years	6 years	7 years
Expected volatility	21.50%	21.00%	21.50%	23.67%	18.70%	17%	21%	20.50%	22.52%
Expected dividends	1%	1.35%	1%	1.20%	1.34%	1.38%	1.35%	1.35%	1.35%
Share price	63.45	61.3	63.45	60.6	54.6	59.4	61.3	74.10	74.60
Exercise price	71.90	62.94	63.02	64.69	55.54	60.17	61.37	72.60	78.06
Fair value	15.24	12.3	15.66	14.67	10.15	9.45	12.88	17.48	17.19

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, 2005 and 2006 are set out below:

	12.31.2006		12.31.2005		12.31.2004	
	Number of options	Weighted average price for year	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	38,648,550	67.47	33,947,800	66.70	28,986,400	67.13
• Options granted	7,500,000	76.60	6,400,000	61.74	6,000,000	58.59
• Options exercised	- 2,561,500	49.44	- 1,699,250	30.59	- 1,038,600	31.85
• Options expired	- 1,569,250		-		-	
Number of options not exercised at end of period	42,017,800	69.86	38,648,550	67.47	33,947,800	66.70
Of which: number of exercisable options at end of period	12,581,550	72.74	11,043,800	65.06	7,404,050	46.50
expired options at end of period	1,669,750		2,667,500		1,688,250	

The average weighted price of the share amounted to €73.84, €60.91 and €60.28 respectively for 2006, 2005 and 2004.

The total charge recorded in 2006, 2005 and 2004 amounted to €49.4, €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	12.31.2006	12.31.2005	12.31.2004
<b>Financial assets available for sale</b>			
Reserve at opening date	5,711.0	3,540.2	12.0
Changes in fair value over period	-571.1	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	-5.5	-6.0	-5.0
<b>Reserve at closing date</b>	<b>5,134.4</b>	<b>5,711.0</b>	<b>3,540.2</b>
<b>Cash flows hedge - exchange</b>			
Reserve at opening date	-47.6	68.8	98.2
Changes in fair value over period	93.2	-105.9	43.8
Changes in fair value recorded in profit and loss account	-12.3	-10.5	-73.2
<b>Reserve at closing date</b>	<b>33.3</b>	<b>-47.6</b>	<b>68.8</b>
<b>Cash flows hedge - interest rates</b>			
Reserve at opening date	-	-2.2	-4.1
Changes in fair value over period	2.0	+2.8	-1.4
Changes in fair value recorded in profit and loss account	-1.6	-0.6	+3.3
<b>Reserve at closing date</b>	<b>0.4</b>	<b>-</b>	<b>-2.2</b>
<b>Total items directly recognised in equity</b>			
Gross reserve	5,168.1	5,663.4	3,606.8
Associated tax effect	-101.2	-466.2	-575.8
<b>Reserve net of tax</b>	<b>5,066.9</b>	<b>5,197.2</b>	<b>3,031.0</b>

**NOTE 20 - POST-EMPLOYMENT BENEFITS, TERMINATION BENEFITS AND OTHER LONG-TERM EMPLOYEE BENEFITS**

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

For basic schemes and other defined-contribution schemes, the group charges to 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 vested rights of employees.

Pension obligations are determined and recognised in accordance with the accounting principles presented in note 1-v.

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:

	12.31.2006	12.31.2005	12.31.2004
Discount rate	4.7%	4.5%	5.0%
Salary increase	4.8%	4.5%	4.6%
Long-term return on assets	5.6%	5.4%	5.8%

	12.31.2006			12.31.2005			12.31.2004		
	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate	Initial rate	Ultimate rate	Application of ultimate rate
Expected rate of health care inflation	6.7%	4.6%	2011	7.4%	4.7%	2011	8.1%	4.1%	2011

The discount rates are obtained by reference to market yields on high quality bonds having maturity dates equivalent to those of the plans.

The returns on plan assets are determined upon the asset allocation of the investment portfolio taking into account for each class of assets, returns in accordance with the risk and past performance.

The variations during 2006, 2005 and 2004 are set out below:

€ millions	Projected pension obligations	Assets	Unrealised gains and losses	Unrecognised plans amendments	Net provisions
<b>Balance at December 31<sup>th</sup>, 2003</b>	<b>1,993.3</b>	<b>883.7</b>		<b>-20.4</b>	<b>1,130.0</b>
Service cost	94.8				94.8
Interest cost	98.1				98.1
Expected return on assets		57.2			-57.2
Reversal of provisions <sup>(1)</sup>	-34.4			1.2	-35.6
Past service cost: new plans/plans amendments	-14.1			-14.8	0.7
Curtailments					
Settlements	-0.9				-0.9
Benefits paid	-86.9	-51.5			-35.4
Contribution paid	6.6	142.6			-136.0
Unrealised gains and losses	208.1	24.4	176.8	6.7	0.2
Translation differences	-32.8	-23.3	-3.5	0.8	-6.8
Other movements	-54.1	2.4	-0.2		-56.3
<b>Balance at December 31<sup>th</sup>, 2004</b>	<b>2,177.7</b>	<b>1,035.5</b>	<b>173.1</b>	<b>-26.5</b>	<b>995.6</b>
Service cost	107.2				107.2
Interest cost	109.8				109.8
Expected return on assets		66.6			-66.6
Reversal of provisions	-0.6				-0.6
Past service cost: new plans/plans amendments	-0.4			8.6	-9.0
Curtailments	-11.3		-1.5	0.1	-9.9
Settlements					
Benefits paid	-97.1	-57.1			-40.0
Contribution paid	6.8	156.6			-149.8
Unrealised gains and losses	166.5	43.4	119.9		3.3
Translation differences	81.2	57.0	7.0	-0.6	17.9
Other movements	2.8				2.8
<b>Balance at December 31<sup>th</sup>, 2005</b>	<b>2,542.6</b>	<b>1,302.0</b>	<b>298.4</b>	<b>-18.4</b>	<b>960.6</b>
Service cost	104.0				104.0
Interest cost	109.2				109.2
Expected return on assets		71.7			-71.7
Past service cost: new plans/plans amendments	-11.0			-0.8	-10.2
Curtailments	-71.0		-7.1		-63.9
Settlements	-4.5	-2.9	-1.5		-0.1
Benefits paid	-107.4	-70.8			-36.6
Contribution paid	6.7	155.8			-149.1
Unrealised gains and losses	21.6	32.0	-18.3		7.9
Translation differences	-66.7	-47.1	-7.6	0.2	-12.2
<b>Balance at December 31<sup>th</sup>, 2006</b>	<b>2,523.5</b>	<b>1,440.7</b>	<b>263.9</b>	<b>-18.9</b>	<b>837.9</b>

(1) In 2004, other movements include €57.2 million in reversals of provisions previously booked against shareholders' equity. The change in this commitment also resulted in a €35.6 million reduction in expenses for 2004.

The total present value of defined benefit obligations breaks down as follows between wholly or partly funded plans and wholly unfunded plans:

€ millions	12.31.2006	12.31.2005	12.31.2004
Present value of defined benefit obligations that are wholly or partly funded	2,253.9	2,178.0	1,877.2
Fair value of plan assets	1,440.8	1,302.0	1,035.5
Funded status of defined benefit obligations that are wholly or partly funded	813.1	876.0	841.7
Present value of defined benefit obligations that are wholly unfunded	269.6	364.6	300.5

The retirement expense charged to the profit and loss account are recorded with personal expenses in operational profit and may be analysed as follows:

€ millions	2006	2005	2004
Service cost	104.0	107.2	94.8
Interest cost	109.2	109.8	98.1
Expected return on assets	-71.7	-66.6	-57.2
Amortisation of unrealised gains and losses	7.9	3.3	0.2
Reversal of provisions		-0.6	-35.6
New plans/plans amendments	-10.2	-9.0	0.7
Curtailments	-23.3	-9.9	
Settlements	-0.1		-0.9
<b>Total</b>	<b>115.8</b>	<b>134.2</b>	<b>100.1</b>

In respect of the medical care plans, a change of one percentage point in the assumed medical costs has the following impact:

€ millions	Increase of 1%	Decrease of 1%
Impact on the benefit obligation	24.47	-19.02
Impact on the current service cost and interest costs	2.62	-2.85

The plan assets of retirement plans are invested as follows:

In %	12.31.2006	12.31.2005	12.31.2004
Equity securities <sup>(1)</sup>	38.6	40.7	41.4
Bonds	47.6	45.3	46.1
Property assets <sup>(2)</sup>	7.2	7.0	5.9
Monetary instruments	1.6	4.7	4.9
Others	4.9	2.3	1.7
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Out of which L'Oréal shares: nil.

(2) Out of which property assets occupied by group entities: 0.5%.

Allocation of investments in plan assets has to respect determined proportions between the different classes of assets and have to meet minimum rating criteria for monetary instruments and bonds.

The benefit obligation, the fair value of the plan assets and the actuarial gains (losses) generated for the current year and the two previous years are as follows:

€ millions	12.31.2006	12.31.2005	12.31.2004
Benefit obligation	2,523.5	2,542.6	2,177.7
Plan assets	-1,440.7	-1,302.0	-1,035.5
<b>(Funded) unfunded status</b>	<b>1,082.8</b>	<b>1,240.6</b>	<b>1,142.2</b>
Experience adjustments generated on the obligation	-43.3	-62.7	-34.5
Experience adjustments generated on the plan assets	32.0	43.4	24.4

## NOTE 21 - PROVISIONS FOR LIABILITIES AND CHARGES

### a - Balances at closing date

€ millions	12.31.2006	12.31.2005	12.31.2004
<b>Other non-current provisions for liabilities and charges</b>	<b>154.1</b>	<b>157.0</b>	<b>188.0</b>
Provisions for restructuring	1.4	2.8	3.7
Other non-current provisions <sup>(1)</sup>	152.7	154.2	184.3
<b>Current provisions for liabilities and charges</b>	<b>272.0</b>	<b>289.3</b>	<b>286.6</b>
Provisions for restructuring	18.9	32.2	44.0
Other current provisions <sup>(1)</sup>	253.1	257.1	242.6
<b>Total</b>	<b>426.1</b>	<b>446.3</b>	<b>474.6</b>

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

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

€ millions	12.31.2004	12.31.2005	Charges <sup>(2)</sup>	Reversals (used) <sup>(2)</sup>	Reversals (not used) <sup>(2)</sup>	Impact of change in scope/ exchange rate/ Other <sup>(1)</sup>	12.31.2006
Other provisions for liabilities and charges	426.9	411.3	220.1	-138.9	-67.5	-19.2	405.8
Provisions for restructuring	47.7	35.0	0.5	-13.7	-0.1	-1.4	20.3
<b>Total</b>	<b>474.6</b>	<b>446.3</b>	<b>220.6</b>	<b>-152.6</b>	<b>-67.6</b>	<b>-20.6</b>	<b>426.1</b>

(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	0.5	-13.7	-0.1
• Operating profit	166.5	-134.5	-61.7
• Income tax	53.6	-4.4	-5.8

For 2005, the change was analysed as follows:

€ millions	12.31.2004	Charges <sup>(2)</sup>	Reversals (used) <sup>(2)</sup>	Reversals (non used) <sup>(2)</sup>	Impact of change in scope/ exchange rate/ Other <sup>(1)</sup>	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
<b>Total</b>	<b>474.6</b>	<b>115.1</b>	<b>-110.3</b>	<b>-63.7</b>	<b>30.6</b>	<b>446.3</b>

(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 22 - 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	12.31.2006		12.31.2005		12.31.2004	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	2,000.0	-	1,795.9	-	1,109.8
MLT bank loans	1,787.3	2.8	339.3	359.4	606.0	70.9
Perpetual loan	-	7.1	8.0	13.0	22.9	11.6
Debts on capital lease contracts	77.2	10.3	53.9	14.5	60.1	11.0
Overdrafts	-	73.6	-	51.0	-	69.3
Other borrowings and debts	27.9	124.2	27.0	218.3	24.0	158.6
<b>Total</b>	<b>1,892.4</b>	<b>2,218.0</b>	<b>428.2</b>	<b>2,452.1</b>	<b>713.0</b>	<b>1,431.2</b>

**b - Debt by maturity date**

€ millions	12.31.2006	12.31.2005	12.31.2004
Under 1 year	2,218.0	2,452.1	1,431.2
1 to 5 years	1,837.3	385.1	665.8
Over 5 years	55.1	43.1	47.2
<b>Total</b>	<b>4,110.4</b>	<b>2,880.3</b>	<b>2,144.2</b>

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

€ millions	12.31.2006	12.31.2005	12.31.2004
Euro (EUR)	3,116.9	1,772.3	1,280.5
US dollar (USD)	731.6	808.9	589.6
Yuan (CNY)	55.7	57.4	6.2
Canadian dollar (CAD)	49.8	56.0	36.3
Yen (JPY)	42.9	32.8	39.1
Other	113.5	152.9	192.5
<b>Total</b>	<b>4,110.4</b>	<b>2,880.3</b>	<b>2,144.2</b>

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

€ millions	12.31.2006	12.31.2005	12.31.2004
Floating rate	3,824.3	2,592.7	1,888.5
Fixed rate	286.1	287.6	255.7
<b>Total</b>	<b>4,110.4</b>	<b>2,880.3</b>	<b>2,144.2</b>

**e - Effective interest rates**

The effective debt interest rates, after allowing for hedging instruments, were 2.40% in 2004, 3.10% in 2005 and 4.05% in 2006 for short-term paper, and 2.23% in 2004, 2.56% in 2005 and 3.69% in 2006 for bank loans.

**f - Average debt interest rates**

The average debt interest rates, after allowing for hedging instruments, were 2.17% in 2004, 2.18% in 2005 and 3.07% in 2006 for the euro, and 1.85% in 2004, 3.31% in 2005 and 4.76% in 2006 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 31<sup>st</sup>, 2006, the fair value of the debt amounts to €4,113.2 million. At December 31<sup>st</sup>, 2005, it amounted to €2,884.9 million. At December 31<sup>st</sup>, 2004, it amounted to €2,151.1 million.

**h - Debts covered by collateral**

There were no significant debts covered by collateral as at December 31<sup>st</sup>, 2006, at December 31<sup>st</sup>, 2005 and at December 31<sup>st</sup>, 2004.

**i - Confirmed credit lines**

At December 31<sup>st</sup>, 2006, L'Oréal and its subsidiaries have €2,625 million of credit lines confirmed but not used, compared with €2,625 million and €2,268 million respectively at December 31<sup>st</sup>, 2005 and at December 31<sup>st</sup>, 2004.

**NOTE 23 - 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		
	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
<b>Currency futures</b>						
<b>Purchase EURO/currency</b>	<b>1,278.3</b>	<b>1,565.4</b>	<b>1,097.6</b>	<b>19.4</b>	<b>-71.4</b>	<b>38.8</b>
EUR/USD	205.5	523.4	387.5	12.8	-38.0	30.7
EUR/RUB	125.0	123.7	86.6	-0.1	-5.7	3.3
EUR/CHF	118.7	110.3	91.2	1.7	0.4	0.2
EUR/CAD	104.7	101.1	76.1	6.0	-6.9	2.6
EUR/GBP	93.8	160.5	151.4	-2.4	-0.8	2.7
EUR/CNY	83.0	-	-	0.7	-	-
EUR/West European currencies	102.0	101.6	106.9	0.2	0.5	-0.5
EUR/East European currencies	87.6	72.8	56.5	-4.5	-1.8	-2.7
EUR/Asian currencies	171.2	168.8	34.0	5.1	-4.5	1.9
EUR/Latin American currencies	83.3	81.9	18.7	1.0	-9.0	0.7
EUR/Other currencies	103.5	121.3	88.8	-1.1	-5.6	-0.1
<b>Purchase USD/currency</b>	<b>101.0</b>	<b>174.9</b>	<b>261.8</b>	<b>-0.6</b>	<b>0.8</b>	<b>-10.4</b>
USD/Latin American currencies	55.0	56.2	68.3	-0.6	-0.4	-3.7
USD/Other Asian currencies	37.0	98.9	122.7	-0.1	0.5	-2.1
USD/Other currencies	9.0	19.8	70.8	0.2	0.7	-4.7
<b>Sale USD/CHF</b>	<b>108.5</b>	<b>58.6</b>	<b>92.3</b>	<b>1.8</b>	<b>-1.2</b>	<b>1.6</b>
Other currency pairs	103.3	89.7	67.0	-0.7	-0.4	-0.3
<b>Currency futures total</b>	<b>1,591.1</b>	<b>1,888.5</b>	<b>1,518.7</b>	<b>20.0</b>	<b>-72.2</b>	<b>29.8</b>
<b>Currency options</b>						
EUR/USD	137.0	136.2	438.8	9.2	2.5	41.5
EUR/GBP	65.7	75.3	130.7	0.7	1.4	7.4
EUR/RUB	50.0	21.9	65.2	2.4	0.4	4.3
EUR/BRL	41.8	24.8	37.0	1.5	-0.2	0.8
EUR/MXN	29.4	19.2	36.9	1.8	0.4	2.4
EUR/Other currencies	159.6	86.1	119.1	5.3	1.3	3.3
USD/CHF	45.7	115.5	-	1.0	5.3	-
Other currency pairs	62.0	47.9	23.2	1.0	1.1	0.3
<b>Currency options total</b>	<b>591.2</b>	<b>526.9</b>	<b>850.8</b>	<b>22.9</b>	<b>12.2</b>	<b>60.0</b>
Of which: call options total	613.9	599.0	1,062.2	23.2	12.6	71.3
Of which: put options total	-22.7	-72.1	-221.4	-0.3	-0.4	-11.3
<b>Total</b>	<b>2,182.3</b>	<b>2,415.5</b>	<b>2,369.5</b>	<b>42.9</b>	<b>-60.0</b>	<b>89.8</b>

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:

€ millions	2006	2005	2004
Fair value hedges	4.3	-6.7	8.8
Cash flow hedges	38.6	-47.8	71.3
Net foreign investment hedges	-	-5.5	9.7
<b>Total</b>	<b>42.9</b>	<b>-60.0</b>	<b>89.8</b>

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	
	12.31.2006	12.31.2005	12.31.2004	12.31.2006	12.31.2005	12.31.2004
<b>Interest rate derivatives</b>						
<b>Cash flow hedges</b>						
<b>Borrowing fixed interest-rate swaps</b>						
EUR Euribor/fixed rate	20.2	21.0	21.7	-1.0	-2.3	-2.0
USD Libor/fixed rate	190.0	212.0	183.6	1.3	2.3	-0.4
CAD Libcad/fixed rate	-	-	5.3	-	-	-0.2
<b>Purchases caps</b>						
EUR Euribor	-	-	300.0	-	-	-
<b>Fair value hedges</b>						
<b>Borrowing floating interest-rate swaps</b>						
EUR Euribor/fixed rate	128.8	309.6	325.5	3.6	13.3	22.0
<b>Non-designated derivatives</b>						
<b>Floating/floating interest-rate swaps</b>						
EUR Euribor/Euribor	7.1	210.2	286.2	-	0.1	0.6
<b>Total</b>	<b>346.1</b>	<b>752.8</b>	<b>1,122.3</b>	<b>3.9</b>	<b>13.4</b>	<b>20.1</b>

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											
	12.31.2006				12.31.2005				12.31.2004			
	<1 year	1 to 5 years	>5 years	Total	<1 year	1 to 5 years	>5 years	Total	<1 year	1 to 5 years	>5 years	Total
<b>Cash flow hedges</b>												
Borrowing fixed interest-rate swaps	190.8	6.1	13.3	210.2	0.7	218.0	14.3	233.0	189.6	5.7	15.3	210.6
Purchases caps	-	-	-	-	-	-	-	-	300.0	-	-	300.0
<b>Fair value hedges</b>												
Borrowing floating interest-rate swaps	7.0	121.8	-	128.8	174.0	135.5	-	309.5	16.0	309.5	-	325.5
<b>Non-designated derivatives</b>												
Floating/floating interest-rate swaps	7.1	-	-	7.1	196.4	13.8	-	210.2	76.0	210.2	-	286.2
<b>Total</b>	<b>204.9</b>	<b>127.9</b>	<b>13.3</b>	<b>346.1</b>	<b>371.2</b>	<b>367.3</b>	<b>14.3</b>	<b>752.8</b>	<b>581.6</b>	<b>525.4</b>	<b>15.3</b>	<b>1,122.3</b>

### 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 €30.7 million at December 31<sup>st</sup>, 2006 compared with €19.4 million at December 31<sup>st</sup>, 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 €3.2 million at December 31<sup>st</sup>, 2006 compared with €5.7 million at December 31<sup>st</sup>, 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.

At December 31<sup>st</sup>, 2006, the group holds 143,041,202 Sanofi-Aventis shares for an amount of €10,005.7 million (note 14). For these shares, a change in the market price of plus or minus 10% relative to the market price of €69.95 on December 31<sup>st</sup>, 2006 would have an impact on the group shareholders' equity of plus or minus €1,000.6 million before tax.

**NOTE 24 - OTHER CURRENT LIABILITIES**

€ millions	12.31.2006	12.31.2005	12.31.2004
Social and fiscal accounts payable (excluding income tax)	796.5	722.4	657.7
Creditors	512.9	473.9	359.1
Debts on fixed assets	120.7	120.4	128.6
Derivatives	65.4	124.6	85.8
Other current liabilities	118.4	81.9	79.7
<b>Total</b>	<b>1,613.9</b>	<b>1,523.2</b>	<b>1,310.9</b>

**NOTE 25 - OFF-BALANCE SHEET COMMITMENTS****a - Operating lease commitments**

They amount to €1,823.2 million at December 31<sup>st</sup>, 2006 compared with €1,362.8 million at December 31<sup>st</sup>, 2005 and €1,326.0 million at December 31<sup>st</sup>, 2004, of which:

- €318.1 million is due in under one year at December 31<sup>st</sup>, 2006 compared with €248.6 million at December 31<sup>st</sup>, 2005 and €226.9 million at December 31<sup>st</sup>, 2004,
- €922.2 million is due in 1 to 5 years at December 31<sup>st</sup>, 2006 compared with €584.9 million at December 31<sup>st</sup>, 2005 and €668.8 million at December 31<sup>st</sup>, 2004,
- €582.9 million is due in over 5 years at December 31<sup>st</sup>, 2006 compared with €529.3 million at December 31<sup>st</sup>, 2005 and €430.3 million at December 31<sup>st</sup>, 2004.

**b - Other off-balance sheet commitments**

The confirmed credit lines are indicated in note 22.

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

€ millions	12.31.2006	12.31.2005	12.31.2004
Commitments given <sup>(1)</sup>	52.2	45.3	38.1
Documentary credits	7.2	5.4	5.1
Commitments received	32.3	32.3	31.2
Investment orders	233.0	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 26 - CASH USED FOR WORKING CAPITAL

This amounts to €65.6 million, –€35.7 million and –€76.4 million respectively for 2006, 2005 and 2004, and can be analysed as follows:

€ millions	12.31.2006	12.31.2005	12.31.2004
Inventories	–119.1	–35.1	–56.0
Trade accounts receivable	–244.0	–174.8	–91.5
Trade accounts payable	251.2	66.8	58.2
Other receivables and debts	177.5	107.4	12.9
<b>Total</b>	<b>65.6</b>	<b>–35.7</b>	<b>–76.4</b>

#### NOTE 27 - IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION

For 2006, this item mainly relates to THE BODY SHOP, Beauty Alliance International and Sanoflore acquisitions.

In 2005, this item mainly related 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 28 - TRANSACTIONS BETWEEN RELATED PARTIES

##### a - Joint ventures

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

€ millions	2006	2005	2004
Sales of goods and services	10.6	11.6	19.3
Cost of sales	–	–0.7	–0.4
Financial expenses and income	1.2	0.8	0.7

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

€ millions	12.31.2006	12.31.2005	12.31.2004
Operating debtors	6.6	18.3	15.6
Creditors	–0.3	–0.3	–6.8
Financial debtors	42.3	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

During 2006, L'Oréal USA Inc. realized €50.6 million sales to Beauty Alliance International, a company in which the group has a 30% stake. No significant transactions have taken place with an equity affiliate during 2005 and 2004, except for the dividends received from Sanofi-Aventis in 2004.

## CONSOLIDATED COMPANIES AT DECEMBER 31<sup>ST</sup>, 2006

### a - Companies consolidated by the full consolidation method <sup>(1)</sup>

Companies	Head Office	% Interest	% Control <sup>(2)</sup>
Anglo Overseas Finance (India) Private Ltd	India	100.00	
Areca & Cie	France	100.00	
Avenamite SA	Spain	100.00	
Beautycos International Co Ltd	China	100.00	
Beautylux International Cosmetics (Shanghai) Co Ltd	China	100.00	
Beautytech International Cosmetics (Yi Chang) Co Ltd	China	100.00	
Belcos	Japan	100.00	
Belocap Productos Capilares Ltda	Brazil	100.00	
Biotherm	Monaco	100.00	
Biotherm Distribution & Cie	France	100.00	
Caribel Fragrances Inc.	Puerto Rico	100.00	
Carson Midrand Manufacturing (Pty) Ltd	South Africa	100.00	
Centre Logistique D'Essigny	France	100.00	
Centrex	France	100.00	
Chimex	France	100.00	
Cobelsa Cosméticos S.A.	Spain	100.00	
Colainaf	Morocco	100.00	
Compagnie Thermale Hôtelière et Financière	France	99.98	
Consortium Général de Publicité	France	100.00	
Cosbel S.A. 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	100.00	
Cosmétique Active Hellas	Greece	100.00	
Cosmétique Active International	France	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 Production	France	100.00	
Cosmétique Active Suisse	Switzerland	100.00	
Crea Mundi	France	100.00	
Elebelle (Pty) Ltd	South Africa	100.00	
Episkin	France	100.00	
Erwiton SA	Uruguay	100.00	
Exclusive Signatures International	France	100.00	
Fapagau & Cie	France	100.00	
Faprogi	France	100.00	
Finval	France	100.00	
Frabel SA de CV	Mexico	100.00	
Garnier New Zealand Ltd	New Zealand	100.00	
Gemey Maybelline Garnier	France	100.00	
Gemey Paris – Maybelline New-York	France	100.00	
Goldys International	France	100.00	
Helena Rubinstein	France	100.00	
Helena Rubinstein Italia Spa	Italy	100.00	
Holdial	France	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.

<b>Companies</b>	<b>Head Office</b>	<b>% Interest</b>	<b>% Control <sup>(2)</sup></b>
Kosmepol Sp Z.O.O	Poland	100.00	
L & J Re	France	100.00	
Laboratoire Bioexigence	France	100.00	
Laboratoire Garnier & Cie	France	100.00	
Laboratoire Sanoflore	France	98.31	
Lai Mei Cosmetics International Trading Cy Ltd	China	100.00	
Lancarome A/S	Denmark	100.00	
Lancôme Parfums & Beauté & Cie	France	100.00	
Lancos	Japan	100.00	
La Roche-Posay Dermato-Cosmétique	France	99.98	
La Roche Posay Laboratoire Pharmaceutique	France	99.98	
LaScad	France	100.00	
Lehoux et Jacque	France	100.00	
L'Oréal Adria	Croatia	100.00	
L'Oréal Argentina S.A.I.C	Argentina	100.00	
L'Oréal Australia	Australia	100.00	
L'Oréal Balkan D.O.O.	Serbia	100.00	
L'Oréal Baltic	Latvia	100.00	
L'Oréal Belgilux	Belgium	100.00	
L'Oréal Bulgaria	Bulgaria	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 Sa	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 Pvt Ltd	India	100.00	
L'Oréal Indonesia	Indonesia	100.00	
L'Oréal Investments BV	Netherlands	100.00	
L'Oréal Israel Ltd	Israel	92.97	
L'Oréal Italia Spa	Italy	100.00	
L'Oréal Japan Ltd	Japan	100.00	
L'Oréal Korea	South Korea	100.00	
L'Oréal Liban	Lebanon	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 Magyarország Kozmetikai Kft	Hungary	100.00	
L'Oréal Malaysia	Malaysia	94.34	
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	United Arab Emirates	100.00	
L'Oréal Nederland BV	Netherlands	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.

<b>Companies</b>	<b>Head Office</b>	<b>% Interest</b>	<b>% Control <sup>(2)</sup></b>
L'Oréal New Zealand	New Zealand	100.00	
L'Oréal Norge A/S	Norway	100.00	
L'Oréal Österreich GmbH	Austria	100.00	
L'Oréal Panama	Panama	100.00	
L'Oréal Peru S.A.	Peru	100.00	
L'Oréal Philippines	Philippines	100.00	
L'Oréal Polska Sp Z.O.O	Poland	100.00	
L'Oréal Portugal	Portugal	100.00	
L'Oréal Prodotti di Lusso Italia Spa	Italy	100.00	
L'Oréal Produits de Luxe Belgilux	Belgium	100.00	
L'Oréal Produits de Luxe France	France	100.00	
L'Oréal Produits de Luxe Hellas AE	Greece	100.00	
L'Oréal Produits de Luxe International	France	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	
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	100.00	
Parfums Cacharel et Cie	France	100.00	
Parfums Guy Laroche	France	100.00	
Parfums Paloma Picasso & Cie	France	100.00	
Parfums Ralph Lauren	France	100.00	
Parmobel Limited	Cyprus	100.00	
Prestige & Collections International	France	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	100.00	
Regefi	France	100.00	
Scental	Hong Kong	100.00	
Shu Uemura Cosmetics Inc.	Japan	93.57	
Sicôs et Cie	France	100.00	
SkinEthic	France	99.47	

(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	% Interest	% Control <sup>(2)</sup>
Socex de Expansao Mercantil em Cosmetics	Brazil	99.00	
Société Civile Immobilière Socinay	France	100.00	
Société de Développement Artistique	France	100.00	
Société Hydrominérale de La Roche-Posay	France	99.98	
Sofamo	Monaco	100.00	
Softsheen-Carson Products West Africa Ltd	Ghana	100.00	
Soprococ	France	100.00	
Soproréal	France	100.00	
Sparlys	France	100.00	
Swan Beauties Pvt Ltd	India	100.00	
Thai Shu Uemura	Thailand	96.84	
The Body Shop (as a group)	United Kingdom	100.00	
Venprobel	Venezuela	100.00	
Viktor & Rolf Parfums	France	100.00	
Yasulor Indonesia	Indonesia	100.00	
Yue-Sai Kan Cosmetics Shenzen Ltd	China	100.00	
Zao L'Oréal	Russia	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.

#### b - Companies consolidated by the proportional method

Companies	Head Office	% Interest	% Control <sup>(3)</sup>
Beauté Créateurs	France	50.00 <sup>(1)</sup>	
Club des Créateurs de Beauté KK	Japan	50.00 <sup>(1)</sup>	
Cosimar Japon KK	Japan	50.00 <sup>(1)</sup>	
Galderma Argentina S.A.	Argentina	50.00 <sup>(2)</sup>	
Galderma Australia Pty Ltd	Australia	50.00 <sup>(2)</sup>	
Galderma Belgilux N.V	Belgium	50.00 <sup>(2)</sup>	
Galderma Brasil Limitada	Brazil	50.00 <sup>(2)</sup>	
Galderma Canada Inc.	Canada	50.00 <sup>(2)</sup>	
Galderma Colombia S.A.	Colombia	50.00 <sup>(2)</sup>	
Galderma Hellas	Greece	50.00 <sup>(2)</sup>	
Galderma Hong-Kong	Hong-Kong	50.00 <sup>(2)</sup>	
Galderma India Private Ltd	India	50.00 <sup>(2)</sup>	
Galderma International	France	50.00 <sup>(2)</sup>	
Galderma Italia S.P.A	Italy	50.00 <sup>(2)</sup>	
Galderma Korea Ltd	South Korea	50.00 <sup>(2)</sup>	
Galderma KK	Japan	50.00 <sup>(2)</sup>	
Galderma Laboratories Inc	United States	50.00 <sup>(2)</sup>	
Galderma Laboratorium GmbH	Germany	50.00 <sup>(2)</sup>	
Galderma Laboratories South Africa Pty Ltd	South Africa	50.00 <sup>(2)</sup>	
Galderma Mexico S.A. de CV	Mexico	50.00 <sup>(2)</sup>	
Galderma Nordic AB	Sweden	50.00 <sup>(2)</sup>	
Galderma Peru Laboratorios	Peru	50.00 <sup>(2)</sup>	
Galderma Pharma S.A.	Switzerland	50.00 <sup>(2)</sup>	
Galderma Philippines Inc.	Philippines	50.00 <sup>(2)</sup>	
Galderma Polska	Poland	50.00 <sup>(2)</sup>	
Galderma Production Canada Inc.	Canada	50.00 <sup>(2)</sup>	
Galderma Research & Development	France	50.00 <sup>(2)</sup>	
Galderma Research and Development Inc.	United States	50.00 <sup>(2)</sup>	
Galderma S.A.	Switzerland	50.00 <sup>(2)</sup>	
Galderma Singapore	Singapore	50.00 <sup>(2)</sup>	
Galderma UK Ltd	United Kingdom	50.00 <sup>(2)</sup>	
Galderma Uruguay	Uruguay	50.00 <sup>(2)</sup>	
Innéov Belgique	Belgium	50.00 <sup>(2)</sup>	

(1) Companies jointly owned with Les Trois Suisses.

(2) Companies jointly owned with Nestlé.

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

<b>Companies</b>	<b>Head Office</b>	<b>% Interest</b>	<b>% Control <sup>(3)</sup></b>
Innéov Brasil Nutricosméticos Ltda	Brazil	50.00 <sup>(2)</sup>	
Innéov CZ s.r.o.	Czech Republic	50.00 <sup>(2)</sup>	
Innéov Deutschland GmbH	Germany	50.00 <sup>(2)</sup>	
Innéov España S.A.	Spain	50.00 <sup>(2)</sup>	
Innéov France	France	50.00 <sup>(2)</sup>	
Innéov Hellas AE	Greece	50.00 <sup>(2)</sup>	
Innéov Italia Spa	Italy	50.00 <sup>(2)</sup>	
Innéov Nutrikozmetik	Turkey	50.00 <sup>(2)</sup>	
Innéov Österreich GmbH	Austria	50.00 <sup>(2)</sup>	
Innéov Polska Sp. z.o.o.	Poland	50.00 <sup>(2)</sup>	
Innéov SK s.r.o.	Slovakia	50.00 <sup>(2)</sup>	
Innéov Suisse	Switzerland	50.00 <sup>(2)</sup>	
Laboratoires Galderma	France	50.00 <sup>(2)</sup>	
Laboratoires Innéov	France	50.00 <sup>(2)</sup>	
Laboratoires Innéov Unipessoal Portugal Ltda	Portugal	50.00 <sup>(2)</sup>	
Laboratorios Galderma S.A.	Spain	50.00 <sup>(2)</sup>	
Laboratorios Galderma Chile Limitada	Chile	50.00 <sup>(2)</sup>	
Laboratorios Galderma Venezuela S.A.	Venezuela	50.00 <sup>(2)</sup>	
Le Club des Créateurs de Beauté	Belgium	50.00 <sup>(1)</sup>	
Le Club des Créateurs de Beauté Taiwan	Taiwan	50.00 <sup>(1)</sup>	
Le Club des Créateurs Cosmetic Versand Verwaltungs GmbH	Germany	50.00 <sup>(1)</sup>	
Le Club des Créateurs Cosmetic Versand GmbH and Co Kg	Germany	50.00 <sup>(1)</sup>	
O.O.O Innéov	Russia	50.00 <sup>(2)</sup>	
Yí Mei Ja Shanghai Trading	China	50.00 <sup>(1)</sup>	

(1) Companies jointly owned with Les Trois Suisses.

(2) Companies jointly owned with Nestlé.

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

# 2006 Management Report of the Board of Directors

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# The group's business activities in 2006

This Management Report reviews the activity of the company and its group in 2006. 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 are set up and applied in the group, particularly in the field of accounting information and financial reporting. Furthermore, the Board of Directors prepares its Report to the Annual General Meeting, published within the legal deadlines with the notice for the Annual General Meeting. In this Report, the Board sets out the reasons for the draft resolutions submitted for approval by shareholders.

## THE GROUP'S BUSINESS ACTIVITIES IN 2006

The consolidated financial statements of L'Oréal were reviewed by the Audit Committee and the Board of Directors and then closed off by the Board of Directors at its meeting on February 14<sup>th</sup>, 2007, in the presence of the company's Statutory Auditors.

### Overview of the results for 2006

The sales of the L'Oréal group at December 31<sup>st</sup>, 2006 amounted to €15.79 billion, representing an increase of +8.7%. Currency fluctuations had a slightly negative impact of -0.2%. Excluding currency fluctuations, the sales growth rate was +8.9% for the full year 2006. The net impact of changes in consolidation amounted to +3.1%, mainly as a result of the acquisition of The Body Shop, consolidated from July 1<sup>st</sup>, 2006 onwards. Like-for-like (i.e. based on a comparable structure and identical exchange rates), growth in the group's total sales amounted to +5.8% at December 31<sup>st</sup>, 2006 (+5.7% excluding The Body Shop).

In 2006, L'Oréal achieved further strong growth in its results. The success of the product innovations, the strength of our brands and the rapid pace of our geographic expansion have once again enabled us to improve our worldwide positions. Operating profit rose strongly under the combined effect of the product value enhancement strategy and the strict control of all costs. Profitability has thus improved significantly to reach 16.1% of sales. All the divisions and zones across the board contributed to this increase in our profitability. The acquisition of The Body Shop, consolidated since July 1<sup>st</sup>, 2006, made a positive contribution to the growth of both sales and earnings in the second half of the year.

### Consolidated sales

In the fourth quarter, the sales growth rate was +9.5%. Like-for-like (i.e. based on a comparable structure and identical exchange rates), the growth in the group's total sales amounted to +6.5% during the fourth quarter.

Our sales grew strongly at the end of the year, which enabled us to meet our previously announced growth targets for 2006. This growth was achieved due to our renewed dynamism in Western Europe and the remarkable performance in the new markets, particularly in the BRIMC countries, consisting of Brazil, Russia, India, Mexico and China. With good second half-year results, The Body Shop reinforced the group's growth. Overall, organic growth in our brands and the significant contribution made by acquisitions led to a sharp increase in group sales to +8.7%.

**Sales by operating division and geographic zone**

	12.31.2006			4 <sup>th</sup> quarter 2006		
	€ millions	Growth		€ millions	Growth	
		Like-for-like	Reported		Like-for-like	Reported
<b>By operational division</b>						
Professional Products	2,126	+3.8%	+3.2%	528	+4.8%	+0.8%
Consumer Products	7,903	+5.8%	+5.4%	1,923	+6.5%	+2.4%
Luxury Products	3,773	+5.1%	+5.3%	1,080	+5.4%	+2.5%
Active Cosmetics	1,128	+12.2%	+14.4%	233	+11.3%	+9.5%
<b>Cosmetics total</b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>	<b>3,781</b>	<b>+6.1%</b>	<b>+2.5%</b>
<b>By geographic zone</b>						
Western Europe	6,992	+3.5%	+3.7%	1,702	+3.1%	+3.1%
North America	3,954	+2.7%	+2.2%	990	+3.6%	-4.3%
Rest of the World	4,065	+12.7%	+12.8%	1,089	+14.0%	+8.6%
including: Asia	1,476	+7.9%	+7.4%	385	+9.4%	+3.6%
Latin America	1,021	+16.1%	+18.6%	277	+14.7%	+8.3%
Eastern Europe	850	+22.0%	+24.8%	247	+23.9%	+25.0%
Other countries	718	+8.5%	+4.5%	180	+11.0%	+1.5%
<b>Cosmetics total</b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>	<b>3,781</b>	<b>+6.1%</b>	<b>+2.5%</b>
The Body Shop	435	+9.7%		263	+10.3%	
Dermatology <sup>(1)</sup>	344	+8.6%	+8.1%	105	+9.2%	+4.5%
<b>Group total</b>	<b>15,790</b>	<b>+5.8%</b>	<b>+8.7%</b>	<b>4,148</b>	<b>+6.5%</b>	<b>+9.5%</b>

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

**Cosmetics branch: Sales trends by division**

The **Professional Products Division** recorded a like-for-like growth rate of +3.8%, with positive scores in Western Europe and very strong expansion in the "Rest of the World" zone. In the United States, our brands achieved high sell-through figures. The year was however affected by inventory reduction in professional distribution and by a reshuffle of our distribution network at the end of the year. L'ORÉAL PROFESSIONNEL benefited from the launches of the Play Ball and Hair Mix styling ranges, the Série Expert Lumino Contrast line for hair with highlights, and, at the end of the year, the hair colourant Symbio. KÉRASTASE very successfully relaunched its Nutritive range and introduced Densitive nutritional complements. REDKEN launched the Blonde Glam haircare line and a new hair colourant Shimmer One. MATRIX launched a new range, Matrix for Men, and relaunched its styling range Vavoom.

The **Consumer Products Division** achieved a like-for-like growth rate of +5.8%, with a substantial acceleration in the fourth quarter at +6.5%. Western Europe confirmed its upturn, and sales continued to grow in North America. The Rest of the World again saw its sales growth accelerate. L'ORÉAL PARIS achieved a good year, with strong growth in skincare thanks to Age Re-Perfect and Men Expert as well as in make-up and in haircare with the successful launch of Elsève Nutri-Gloss. Europe and the emerging countries are benefiting from the success of these launches. The hair colourant Casting Crème Gloss is confirming its success in Europe. GARNIER sales grew strongly, driven by the successful hair colourant Nutrisse and the Fructis haircare line, and by successes in facial skincare, bodycare and sun protection. The brand's vision has been strengthened by the new "Take care" campaign which was internationally rolled out at the end of last year. MAYBELLINE NEW YORK: the make-up brand achieved impressive growth, evenly distributed between the various zones, driven by the success of

Dream Matte Mousse foundation and the great mascaras collection. The fourth quarter was notable for the launch of the highly innovative Watershine Elixir lipstick.

The sales of the **Luxury Products Division** have risen by +5.1% like-for-like. The growth seen in Western Europe continued in the fourth quarter, with similarly dynamic trends across all the major markets. Sales improved slightly in North America, thanks in particular to the success of the facial skincare and perfume initiatives. The acceleration in the Rest of the World continued in the fourth quarter, particularly in China, Latin America and Eastern Europe. The dynamic growth trend of the fragrance business is continuing: the new fragrance for women, Code Donna from GIORGIO ARMANI, continued to prove successful in Europe at the end of the year. The ARMANI brand's flagship products Acqua di Giò and Armani Code confirmed their solidity over the Christmas period. Furthermore, Miracle Forever by LANCÔME and Noa Perle by CACHAREL strengthened the positions of the two brands concerned. Lastly Antidote, the new men's fragrance from VIKTOR & ROLF, proved extremely successful in the United States and in France, where it was first launched. Skincare sales growth continued to accelerate, with an excellent reception on all markets for Absolue Premium Beta X by LANCÔME, featuring the newly developed molecule Pro-Xylane. BIOTHERM, with its Aquasource serum, and HELENA RUBINSTEIN, with its Prodigy tissular, have also seen their sales gather speed in the skincare business. Lastly, the make-up business saw the launch of Rouge Unlimited lipstick by SHU UEMURA, which uses a revolutionary pigment technology and is proving extremely successful.

The growth in **Active Cosmetics** sales continued, with a substantial advance in like-for-like sales of +12.2%, reflecting strong contributions from all geographic zones.

All the brands achieved double-digit growth, thanks to a good performance from the products in our catalogue, and the positive impact of launches such as the skincare lines Neovadiol and Normaderm from VICHY; Redermic anti-wrinkle skincare; and Toleriane Teint from LA ROCHE-POSAY. Furthermore, the sun protection products of the two brands enjoyed a good season. INNÉOV also achieved strong sales growth, thanks to the launch of Innéov Solaire, the first sun preparation product to include Skin Probiotic. Furthermore, the certified organic cosmetics brand SANOFLORE joined the Division in November 2006.

### Steady growth in Western Europe

The sales trends of each division confirm the return to growth in France, Germany and Italy, while strong growth continued in the United Kingdom and Spain. All countries achieved positive scores. Professional Products recorded growth in all product categories. The American brands REDKEN and MATRIX demonstrated their very powerful appeal, particularly in France, Belgium and Spain. The Consumer Products Division saw sales grow in all countries, particularly in Spain and the United Kingdom. Thanks to its success in skincare (Age Re-Perfect and Men Expert from L'ORÉAL PARIS), facial skincare (GARNIER) and haircare (Fructis by GARNIER), it has made further market share gains in these categories. Luxury Products are advancing in all countries on broadly similar trends, with sales gathering speed for LANCÔME, thanks to Absolu Premium Beta X at the end of the year, and excellent momentum for ARMANI and BIOTHERM, and the continued openings of KIEHL'S and SHU UEMURA boutiques. In the Active Cosmetics Division, sales are growing at a rapid rate throughout the zone, driven by LA ROCHE-POSAY in particular.

### North America: growth despite a background of consolidation in distribution

In **North America**, the situation in the United States reflected a combination of turbulences in the distribution sector. The market grew less quickly than in 2005; although very dynamic in the mass-market segment, growth was slower in sales to salons and in the department store business. As a result, like-for-like sales growth amounted to +2.7%. The Professional Products Division continued to make market share gains in sales to salons, with good scores for MATRIX and REDKEN hair colourants and the KERASTASE brand. The Division has strengthened its cooperation with its top-selling distributor, and readjusted its geographic distribution agreements. There was a noticeable reduction in the level of distributors' inventories. The sales growth of the Consumer Products Division has been galvanised by the advances made by GARNIER and its haircare lines Fructis and Nutrisse. MAYBELLINE recorded a good growth figure thanks to Superstay lipstick. The growth rates of L'ORÉAL PARIS varied by category, with a strong performance in make-up but a weaker one in skincare. In Luxury Products, amounts invoiced were held back throughout the year by the merging of the two main department store chains and the closure of 80 outlets. The Division improved its skincare positions thanks to the success of Absolu Premium Beta X and Collaser Eye by LANCÔME, and in women's fragrances thanks to the success of Armani Code Women and Hypnôse by LANCÔME. The roll-out of the Active Cosmetics Division gathered speed, with the launch of VICHY in the north-east of the United States and in California, and strong growth for SKINCEUTICALS.

### Rapid development in all the new markets

The expansion in the Rest of the World continued, gathering speed in the fourth quarter when like-for-like growth reached +14%. Like-for-like sales growth in the **Asia** zone amounted to +7.9%. In the very competitive Japanese market, Professional Products turned in a good performance. Asia excluding Japan achieved a good year, at +11.8%, with a sharp acceleration in the second half. In China, the acceleration was particularly noticeable, with sales growth of +21.2%. Growth for the Consumer Products Division was very strong in facial skincare, thanks to L'ORÉAL PARIS (White Perfect, UV Perfect). This Division was strengthened in 2006 with the launch of GARNIER skincare which is gradually being rolled out. The Luxury Products Division has confirmed its leadership, driven by the LANCÔME and BIOTHERM brands. In the Active Cosmetics Division, VICHY and LA ROCHE-POSAY are continuing their breakthrough in pharmacies. In South Korea, the situation is gradually improving, as the country returns to growth. Furthermore, growth rates in Indonesia and Thailand were high, particularly in the Consumer Products Division.

In **Eastern Europe**, the group's performance over the full year 2006 was excellent at +22% like-for-like, with a strong contribution from Russia and the recently created subsidiary in Ukraine. Professional Products turned in an excellent performance, particularly in Russia. MATRIX continued its breakthrough in the zone as a whole. In Consumer Products, L'ORÉAL PARIS recorded very good scores in make-up and haircare with Elsève. GARNIER sales grew very strongly in haircare and facial skincare, and growth was also strong in bodycare. In a rapidly expanding luxury market, the Luxury Products Division achieved very high growth, particularly in Russia, the Czech Republic, Slovakia and Hungary, driven by the success of the LANCÔME, BIOTHERM and ARMANI brands. Active Cosmetics produced another year of strong growth, confirming its leadership in a pharmacy channel whose modernisation is gathering speed.

Like-for-like sales growth in **Latin America** was very rapid at +16.1%, thanks to the strong sales recorded in Brazil, Mexico and all the other countries in the zone. The sales of Professional Products grew thanks to the L'ORÉAL PROFESSIONNEL brand, and particularly to the successful launch of MATRIX in Brazil, Chile and Venezuela. Sales in Consumer Products advanced at similar rates across the various countries in the zone, driven in particular by the success of the major launch Nutri-Gloss from Elsève. Luxury Products, whose sales grew strongly, took advantage of the good performance of BIOTHERM and the success of RALPH LAUREN and GIORGIO ARMANI fragrances. Active Cosmetics is continuing its very high growth with VICHY and LA ROCHE-POSAY, which have recorded substantial market share gains in dermocosmetics.

In the **Other countries**, like-for-like sales growth amounted to +8.5%. In India (+40.3%), our businesses continued to grow very strongly, bolstered by the remarkable success of GARNIER with Skin Naturals, Color Naturals and Fructis. The Middle East again proved extremely dynamic with double-digit growth.

### Good year–end for The Body Shop

Consolidated since July 1<sup>st</sup>, The Body Shop recorded a second half-year of solid growth, with a large increase in sales at the end of the year. Net consolidated sales grew by +9.7%. Retail sales (total sales to consumers for all distribution channels) increased by +6.6% (+3.2% with a comparable store base, for total sales to consumers made by the stores continuously present between July 1<sup>st</sup> and December 31<sup>st</sup>, 2005 and the same period in 2006). The number of stores increased by 89 in the second half of 2006. At December 31<sup>st</sup>, the total number of stores was 2,265, of which 886 are owned by The Body Shop. These figures reflect particularly good results in Europe and Asia, with very strong performances in the United Kingdom, Norway, and Japan. Growth was strengthened by the success of launches such as the Aloe Vera skincare range and the Neroli Jasmin fragrance, and by gift sets, which sold very well at the end of the year.

### Dermatology

The sales of the dermatology branch increased by +8.6% like-for-like. Each of the zones made a positive contribution to this growth figure. The Clobex range for treating psoriasis, together with Metrogel 1% and Loceryl Nail Lacquer, have strongly bolstered the growth of Galderma.

## Results

### Consolidated profit and loss account

The Body Shop, consolidated since July 1<sup>st</sup>, has an operating profile which is quite different from that of the L'Oréal group as a whole. In the interest of visibility and comparability of performance, the table below sets out the operating items of L'Oréal, in 2006, with and without The Body Shop.

€ millions	12.31.2005	As % of sales	12.31.2006 excluding The Body Shop	As % of sales	12.31.2006 with The Body Shop 2 <sup>nd</sup> half	As % of sales	Sales trend
<b>Sales</b>	<b>14,533</b>	<b>100</b>	<b>15,355</b>	<b>100</b>	<b>15,790</b>	<b>100</b>	<b>+ 8.7</b>
Cost of sales	-4,347	29.9	-4,414	28.7	-4,569	28.9	
<b>Gross Profit</b>	<b>10,185</b>	<b>70.1</b>	<b>10,941</b>	<b>71.3</b>	<b>11,221</b>	<b>71.1</b>	<b>+ 10.2</b>
Research and development expenses	-496	3.4	-531	3.5	-533	3.4	
Advertising and promotion expenses	-4,367	30.1	-4,718	30.7	-4,783	30.3	
Selling, general and administrative expenses	-3,009	20.7	-3,153	20.5	-3,309	21.0	
Operating profit before foreign exchange gains and losses	2,313	15.9	2,539	16.5	2,596	16.4	+ 12.3
Foreign exchange gains and losses	-47	0.3	-56	0.4	-55	0.3	
<b>Operating profit</b>	<b>2,266</b>	<b>15.6</b>	<b>2,483</b>	<b>16.2</b>	<b>2,541</b>	<b>16.1</b>	<b>+ 12.1</b>

### Consolidated profit and loss account without The Body Shop

Gross profit increased very significantly and represents 71.3% of sales, compared with 70.1% in 2005. This improvement mainly reflects an enhanced value of the product mix, and our continuing industrial streamlining programmes.

Research and development expenses represented 3.5% of sales, compared with 3.4% in 2005.

Advertising and promotion expenses increased substantially, and represented 30.7% of sales in 2006 compared with 30.1% in 2005.

Selling, general and administrative expenses represented 20.5% of sales, compared with 20.7% in 2005. Once again this year, this item is continuing its gradual improvement, reflecting constant efforts in both organisation and productivity.



Operating profit before foreign exchange gains and losses grew strongly by +9.8%. It reached 16.5% of sales, compared with 15.9% in 2005. Foreign exchange losses amounted to €56 million in 2006, compared with €47 million in 2005.

After foreign exchange gains and losses, operating profit amounted to €2,483 million, up by +9.6% compared with 2005. It represented 16.2% of sales, compared with 15.6% in 2005.

### Consolidated profit and loss account with The Body Shop

The structure of the profit and loss account of The Body Shop in the second half has a profile which is quite different from that of the L'Oréal group. The consolidation of The Body Shop made a positive contribution to the group's main operating items.

The group's operating items with The Body Shop can be summed up as follows:

- Sales reached €15,790 million, up by +8.7%.
- Gross profit amounted to €11,221 million, up by 10.2%.
- Operating profit before foreign exchange gains and losses increased by +12.3% to €2,596 million.

After foreign exchange gains and losses, operating profit grew by 12.1% to €2,541 million, that is 16.1% of sales.

### Operating profit by branch and division

Each and every division and branch improved its profitability in 2006 compared with 2005.

	2005		2006	
	€ millions	% of sales	€ millions	% of sales
<b>By operational division</b>				
Professional Products	406	19.7	443	20.8
Consumer Products	1,291	17.2	1,421	18.0
Luxury Products	723	20.2	776	20.6
Active Cosmetics	187	19.0	221	19.6
<b>Cosmetics divisions total</b>	<b>2,609</b>	<b>18.4</b>	<b>2,860</b>	<b>19.1</b>
Non-allocated <sup>(1)</sup>	-396	-2.8	-437	-2.9
<b>Cosmetics branch total</b>	<b>2,212</b>	<b>15.6</b>	<b>2,423</b>	<b>16.1</b>
The Body Shop 2 <sup>nd</sup> half	-	-	58	13.4
<b>Dermatology branch <sup>(2)</sup></b>	<b>54</b>	<b>16.9</b>	<b>59</b>	<b>17.3</b>
<b>Group</b>	<b>2,266</b>	<b>15.6</b>	<b>2,541</b>	<b>16.1</b>

(1) Non-allocated = Central group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total sales.

(2) Group Share: i.e. 50%.

Because of the strong seasonality of its sales, the 13.4% profitability in the second half is not representative of The Body Shop's profitability over the full year.

### Cosmetics branch: operating profit of geographic zones

Profitability increased in all zones in 2006.

	Operating profit			
	2005		2006	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,415	21.0	1,527	21.8
North America	708	18.3	744	18.8
Rest of the World	486	13.5	589	14.5
<b>Cosmetics zones total</b>	<b>2,609</b>	<b>18.4</b>	<b>2,860</b>	<b>19.1</b>

**Consolidated profit and loss account (from operating profit to net profit excluding non-recurrent items)**

€ millions	12.31.2005	12.31.2006 with The Body Shop 2 <sup>nd</sup> half	Growth %
<b>Operating profit</b>	<b>2,266</b>	<b>2,541</b>	<b>+12.1</b>
Finance costs	-64	-116	
Other financial income (expenses)	-3	-4	
Sanofi-Aventis dividends	172	218	
Share in net profit of equity affiliates	-1	-1	
<b>Profit before tax excluding non-recurrent items</b>	<b>2,370</b>	<b>2,638</b>	<b>+11.3</b>
Income tax excluding non-recurrent items	-730	-803	
Minority interests	-1	-1	
<b>Net profit excluding non-recurrent items after minority interests <sup>(1)</sup></b>	<b>1,639</b>	<b>1,833</b>	<b>+11.9</b>
<b>EPS <sup>(2)</sup> (in euros)</b>	<b>2.60</b>	<b>2.98</b>	<b>+14.7</b>
<b>Diluted average number of shares</b>	<b>630,892,470</b>	<b>615,723,220</b>	

(1) 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.

(2) Diluted net earnings per share excluding non-recurrent items, after minority interests.

Finance costs amounted to €116 million, higher than last year because of rising interest rates, the acquisition of The Body Shop and the continuation of the share buyback programme.

The dividends received from Sanofi-Aventis for 2005 amounted to €217.5 million, an increase of +26.7%.

Profit before tax excluding non-recurrent items amounted to €2,638 million, up by +11.3%. Tax on profit excluding non-recurrent items amounted to €803 million, representing an increase of +9.9%. The tax rate was down from 30.8% in 2005 to 30.4% in 2006.

Net profit excluding non-recurrent items after minority interests amounted to €1,833 million, up by +11.9%. After allowing for the positive impact of share buybacks, net earnings per share amounted to €2.98 per share, up by +14.7% compared with 2005.

€ millions	12.31.2005	12.31.2006	Growth %
Net profit excluding non-recurrent items after minority interests	1,639	1,833	+11.9
Non-recurrent items	334	228	
Net profit after minority interests	1,972	2,061	+4.5
Diluted earnings per share (euros)	3.13	3.35	+7.1

Non-recurrent items had a positive impact of €228 million, compared with €334 million in 2005. They consist mainly of additional amortisation expenses of intangible assets, and the restatement of deferred tax linked to maintaining the stake in Sanofi-Aventis. After allowing for these non-recurrent items, net profit after minority interests amounted to €2,061 million, up by +4.5% compared with 2005.

Cash flow at December 31<sup>st</sup>, 2006 amounted to €2,410 million, up by +13.2%. Working capital requirement was substantially lower in 2006. Capital expenditure remained stable at 4.7% of sales.

The group's net debt at December 31<sup>st</sup>, 2006 totalled €3,329 million, or 22.8% of shareholders' equity, an increase compared with the end of 2005, when it stood at €2,217 million, or 15.1% of shareholders' equity.

The Board of Directors has decided to propose to the Annual General Meeting of Shareholders on April 24<sup>th</sup>, 2007 to approve a dividend of €1.18 per share, representing an increase of +18% compared with 2005.

**PROSPECTS**

In light of all the results for 2006 and the dynamism they convey, the General Management has expressed their confidence for 2007. These prospects are described by each of the group's divisions in Volume 1 of the Reference Document.

**RESEARCH AND DEVELOPMENT**

2006 was marked by several noteworthy events: the acquisition of SkinEthic, a leader in the marketing of tissue engineering products; the development of Pro-Xylane, the first active cosmetic based on green chemistry, which respects environmental criteria; the creation of the department devoted to natural raw materials; the creation of the international department for applied research and perfume development; the acquisitions of The Body Shop and Sanoflore; the increased use of natural raw materials, organic raw materials and those from fair trade sources.

€532.5 million were invested in Research in 2006 (3.4% of sales), 569 patents were filed and 2,961 employees are engaged in cosmetics and dermatology research for L'Oréal.

## PRODUCTION AND TECHNOLOGY

Acceleration in industrial performance is based this year on three key drivers: innovation, optimisation of the production facilities and reduction in purchasing costs. Out of 71 packaging patents filed by L'Oréal, 10 related to instrumental cosmetics, a new and promising field of exploration. The innovation approach to process research undertaken with regard to shampoos is now continuing in other product families. Savings made in production time for skincare products amount to up to 40%. Work on optimising the production facilities is continuing. The process of sharing functions between sites in a specific zone or division is continuing with the factories in Brazil. Two plant closures have taken place in the United States. To reduce purchasing costs, performance enhancement programmes have been conducted with our suppliers. They have led to a positive trend in purchasing indices, despite the impact of rising costs of basic commodities and higher energy prices.

### 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 is part of the L'Oréal group, it applies the group's rules, norms 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 2006, it consisted mainly of the following (annual data):

Data for 2006	Total
Waste (tonnes)	2,458
Recycled waste (tonnes)	2,342
Recycling ratio (%)	95.28
CO <sub>2</sub> (tonnes)	5,687
SO <sub>2</sub> (tonnes)	1.3
Water consumption (m <sup>3</sup> )	157,428
Electricity consumption (MWh)	52,198
Gas consumption (MWh)	30,443
Fuel oil consumption (MWh)	401

The group data are provided in the "Sustainable Development" chapter of Volume 1 of the Reference Document. Additional information is also provided in the section on "Industrial and environmental risks" of the chapter which follows on Risks.

## 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 management of risks, particularly those of an economic, financial and legal nature, to which the company and its subsidiaries are exposed inside and outside France, even though no absolute guarantee of a total absence of risk can ever be provided.

### Market risks

Market risks and the way they are managed are described in note 23 to the consolidated financial statements on page 41 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. Moreover, the group is not in a situation of significant technical or commercial dependence in relation to third parties.

In the ordinary course of its business, 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. There is no exceptional event nor any governmental procedure, legal or arbitration proceeding which has materially affected, or is seriously likely to materially affect, the results, financial situation, assets or operations of the L'Oréal company and group.

### Industrial and environmental risks

To ensure that the group complies with its commitments to protect the environment and improve occupational health and safety, and to achieve specific targets, a rigorous Safety, Health and Environment (SHE) policy has been implemented throughout the group for many years. The aim of this 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 highest quality, designed to enhance beauty and improve the sense of well-being. L'Oréal must carry out this mission in an ethical manner, 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 on its SHE performance levels,
- continuously improving all aspects of the 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 the related 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 (SHE) Department, 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 industrial site,
- checks that the standards are applied,
- circulates information about best practices to foster ongoing improvements,
- sets specific targets for improvements in the fields of SHE.

The group's strong commitment to its "environment" programme encompasses all the group's sites worldwide: all the administrative offices, all the laboratories, all the factories and all distribution centres. The L'Oréal group operates a total of 114 manufacturing sites, of which 4 have the "High Seveso" classification.

The same rules are applied on a worldwide basis, even in 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 at the core of L'Oréal's environmental concerns. More than 100 parameters are now monitored every month by the group's manufacturing sites.

The monthly charts on safety, health and environmental protection report every month on prevention, provide information on incidents and include key performance indicators with regard to 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, performance of 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, employee safety in high bay warehousing, and the management of ground and water pollution risks) under a series of headings: individual responsibilities, information systems, training, improvement actions to be implemented, 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 management.

- SHE Awards are presented to the winners of internal competitions intended to mobilise group employees to reduce hazards, help protect the environment and demonstrate the reality of the group's citizenship in the community where L'Oréal operates. The awards are intended to convey the fundamental values needed to continue progressing: initiative, improvement and constancy of purpose.

## **Insurance**

### **The group's overall insurance policy**

The objective of the group's policy on insurance is to protect the group's balance sheet and profit and loss account from the occurrence of identified material risks that could adversely affect it. This risk transfer forms an integral part of the group's risk management process. This 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 have to purchase insurance cover to meet their local regulatory obligations and, if deemed necessary, to supplement the group's worldwide programmes for any specific 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 are involved in one or more of these group programmes.

### **Integrated worldwide programmes**

#### *Third party liability*

The group has had an integrated global programme covering all its subsidiaries for several years. 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 low, which shows the extremely high quality requirements and safety standards 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 all the property (fixed assets and inventories) of all its subsidiaries. This programme also covers operating losses directly resulting from a business interruption and/or insured property loss or damage. The level of insurance cover has been selected to cover the maximum reasonably foreseeable loss, taking into account the scale of the 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 events, this programme includes aggregate sub-limits, particularly in the event of natural disasters. This programme

includes the performance, by the insurer's engineers, of loss prevention audits for the group's locations. 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 goods.

#### Customer risk

Subsidiaries are encouraged to purchase credit insurance, with the assistance of the group's insurance department and under terms and conditions negotiated by this department, in addition to their own credit management procedures, provided that such cover is compatible with their level of commercial activity and is available under financially acceptable conditions.

#### Self-insurance

Through its reinsurance subsidiary, the group carries risk retention levels that are not material at consolidated level, and these are applicable over and above local deductible amounts absorbed by the subsidiaries insured.

#### Other specific risks

There are no other identified risks of any nature which had a substantial impact on the group's financial situation or which could have such a substantial impact.

## SUSTAINABLE DEVELOPMENT

Beyond its financial results and the success of its economic model, L'Oréal develops its activity within a framework of values shared by all its employees. The group's approach is in line with rules of conduct which are based on founding principles of ethics and strong convictions. L'Oréal's aim is to ensure sustainable and responsible growth. The most emblematic examples of the group's action in this field are the two international programmes "For Women in Science" and "Hairdressers of the world against AIDS".

L'Oréal's Sustainable Development Report was updated and published in June 2006; it is available on-line on the [www.loreal.com](http://www.loreal.com) website.

## SIGNIFICANT EVENTS THAT HAVE OCCURRED SINCE THE START OF 2007

No major event has occurred between January 1<sup>st</sup>, 2007 and the date of preparation of this report, i.e. February 14<sup>th</sup>, 2007.

## REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

The financial statements of the L'Oréal parent company were reviewed by the Audit Committee and the Board of Directors and then closed off by the Board of Directors at its meeting on February 14<sup>th</sup>, 2007, in the presence of the Statutory Auditors.

### Net sales

€ millions	2006	2005	Change as a %
<b>Net sales</b>			
1 <sup>st</sup> quarter	515.3	472.0	9.17
2 <sup>nd</sup> quarter	526.8	486.1	8.37
3 <sup>rd</sup> quarter	467.1	421.9	10.71
4 <sup>th</sup> quarter	494.2	476.6	3.69
<b>Total</b>	<b>2,003.4</b>	<b>1,856.6</b>	<b>7.91</b>

N.B: These net sales figures include sales of goods and finished products, accessories, sales of waste and services after deducting reductions in respect of sales. These sales include, in particular, supplies of goods to various subsidiaries which are recorded as intercompany sales from a consolidated standpoint.

### L'Oréal parent company balance sheet and profit and loss account

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

At December 31<sup>st</sup>, 2006, total assets amounted to €11,348.5 million, compared with €10,086.4 million at December 31<sup>st</sup>, 2005.

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

At December 31<sup>st</sup>, 2006, the share capital consisted of 639,616,410 shares, with a par value of €0.2 each.

The notes form an integral part of the annual financial statements.

The results presented include the various types of income received from licenses for use of patents and trademarks and also for the use of technology.

The royalties received for the use of patents and trademarks are included in the *Other revenue* item and those with respect to technology are included in the *Net sales* item.

A certain proportion of the above amounts is taxed at a reduced rate.

The profit and loss account shows net income of €1,690.3 million compared with €1,589.6 million at December 31<sup>st</sup>, 2005.

The year-on-year change in profit can mainly be accounted for by a variation of €135.9 million in financial income (primarily, a change in provisions for impairment of treasury stock, an increase in financial income from investments and an increase in loan interest).

Net income amounts to €1,690.3 million for 2006:

- after reversal of the provision for capital expenditure set aside in 2001 with regard to the 2000 financial year amounting to €8.1 million, which is exempt from income tax at the end of the statutory 5-year period,
- after setting aside, pursuant to the French Ordinance of October 21<sup>st</sup>, 1986 with regard to mandatory employee profit-sharing,
- a reserve for the benefit of employees amounting to €15.3 million for which a provision was booked in 2005
- and a provision of €17.5 million booked for employee profit sharing for 2006,
- after setting aside the provision for capital expenditure, including the transfer made by subsidiaries in favour of L'Oréal parent company, pursuant to the provisions with regard to mandatory employee profit-sharing, for an amount of €0.8 million, compared with €3.5 million in 2005.

It is stipulated that the total amount of expenses and charges falling under Article 223 *quater* of the French Tax Code and the amount of tax applicable on such expenses and charges are as follows:

- expenses and charges: €0.6 million,
- corresponding tax amount: €0.2 million.

### Subsidiaries and holdings

Information concerning the activities of subsidiaries is provided at the beginning of this Report, in the description of the activities of the zone to which they belong, as well as in Volume 1 of the Reference Document. Financial data concerning them are also contained in the table showing subsidiaries and holdings at December 31<sup>st</sup>, 2006, which forms part of the notes to the parent company financial statements.

#### SkinEthic

In February 2006, the L'Oréal group purchased 84.1% of the share capital of SkinEthic, a company listed on the open market (*Marché libre*) of Euronext Paris, a leader in tissue engineering that produces and markets reconstructed epidermal, dermal and epithelial tissues intended to carry out *in vitro* testing on the safety and efficacy of a large number of products (cosmetics, pharmaceutical products and chemicals, etc.). SkinEthic's sales amounted to €1.6 million in 2006. At December 31<sup>st</sup>, 2006, L'Oréal held 99.47% of the share capital of SkinEthic.

#### The Body Shop International

In June 2006, L'Oréal acquired The Body Shop International, which was listed on the London Stock Exchange at the time; this group has a worldwide reputation for the sale of natural products, with

strong values and with wide expertise in the retail sector with over 2,000 stores owned by the group itself or under franchise. Over the financial year 2005-2006, which ended on February 28<sup>th</sup>, 2006, The Body Shop posted developed sales of over £772 million. Over the same period, The Body Shop group posted consolidated sales of £486 million.

#### Beauty Alliance

In July 2006, the L'Oréal group acquired a stake of 30% in Beauty Alliance, the second largest American distributor of professional-only products. Beauty Alliance's sales amounted to US\$ 372.3 million in 2006. This company has been consolidated under the equity method since August 1<sup>st</sup>, 2006.

#### Sanoflore

In October 2006, L'Oréal acquired the French laboratory, Sanoflore, a pioneer in the design, manufacture and sale in pharmacies and specialty stores of certified organic cosmetics and natural aromatherapy products. Sanoflore's sales for 2006 amounted to €15 million.

#### Sanofi-Aventis

At December 31<sup>st</sup>, 2006, L'Oréal held a 10.52% stake in the share capital and 17.27% of the voting rights in Sanofi-Aventis.

In L'Oréal's financial statements, Sanofi-Aventis was deconsolidated on August 12<sup>th</sup>, 2004. Balance sheet value at December 31<sup>st</sup>, 2005 and December 31<sup>st</sup>, 2006, amounting to €10,585 million and €10,006 million respectively, corresponds to the stock market value of the shares on the basis of the share price at December 31<sup>st</sup>, 2005 and December 31<sup>st</sup>, 2006, of €74.00 and €69.95 respectively.

## INFORMATION CONCERNING THE SHARE CAPITAL

### Statutory requirements governing changes in the share capital and shareholders' rights

None.

### Issued share capital and authorised unissued share capital

The share capital amounts to €127,923,282.00 as of December 31<sup>st</sup>, 2006. It is divided into 639,616,410 shares with a par value of €0.20 each, all of the same class and ranking *pari passu*.

The table set out below summarises the currently valid authorisations 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 shows the use made of these authorisations during the financial year.

Nature of the authorisation	Date of authorisation by the AGM	Length of authorisation	Maximum share issue	Utilisation made of the authorisation in 2006
Capital increase by the issue of shares with maintenance of preferential subscription rights or <i>via</i> the capitalisation of share premiums, reserves, profits or other amounts	April 26 <sup>th</sup> , 2005 (12 <sup>th</sup> 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 25 <sup>th</sup> , 2006 (13 <sup>th</sup> resolution)	26 months	1% of share capital existing at the date of the AGM that granted the authorisation (i.e. a maximum of 6,587,696 shares)	None

Furthermore, the Board of Directors has been granted an authorisation to allocate to employees and corporate officers of the company and its subsidiaries inside and outside France stock options for the purchase of existing shares or for the subscription of shares to be issued by the company. The total number of options awarded under this authorisation may not represent more than 12 million shares. This authorisation was granted to the Board of Directors by the Annual General Meeting of April 25<sup>th</sup>, 2006 for a maximum period of 26 months.

Making use of this authorisation, the Board of Directors made two grants of share subscription options relating to a total of 7,500,000 options:

Date of grant	Number of options	Exercise period <sup>(1)</sup>
April 25 <sup>th</sup> , 2006	2,000,000	From April 26 <sup>th</sup> , 2011 to April 25 <sup>th</sup> , 2016
December 1 <sup>st</sup> , 2006	5,500,000	From December 2 <sup>nd</sup> , 2011 to December 1 <sup>st</sup> , 2016
<b>Total</b>	<b>7,500,000</b>	

(1) Except exercise by beneficiaries prior to the appointed date in the event of non-voluntary departure from the group, in accordance with the terms and conditions provided for by the plan regulations.

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

At December 31<sup>st</sup>, 2006, 20,366,500 stock options to subscribe for shares continued to be exercisable (including 12,866,500 stock options granted within the framework of a prior authorisation), so that the potential share capital of the company amounts to €131,996,582.00, divided into 659,982,910 shares with a par value of €0.20 each.

The company has not issued any securities which grant indirect entitlement to shares in the capital.

### Changes in the share capital over the last five years

In euros	Nature of the transaction	Amount of the change in share capital	Share premiums	Amount of share capital on completion of the transaction	Number of shares created or cancelled	Number of shares on completion of the transaction
12.31.2002		-	-	135,212,432	-	676,062,160
04.29.2004	Merger with 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
04.27 - 12.31.2005	Exercise of share subscription options	1,500	433,750	131,753,932	7,500	658,769,660
01.01 - 04.24.2006	Exercise of share subscription options	5,600	1,683,395	131,759,532	28,000	658,797,660
04.25.2006	Cancellation of shares	-3,845,850	-	127,913,682	-19,229,250	639,568,410
04.26.2006 - 02.14.2007	Exercise of share subscription options	9,850	2,985,235	127,923,532	49,250	639,617,660
02.14.2007	Cancellation of shares	-2,698,150	-	125,225,382	-13,490,750	626,126,910

### Legal entities or individuals 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 31<sup>st</sup>, 2006, 56.92% of the share capital and 60.10% of voting rights in the company (see below: "Shareholders' agreements relating to shares in the company's share capital").

### Changes in allocation of the share capital and voting rights over the last three years

Over the last three years, the allocation of the share capital and the voting rights has changed as follows:

	12.31.2004			12.31.2005			12.31.2006		
	Number of shares	% of capital	% of voting rights <sup>(2)</sup>	Number of shares	% of capital	% of voting rights <sup>(2)</sup>	Number of shares	% of capital	% of voting rights <sup>(2)</sup>
Bettencourt family <sup>(1)</sup>	185,661,879	27.46	29.09	185,661,879	28.18	29.95	185,661,879	29.03	30.65
Nestlé SA <sup>(1)</sup>	178,381,021	26.39	27.95	178,381,021	27.08	28.77	178,381,021	27.89	29.45
Public	274,231,460	40.56	42.96	255,930,710	38.85	41.28	241,679,210	37.78	39.90
Treasury stock	37,787,800	5.59		38,796,050	5.89		33,894,300	5.30	
<b>Total</b>	<b>676,062,160</b>	<b>100.00</b>	<b>100.00</b>	<b>658,769,660</b>	<b>100.00</b>	<b>100.00</b>	<b>639,616,410</b>	<b>100.00</b>	<b>100.00</b>

(1) The Bettencourt family and Nestlé SA act in concert (see "Shareholders' agreements relating to shares in the company's share capital" below).

(2) It should be noted that, pursuant to the Articles of Association, each share grants entitlement to one vote at Annual General Meetings and that, pursuant to French law, shares of treasury stock are deprived of voting rights.

To the company's knowledge, at December 31<sup>st</sup>, 2006, the members of the Management Committee directly held less than 1% of the share capital.

The number of shares held by each of the members of the Board of Directors is set out in the notes to the Management Report concerning "Information about corporate officers".

The company is authorised to trade in its own shares on or off the Stock Exchange in accordance with Articles L. 225-209 and seq. of the French Commercial Code, within the limits and in accordance with the purposes defined by the authorisations that are granted to it by its Annual General Meeting. At December 31<sup>st</sup>, 2006, the company held, on this basis, 33,894,300 of its own shares, which, if they were to be valued at their purchase price, represented €2,496.3 million, of which:

- 21,501,300 (3.36% of the share capital) were used to cover the existing stock option plans for the purchase of shares allocated to employees and corporate officers of group companies,
- 12,393,000 (1.94% of the share capital) intended for cancellation.

### Employee share ownership

The employees of the company and its affiliates held 3,388,611 shares at December 31<sup>st</sup>, 2006, that is 0.53% of the share capital, through the company savings plan.



## Disclosures to the company of thresholds crossed

During 2006, the company was not informed of any crossing of the legal thresholds for the holding of its shares or voting rights. However, the following disclosures were made of the thresholds provided for in the Articles of Association:

Date of disclosure	Date of crossing of the threshold	Entity making the disclosure	Threshold crossed	Way the threshold was crossed	Holding after crossing of the threshold
May 19 <sup>th</sup> , 2006	May 5 <sup>th</sup> , 2006	Société Générale group	1 and 2% of the capital	Upwards	Not mentioned
	May 5 <sup>th</sup> , 2006	Société Générale	1% of the capital	Upwards	Not mentioned
	May 12 <sup>th</sup> , 2006	Société Générale group	2% of the capital	Downwards	1.454% of the capital and 1.552% of the voting rights
	May 12 <sup>th</sup> , 2006	Société Générale	1% of the capital	Downwards	0.719% of the capital and 0.768% of the voting rights
June 2 <sup>nd</sup> , 2006	May 19 <sup>th</sup> , 2006	Société Générale group	1% of the capital	Downwards	0.746% of the capital and 0.796% of the voting rights
September 21 <sup>st</sup> , 2006	September 19 <sup>th</sup> /20 <sup>th</sup> , 2006	Crédit Agricole Asset Management (on behalf of its investment funds)	1% of the capital	Downwards	0.99% of the capital
December 20 <sup>th</sup> , 2006	December 19 <sup>th</sup> , 2006	CNP Assurances group	1% of the voting rights	Downwards	0.99% of the capital and the voting rights

## Shareholders' agreements relating to shares in the company's share capital

The company is not aware of any shareholders' agreements relating to shares in its share capital other than the agreement described below. A memorandum of agreement was signed on February 3<sup>rd</sup>, 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.

### Clauses relating to the management of the L'Oréal shares held

#### Clause limiting the shareholding

The parties agreed not to increase their shareholdings or their voting rights held in L'Oréal, either directly or indirectly, in any manner whatsoever, for a minimum period of three years as from April 29<sup>th</sup>, 2004, and in any case not until six months have elapsed after the death of Mrs Bettencourt.

#### Lock-up clause

The parties agreed not to transfer any or all of their L'Oréal shares either directly or indirectly, for a period of five years as from April 29<sup>th</sup>, 2004.

#### Exceptions to the undertaking to limit the shareholding and the lock-up clause

a- The undertaking to limit the shareholding does not apply if the increase in the shareholding results from a reduction in the number of L'Oréal shares or voting rights, the acquisition by the company of its own shares, or the suspension or removal of the voting rights of a shareholder.

b- The undertaking to limit the shareholding and the lock-up clause will no longer apply in the event of a takeover bid for L'Oréal shares, as from the date of publication of the clearance decision (*avis de recevabilité*) and up until the day after the publication of the notice of results (*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 for new shares, in order to maintain their holding at the percentage existing prior to the said operation.

d- The parties are free to carry out transfers of L'Oréal shares, in the case of individuals, in favour of an ascendant, descendant or spouse in the form of a gift, and in the case of individuals or legal entities, in favour of any company in which the individual or legal entity carrying out the transfer holds over 90% of the share capital or voting rights.

#### Pre-emption clause

The parties have reciprocally granted each other a pre-emption right concerning the L'Oréal shares they hold since the date of the merger, and those they will hold after such date.

This pre-emption right will come into force on expiry of the lock-up clause 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 notice of results.

#### "No concert party" provision

The parties have agreed for a period of ten years from the effective date of the merger not to conclude an agreement with any third party and not to form a concert party relating to the shares making up the share capital of L'Oréal.

Breach of such undertaking entitles the other party to exercise its pre-emption right with regard to the shareholding of the party having committed such breach, for a price per share equal to the average of the share prices for the last 30 trading sessions prior to notification of 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 as compared to its composition 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 also agreed to vote in favour of the appointment of two Vice-Chairmen of the Board of Directors, one proposed by the Bettencourt family, and the other by Nestlé.

The parties provided for the creation of a "Strategy and Implementation" Committee on the Board of Directors of L'Oréal, which has six members, and is 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 director. The committee meets six times a year.

### Term

Unless otherwise stipulated, the agreement will remain in force for five years from April 29<sup>th</sup>, 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 29<sup>th</sup>, 2004 onwards.

### Authorisation granted to the Board of Directors in 2005 for the purposes of increasing the share capital either through the issue of ordinary shares with preferential subscription rights, or *via* the capitalisation of share premiums, reserves, income or other amounts

The authorisation granted to the Board of Directors for the purposes of increasing the capital either through the issue of ordinary shares with preferential subscription rights, or *via* the capitalisation of reserves, that may be used on one or more occasions, was renewed in 2005, for a period of 26 months. The maximum nominal amount beyond which the capital may not be increased is €200,000,000, thus enabling a nominal capital increase of a maximum of €64.8 million, in light of the situation with regard to the share capital at the time of voting of the resolution.

In 2006, like in 2005, the Board did not decide to carry out a capital increase under the conditions specified in this resolution.

### Authorisation granted to the Board of Directors in 2006 for the purpose of carrying out a capital increase reserved for employees

The Ordinary and Extraordinary General Meeting of April 25<sup>th</sup>, 2006 decided, in application of Article L. 225-129-6 of the French Commercial Code, on a resolution for a capital increase reserved for employees, in that it also authorised the Board of Directors to grant stock options to subscribe for shares.

The Annual General Meeting authorised the Board of Directors to carry out an increase in the share capital in cash, in accordance with the provisions of Article L. 225-129-2 of the French Commercial

Code, 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 2006, the Board of Directors did not decide to carry out a capital increase reserved for employees.

## EMPLOYEE INFORMATION

### Spotting, developing and integrating the talents of tomorrow, encouraging and enhancing diversity

At L'Oréal, the development of human resources is a key element of economic performance. The group's ambition is to promote the harmonious and lasting development of its activities. In order to do so, L'Oréal has to spot and develop talents, increase its attractiveness to employees on an ongoing basis and ensure the responsible management of careers. Each year, a large number of employees join the group all over the world. In order to help them at the start of their careers, L'Oréal set up in 2006 a global personalised integration programme, called FIT (Follow-up and Integration Track). The group is always attentive to the expectations of its employees *via* its global human resources network and its internal satisfaction surveys. A founding value at L'Oréal, diversity is an essential factor for its progress. Encouraged and enhanced by the corporate culture, it is an impressive source of richness and creativity based on respect for people and among people.

### L'Oréal parent company employee information

Pursuant to 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 and employee-related consequences of its activity in 2006.

Group data is included in the chapter on Human Resources in Volume 1 of the Reference Document.

## Number of employees and number of persons hired

### Total number of employees at December 31<sup>st</sup>, 2006

L'Oréal had a total of 5,802 employees at December 31<sup>st</sup>, 2006. L'Oréal hired 338 persons on permanent contracts, 388 on fixed-term contracts and 150 persons on work and training contracts (101 apprenticeship contracts and 49 contracts offering professional experience). In addition, 370 persons were hired on a short-term basis during the holiday period or for a single season.

2006	Men	Women	All
Executives	1,214	1,361	2,575
Supervisors and technical staff	469	1,689	2,158
Administrative staff	153	279	432
Manual workers	204	120	324
Sales representatives	205	108	313
<b>Total</b>	<b>2,245</b>	<b>3,557</b>	<b>5,802</b>

### Difficulties in recruiting

L'Oréal does not have any problems in recruiting either executives or other categories of staff.

### Redundancies or dismissals

In 2006, there were no redundancies for economic reasons. Out of a total of 5,802 employees, 45 persons were dismissed for personal reasons including 5 dismissals for physical incapacity.

### Overtime

L'Oréal does not require its employees to work much overtime. The total number of paid overtime in 2006 was 17,899 hours for a gross amount of €343.77 thousand, representing the equivalent of 11.26 persons, that is 0.19% of the total number of employees.

### Temporary workers

Temporary workers at L'Oréal represent 3.28% of the total number of employees on average, for an average monthly total of 190 temporary workers and an average length of contract of 12 days.

## Information relating to workforce reduction plans and job preservation schemes, efforts made to find alternative positions for employees, rehiring and employment assistance measures.

No workforce reduction plan took place at L'Oréal in 2006.

### Work organisation

L'Oréal applies the National Collective Bargaining Agreement for the Chemical Industries and various company-level agreements, of which the most recent, dated June 30<sup>th</sup>, 2000, was concluded in application of the French Law on the adjustment and reduction of working time.

### 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 work per year.

### Working week for part-time employees

Some employees across all categories have chosen to work part-time. Out of the total of 497 part-time employees, the great majority work for 4/5 of the working week, primarily on the basis either of parental leave or absence on wednesdays.

### Reasons for absenteeism

Reasons for absenteeism	% absenteeism
Sick leave	2.19
Accidents in the workplace-on the way to work	0.15
Maternity leave	1.23
Family events	0.51
Other absences	0.01
<b>Total</b>	<b>4.09</b>

## Remuneration: trends and professional equality

### Average monthly remuneration

#### Average monthly remuneration of ongoing employees

These are employees (excluding senior managers) on permanent contracts, who have been present for two consecutive years.

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

In euros	2005			2006			Change
	Men	Women	All	Men	Women	All	
Executives	5,441	4,446	4,902	5,683	4,644	5,121	+ 4.45
Supervisors and technical staff	2,657	2,637	2,642	2,734	2,715	2,719	+ 2.94
Administrative staff	1,971	1,899	1,927	2,021	1,948	1,976	+ 2.55
Manual workers	2,116	2,064	2,097	2,176	2,110	2,152	+ 2.61
Sales representatives	3,841	3,283	3,657	3,860	3,377	3,701	+ 1.19

### Employer payroll contributions

Total employer payroll contributions for 2006 amounted to €126,194.53 thousand.

### Application of Title IV of Book IV of the French Labour Code: incentives and employee profit-sharing arrangements

#### Incentives

The incentive system is governed by French law but is a non-mandatory system. It was set up as part of a group agreement in France in 1988 and was renewed in 2006. The incentive amount is proportional to the pre-tax profit on ordinary operations after exceptional items, and after weighting on the basis of the salary/value added ratio.

The incentive amount is available immediately, but may also be frozen in the company savings plan for five years and benefit from a corresponding tax exemption.

#### Changes in incentive amounts paid in France for all companies covered

€ thousands	2003	2004	2005
	79,427	82,388	84,935
Of which the L'Oréal parent company represents	41,085	43,350	45,573

For an annual gross salary of:	The gross incentive amount for 2005 paid in 2006 represented:
€25,000	€5,693, i.e. 2.73 months
€32,000	€6,480, i.e. 2.43 months
€45,000	€7,940, i.e. 2.12 months
€60,000	€9,625, i.e. 1.93 month

#### Employee profit-sharing

Profit-sharing is a mandatory system under French Law, set up in 1968 for all profit-making companies with over 50 employees. The profit-sharing agreement was renewed in June 2006. The L'Oréal group has made adjustments to the legal formula that are more favourable for employees:

- the agreement is made at group level: all the employees of companies having signed this agreement, whatever their sector of activity or earnings, receive the same profit share,
- it provides for addition to the taxable profit of royalties derived from licenses for patents, inventions and technical processes developed in France, which creates a direct relationship with the group's international development,

- provisions are stipulated to limit the consequences of exceptional events on the calculation of the profit sharing amount. Profit-sharing payments are mandatorily frozen for a period of 5 years.

#### Changes in employee profit-sharing in France for all companies covered by the L'Oréal group agreement:

€ thousands	2003	2004	2005
	29,536	31,465	27,881
Of which the L'Oréal parent company represents	15,791	17,075	15,386

Profit sharing for 2005 paid in 2006 represented the equivalent of 0.71 month's salary.

#### L'Oréal company savings plan and funds

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 frozen 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 savings plan (PERCO) and receive an additional employer contribution of +50%,
- to invest profit-sharing and incentive amounts in a company savings plan consisting of seven investment funds 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, with additional employer contributions being paid on two of such funds. One of the funds is only intended to receive incentive payments and an additional employer contribution of +25% is paid. The other fund may receive, under the terms of the 35-hour working week agreement, a voluntary payment of the equivalent amount of days worked and an employer contribution of +100 % is added.

In 2006, the employees of L'Oréal in France invested €30,381,886 and €1,365,475 respectively, net of the compulsory social levies –CSG (the general social contribution) and CRDS (the contribution to reimbursement of the French social security debt)– in the two funds that consist entirely of L'Oréal shares, "L'Oréal Intéressement" and "L'Oréal à Versements Personnels Protégés". The employer contributions added to these payments were €6,986,057 and €1,259,884, which, at the opening trading price for the L'Oréal share on the date of each of these employer

contributions, namely €72.70 on June 30<sup>th</sup>, 2006 for “L’Oréal Intéressement” and €75.15 on February 28<sup>th</sup>, 2006 for “L’Oréal à Versements Personnels Protégés”, represents the equivalent of 112,859 L’Oréal shares.

As the total net amount of incentives allocated in 2006 was €78,456,763, L’Oréal proposed nearly 300,000 shares free of charge to its employees in France in 2006, in the form of this additional employer’s contribution.

#### Company savings plan and frozen current account for all companies covered

€ thousands	2002	2003	2004	2005
Company savings plan and frozen current account	305,614	359,256	352,692	438,550

At December 31<sup>st</sup>, 2006, 46% of the savings of L’Oréal employees were invested in L’Oréal shares, and 10,300 group employees in France were shareholders of L’Oréal through the savings plan.

#### Incentive schemes worldwide

Since 2001, L’Oréal has undertaken to develop in various stages, in almost all the countries where its subsidiaries are located, an incentive scheme that depends on increases in sales and/or earnings. On this basis, in 2006, L’Oréal paid €49 million in respect of 2005 for incentive schemes throughout the world outside France, which represents 2.6 weeks’ salary.

#### Professional equality

Professional equality between men and women is a principle to which L’Oréal has always been very much attached. Non-discrimination is one of the fundamental principles asserted in the company’s ethics charter.

The comparison between the general conditions of employment and training of men and women in the company is presented once a year to the works council of each establishment within the scope of the commission on “Professional Training and Employment”.

Professional equality is also dealt within a report reviewed each year as part of the compulsory annual salary negotiation process. This report, drawn up in accordance with the requirements of Article L. 432-3-1 of the French Labour Code, considers the respective position of men and women with regard to hiring, training, promotion, qualifications and classification, effective remuneration and working conditions for each professional category (executives, supervisors, administrative staff, manual workers and sales representatives).

Nine study groups on Diversity have been created at L’Oréal and are made up of employee representatives, representatives of management and other employees in certain of the study groups. The purpose of these study groups is to exchange and share information on the measures implemented in order to combat all forms of discrimination and to promote diversity and equal opportunities. The question of promoting professional equality is one of the questions handled by the study groups on Diversity. For example, 54% of L’Oréal executives are women. <sup>(1)</sup>

(1) See also the chapter on “Human Resources” in Volume 1 of the Reference Document.

#### Professional relations and list of collective agreements

##### Professional relations

The high quality of labour relations at L’Oréal is the result of an ongoing dialogue between the management, employees and their representatives.

The representational structure is highly decentralised in order to keep in touch with issues faced at the local sites.

##### Composition of Central Works Council by category

Since 2005, as no unanimous agreement could be reached between the trade union organisations, the local French Employment and Professional Training authority provided for the composition of the Central Works Council in strict accordance with the legal provisions, whereas it was previously three times bigger.

Number of elected representatives by category	2006
Executives	2
Supervisors and technical staff/Sales representatives	1
Administrative staff/Manual workers	1

#### Number of meetings of the Central Works Council and its commissions in 2006: 9

##### List of collective agreements

##### Dates of signature and objects of the agreements signed in the company

06.01.2006	Special group profit sharing agreement for 2006-2007-2008
06.16.2006	Group incentive agreement for 2006-2007-2008

#### Occupational health and safety

In application of the French decree of November 5<sup>th</sup>, 2001 relating to occupational risks, L’Oréal has prepared a single document for the evaluation of occupational risks in the company. In 2006, 70 meetings of the CHSCTs (health, safety and working conditions committees) were held, in the 13 such committees that exist. Five occupational doctors are present on all the company’s sites and 5,848 medical examinations were conducted in 2006 (medical examinations upon hiring, return to work after sick leave or regular medical examinations).

In 2006, there were 49 lost-time accidents.

##### 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 close and specifically adapted individual monitoring of employees, and at collective level, through the evaluation and control of occupational risks.

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

## Training

### Percentage of total salaries allocated to continuing education in 2006

Amount allocated to training (€ thousand)	13,423
% of total salaries	4.5

### Number of persons receiving training: 3,996

i.e. 68.9% of the total number of employees at December 31<sup>st</sup>, 2006

### Number of training units: 7,970

or two units of training per person trained

### Number of hours of training: 126,603 hours

### Number of employees who made use of the Individual Training Entitlement (Droit Individuel à la Formation – "DIF"): 57

The L'Oréal Human Resources intranet site provides employees with comprehensive information on the possibilities of professional training offered and their Individual Training Entitlement.

## Employment and job opportunities for disabled workers

### The number of disabled workers was 103 in 2006, representing 1.8% of the total number of employees.

Subcontracting to special workshops for disabled workers and occupational therapy centres represented an amount of €176,850.

## Welfare

### Breakdown of the company's expenses

€ thousands	2006
<b>Accommodation</b>	
Payment to the "1% housing fund"	1,293
<b>Transport</b>	
Shuttle services	157
<b>Catering</b>	
Company restaurant facilities	6,566
<b>Miscellaneous</b>	
Special social events for personnel	1,173
<b>Total</b>	<b>9,189</b>

### Payment to the L'Oréal Central Works Council and to the three works councils at its establishments: €1 399 thousand

## Amount of subcontracting

€ thousands	2006
Subcontracting purchases	4,295
Special contract work	285,640

### How the company promotes the fundamental conventions of the International Labour Organisation (ILO) to its subcontractors and ensures that its subsidiaries comply with these fundamental conventions

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 ethics charter stating the fundamental values and principles of action that underpin L'Oréal's activities. The ethics 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.

Since 2003, L'Oréal has signed the United Nations Global Compact and therefore undertakes to respect its 10 principles in the areas of human rights, labour standards, the environment and anti-corruption.

The group prohibits the use of forced labour, and work by young people under 16 years of age, 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 ILO, namely C87 and C98 on trade union freedom, C29 and C105 on the abolition of forced labour, C111 and C100 on equality, and finally C138 and C182 on the abolition of work by children."

152 supplier audits have been performed since 2002 to ensure their compliance.

The General Management has decided to strengthen this audit process and to verify that all the subcontractors and suppliers comply with the General Purchasing Conditions. To provide an example, all the group's factories and distribution centres throughout the world were audited in 2006 by an external audit firm.

## 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 Mitry-Mory.

Over the past three years on all these sites, L'Oréal has hired 2,203 employees on permanent and fixed-term contracts and has thus contributed to regional development.

In 2006, L'Oréal paid €16,331 thousand in business tax (*taxe professionnelle*).

## Relations with educational establishments and associations

### Educational establishments

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

L'Oréal offers students the possibility of discovering the company during their courses by offering them some 500 internships across all its professions each year.

In 2006, 525 students joined L'Oréal under this type of internship scheme. L'Oréal also offers conferences, factory visits and case studies.

443 young people on work and training contracts (apprenticeship contracts and contracts offering professional experience) were present in the group in France at December 31<sup>st</sup>, 2006, 205 of whom worked at L'Oréal in cooperation with over 70 apprentice training centres.

88% of the apprentices are preparing for qualifications at "bac+2" level (equivalent to a 2-year course after "A levels") or higher. Their pass rate is 80%.

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

L'Oréal paid €1,960 thousand in apprenticeship tax in 2006.

#### **Environmental protection associations**

L'Oréal is a member of associations and societies that act in favour of sustainable development at national level (e.g. *Eco-Emballages*), European level (e.g. European) and international level (e.g. The 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.

#### **Regional development and local populations**

As L'Oréal's business is at the heart of people's everyday lives and their well-being, the group plays an active role in the life of the communities in which its activities take place. L'Oréal is committed to demonstrating good corporate citizenship through its behaviour and to making a contribution to projects which are useful to the wider community.

As a general rule, L'Oréal's establishments and those of its subsidiaries build good relations with the communities in 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 Health Environment competitions, prizes are awarded for civic initiatives in recognition of the efforts made by a site (factory, distribution centre or administrative office) which demonstrate its commitment, mobilisation and involvement in the community in which it operates. Awards are made to the best local initiatives conducted each year in partnership with local authorities, local 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 to show that it firmly respects the ethical values of the surrounding community.

## **Stock 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 employees and corporate officers who receive the options and the shareholders share the same confidence in the strong, steady development of the company.

### **Authorisation granted to the Board of Directors to grant options with regard to L'Oréal shares**

The Ordinary and Extraordinary General Meeting of April 25<sup>th</sup>, 2006 authorised the Board of Directors to grant to employees and corporate officers of the company and of its French and foreign affiliates as defined by Article L. 225-180 of the French Commercial Code (*Code de commerce*), stock options that give entitlement to the purchase of existing shares of the company or the subscription of new shares. This authorisation was granted for a period of twenty-six months, and gives the Board of Directors as much flexibility as possible in order to encourage the motivation of beneficiaries, regardless of the context. In 2006, the Board made new allocations. It should be noted that the stock options are granted with no discount.

### **Non-exercise period of five years**

Stock options are subject to a contractual non-exercise period of five years. The validity of a stock option granted 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 foster the loyalty particularly of employees who, through their abilities and their commitment, contribute most to the group's performances. They also form part of L'Oréal's strategy of encouraging or attracting new talents.

### **Number of employees concerned**

In 2006, at the proposal of its Chairman and the Management and Remuneration Committee, the Board of Directors showed its desire once again to give employees the possibility to be more closely involved in the development of the company.

In April and December 2006, L'Oréal granted a total of 7,500,000 stock options to subscribe for shares to 789 beneficiaries. This increases the number of beneficiaries of stock options since the origin to 3,171 at December 31<sup>st</sup>, 2006.

### **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.

**Currently existing L'Oréal parent company stock options to purchase and subscribe for shares <sup>(1)</sup>**

The situation of the stock option plans to purchase or subscribe for shares that existed at L'Oréal as at December 31<sup>st</sup>, 2006, was as follows:

Date of authorisation by the Annual General Meeting	05.30.1995	05.30.1995	05.30.1995	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999	06.01.1999
Date of grant	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	09.18.2001
Total number of options granted	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	2,500,000
<i>Of which to Management</i>										
<i>Committee members<sup>(2)</sup></i>	995,000	150,000	–	550,000	525,000	–	310,000	–	360,000	655,000
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	7/441
First possible date of exercise	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	09.19.2006
Number of options not exercised at 12.31.2006	372,800	277,400	282,500	1,334,200	1,073,900	771,500	3,364,500	399,500	2,274,000	2,232,500
<i>Of which by Management</i>										
<i>Committee Members<sup>(2)</sup></i>	228,000	50,000	–	550,000	525,000	–	310,000	–	360,000	655,000
Date of expiry	10.17.2007	10.15.2008	12.08.2008	10.14.2009	12.07.2009	04.05.2010	09.28.2010	12.07.2010	03.28.2011	09.18.2011
Acquisition price (in euros)	34.01	39.41	48.46	57.60	61.00	65.90	83.00	89.90	79.60	77.60
Date of authorisation by the Annual General Meeting	06.01.1999	06.01.1999	06.01.1999	05.22.2003	05.22.2003	05.22.2003	05.22.2003	05.22.2003	04.25.2006	04.25.2006
Date of grant	10.08.2001	03.26.2002	09.04.2002	12.03.2003 <sup>(3)</sup>	03.24.2004	12.01.2004	06.29.2005	11.30.2005 <sup>(4)</sup>	04.25.2006	12.01.2006
Total number of options granted	225,000	2,500,000	2,500,000	5,000,000	2,000,000	4,000,000	400,000	6,000,000	2,000,000	5,500,000
<i>Of which to Management</i>										
<i>Committee Members<sup>(2)</sup></i>	–	360,000	280,000	1,000,000	435,000	1,555,000	300,000	2,275,000	2,000,000	1,530,000
Number of senior managers/ Total number of beneficiaries	0/109	8/410	6/394	1/693	6/257	10/274	2/3	10/771	1/1	9/788
First possible date of exercise	10.09.2006	03.27.2007	09.05.2007	12.04.2008	04.25.2009	12.02.2009	06.30.2010	12.01.2010	04.26.2011	12.02.2011
Number of options not exercised at 12.31.2006	198,750	2,345,000	2,364,500	4,892,250	1,984,500	3,970,000	400,000	5,980,000	2,000,000	5,500,000
<i>Of which by Management</i>										
<i>Committee Members<sup>(2)</sup></i>	–	360,000	280,000	1,000,000	435,000	1,555,000	300,000	2,275,000	2,000,000	1,530,000
Date of expiry	10.08.2011	03.26.2012	09.04.2012	12.03.2013	03.24.2014	12.01.2014	06.29.2015	11.30.2015	04.25.2016	12.01.2016
Acquisition (A) or subscription (S) price (in euros)	76.50 (A)	81.65 (A)	76.88 (A)	71.90 (A)	63.02 (S)	64.69 (S)	55.54 (S)	60.17 (S)	61.37 (S)	72.60 (S)
								62.94 (A)	78.06 (S)	78.06 (S)

(1) There are no share purchase or subscription plans at subsidiaries of L'Oréal.

(2) Management Committee members in office on the date of grant.

(3) The stock option plan of December 3<sup>rd</sup>, 2003 is divided into two halves: a share subscription offer at a price of €63.02 (S) and a share purchase option offer at a price of €71.90 (A). Each beneficiary received an offer comprising share subscription options and share purchase options in equal parts.

(4) The stock option plan of November 30<sup>th</sup>, 2005 is composed, for 70%, of a share subscription option offer at a price of €61.37 (S) and, for 30%, of a share purchase option offer at a price of €62.94 (A). Each beneficiary has received an offer comprising share subscription options and share purchase options in the above proportions. There were no fractional shares. NB: the numbers of options and the acquisition prices indicated take into account the adjustments relating to the financial transactions carried out with regard to the share capital, such as the exchange of investment certificates for shares made in 1993, the grant of one bonus share for ten existing shares in 1996 and the ten-for-one share split in 2000.

**Main grants of stock options to employees other than corporate officers, and the exercise of these options**

The total number of stock options granted in 2006 to the ten employees who are not corporate officers and who received the largest number of stock options amounts to 1,180,000 share subscription options at an average price of €78.06 per share, 1,030,000 of which were granted to eight members of the Management Committee, also at an average price of €78.06 per share.

The total number of stock options exercised, in 2006, to the ten employees who are not corporate officers and who exercised the largest number of stock options amounts to 265,000 share purchase options at an average price of €48.38 per share, 50,000 of which were exercised by members of the Management Committee, at an average price of €48.16 per share.

**Summary of incentives granted<sup>(1)</sup>**

It should be noted that, in 1998, L'Oréal put in place an incentive agreement in France that has been regularly renewed since then, and involves the beneficiaries directly in the group's results.

€ thousands	2003	2004	2005
Amount of the Incentives	79,427	82,388	84,935
Including those for L'Oréal	41,085	43,350	45,573

Depending on the level of their annual gross salary, the gross amount of incentives for 2005 paid in 2006 represented the following amounts for beneficiaries:

For an annual gross salary of:	Gross incentives for 2005 paid in 2006 :
€25,000	€5,693, i.e. 2.73 months
€32,000	€6,480, i.e. 2.43 months
€45,000	€7,940, i.e. 2.12 months
€60,000	€9,625, i.e. 1.93 month

(1) For further information on the Incentives, see "Human Resources –L'Oréal parent company employee information" in the Reference Document, Volume 2 page 68.



### L'Oréal share funds with company's contribution

L'Oréal offers each beneficiary of the Incentive a choice of investing the amount of the incentive in the "L'Oréal Intéressement" fund. Within the scope of the 35-hour working week agreement, L'Oréal also offers its employees the possibility to invest the equivalent amount of days worked in another fund, "L'Oréal à Versements Personnels Protégés". These funds both consist entirely of L'Oréal shares and the payments made by the beneficiaries are added to by employer contributions made by the company of 25% for the first fund and 100% for the second fund, within the limit of a total amount of €4,140.

In 2006, the employees of L'Oréal in France invested €30,381,886 and €1,365,475 respectively, net of the compulsory social levies –CSG (the general social contribution) and CRDS (the contribution to reimbursement of the French social security debt)– in the two funds that consist entirely of L'Oréal shares, "L'Oréal Intéressement" and "L'Oréal à Versements Personnels Protégés". The employer contributions added to these payments were €6,986,057 and €1,259,884, which, at the opening trading price for the L'Oréal share on the date of each of these employer contributions, namely €72.70 on June 30<sup>th</sup>, 2006 for "L'Oréal Intéressement" and €75.15 on February 28<sup>th</sup>, 2006 for "L'Oréal à Versements Personnels Protégés", represents the equivalent of 112,859 L'Oréal shares. As the total net amount of incentives allocated in 2006 was €78,456,763, L'Oréal proposed nearly 300,000 shares free of charge to its employees in France in 2006, in the form of this additional employer's contribution.

## ORGANISATION OF THE BOARD OF DIRECTORS IN 2006

### Corporate governance

With regard to corporate governance, L'Oréal applies the recommendations of the AFEP and the MEDEF under the terms and conditions described in the Chairman's Report attached to this Management Report, which describes the way in which the work of the Board is prepared and organised. The Board adopts an organisational approach and a *modus operandi* which enable it to discharge its duties as effectively as possible.

The directors noted with satisfaction that the daily newspaper, L'AGEFI, gave L'Oréal first place in its Award for "Composition of the Board" in 2006, in particular due to its well-balanced and complementary nature.

The Board sets out here the measures taken concerning the organisation of the Board, further to the presentation of the Board provided in this respect in Volume 1 of this Reference Document, just before the Chairman's Report.

The Board of Directors approved its Internal Rules at its meeting on September 2<sup>nd</sup>, 2003, and amended them on December 1<sup>st</sup>, 2004 and again on August 30<sup>th</sup>, 2006 to take into consideration the separation of the duties of Chairman of the Board of Directors from those of the Chief Executive Officer, whose respective responsibilities had to be specified. These rules are attached to this Report (on page 97).

These Internal Rules are liable to be amended by the Board of Directors in light of the changes in the laws and regulations, but also its own *modus operandi*. In this case, the new Internal Rules are made public as soon as possible, initially via the company's website.

The L'Oréal Board of Directors comprised thirteen members at December 31<sup>st</sup>, 2006: three representing the family of Mrs Bettencourt, three representing Nestlé, the Chairman, the Chief Executive Officer of L'Oréal, a former employee whose status as an employee ended more than 12 years ago, and four external personalities.

The list of offices and directorships held in all companies, during 2006, by each of the corporate officers is included in the notes to this Management Report.

The Board has set up three internal review committees responsible for preparing its deliberations. The Strategy and Implementation Committee, the Management and Remuneration Committee, and the Audit Committee. The membership of these Committees is set out in the chapter on Corporate Governance in Volume 1 of the Reference Document, their remits are set out in the Internal Rules of the Board of Directors, and their work in 2006 is described in detail in the Chairman's 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.

### Non renewal of the tenure of a director in 2006

Mr Jean-Louis Dumas, a director of L'Oréal since 2002, did not seek renewal of his tenure at the Annual General Meeting of April 25<sup>th</sup>, 2006. Sir Lindsay Owen-Jones and the Board thanked Mr Dumas for his loyalty throughout the years of his tenure and also his great independence of spirit. He was a director who was attentive to his duties and extremely devoted to the Board.

### Renewal of the tenure of five directors in 2006

The Board of Directors proposed to the Annual General Meeting of April 25<sup>th</sup>, 2006 the renewal of 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 expired at the close of the Annual General Meeting. The tenure of these directors, covering a period of four years as provided for by the Articles of Association, was renewed and their directorships will expire at the close of the Ordinary General Meeting to be held in 2010 and called to review the financial statements for the year ending December 31<sup>st</sup>, 2009.

### Appointment of a director in 2006

The Board of Directors proposed the appointment of Mr Jean-Paul Agon as a new director to the Annual General Meeting.

L'Oréal's Deputy Chief Executive Officer since July 2005, Mr Jean-Paul Agon, was thus appointed as director for a term of four years as provided for by the Articles of Association, expiring at the close of the Ordinary General Meeting to be held in 2010 and called to review the financial statements for the year ending December 31<sup>st</sup>, 2009.

At the close of the Annual General Meeting, Sir Lindsay Owen-Jones proposed to the Board of Directors that it separate the duties of Chairman from those of Chief Executive Officer and that it appoint Mr Jean-Paul Agon as Chief Executive Officer.

### Separation of the duties of Chairman from those of Chief Executive Officer

The Board of Directors decided on April 25<sup>th</sup>, 2006 to separate the duties of Chairman from those of Chief Executive Officer. Sir Lindsay Owen-Jones was appointed as Chairman of the Board of Directors and Mr Jean-Paul Agon as Chief Executive Officer.

For the purposes of clarification and transparency in the definition of the remit and roles of the Chairman and Chief Executive Officer after separation of the duties, the Board has updated its Internal Rules.

## REMUNERATION OF CORPORATE OFFICERS

The Management and Remuneration Committee, a review committee of the Board of Directors to which the Chairman refers in his Report on "the way in which the Board's work is organised and prepared", held five meetings in 2006, on February 13<sup>th</sup>, March 15<sup>th</sup>, April 12<sup>th</sup>, June 27<sup>th</sup> and November 30<sup>th</sup>, in a completely independent manner.

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 to the Board in this respect.

The remit of the Management and Remuneration Committee also includes preparing for the Board of Directors, for each corporate officer appointed by the Board, proposals of remuneration that include a fixed part and a variable part, and proposals to grant stock options.

These proposals are reviewed in a completely independent manner by the whole of the Board of Directors which deliberates and votes on each of these proposals on a collegial basis.

Each year the Committee prepares its proposals of remuneration for the corporate officers appointed by the Board, in two stages:

- At the start of each financial year, the Management and Remuneration Committee submits to the Board, which then takes its decision, the amount of the fixed part of the remuneration of each of the corporate officers, by first establishing total annual remuneration for each officer.

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 financial year; these rules and criteria are thus reviewed each year and are adopted on the basis of their relevance and consistency with the general objectives for the company's development assigned by the Board.

- At the end of the financial year, the Management and Remuneration Committee submits to the Board a proposal for the variable part of the remuneration of each corporate officer appointed by the Board, for the past financial year, established in accordance with the rules and criteria adopted at the start of the financial year by the Board.

The Board always wishes to incite the General Management both to maximise performance for each financial year and to ensure that the performance is repeated and remains steady year after year. The Board has laid down a simple rule, whereby the variable part of the remuneration of each corporate officer appointed by the Board is determined as follows:

- half is based on an analysis of the company's performance by reference to significant economic indicators, reflecting in particular the trend in sales, earnings, profitability, productivity or market share, and
- half is based on an assessment of the qualitative aspects of management, such as the appropriateness of strategic choices, prospects for products and markets, research projects, renewal of structures, the ability to generate team spirit, the image of the company projected, or the quality of communication.

The Committee notes the progress made in these fields and, on this basis, proposes to the Board to set the final amount of the variable part of the remuneration of each corporate officer appointed by the Board, for the previous year.

At the same time, the Management and Remuneration Committee formulates proposals for the grant of stock options to the corporate officers appointed by the Board.

To ensure that the corporate officers appointed by the Board are offered remuneration and stock options that will attract them, motivate them, and foster 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 companies operating in similar markets. It must also depend, for the determination of the variable part, partly on the company's performance, and on the role played in this performance by each of the corporate officers, and partly on qualitative management criteria,
- stock options must be allocated to the corporate officers, in order to involve them in the long-term development of the value of the company and its share price, in a way that reflects their contribution to this increase in value.

Based on this approach, the Management and Remuneration Committee makes its proposals to the Board on completion of two independent analyses:

- one based on the performance of the company and of the performance of each of the corporate officers, which forms the basis of its remuneration proposals,
- the second one based on the prospects for an increase in the share price, which guides it in preparing its stock option grant proposals.

The Committee is attentive to formulating its remuneration proposals to the Board without taking the share price into account, and is similarly careful to formulate stock option grant proposals without referring to the short-term performance of the company. In 2006, the Management and Remuneration Committee made the following proposals to the Board, which reviewed and accepted them.

## Remuneration of the Chairman and Chief Executive Officer

The fixed remuneration of the Chairman and Chief Executive Officer remained unchanged in 2006 at €3,750,000 on an annual basis which was paid to him on a prorated basis to the length of his term of office from January 1<sup>st</sup> to April 30<sup>th</sup>, 2006, namely €1,250,000.

The variable remuneration of the Chairman and Chief Executive Officer for this period was adopted on April 25<sup>th</sup>, 2006 by the Board of Directors. The Board considered the excellence of the results as they could be estimated at such date, which have since been confirmed, and the exceptional quality of the preparations for, and actual handing over of, the position of Chief Executive Officer to Mr Jean-Paul Agon. In accordance with the rule it had adopted, the Board therefore set the variable part of the remuneration of the Chairman and Chief Executive Officer at €1,250,000 bringing his total remuneration, for these four months, to 100% of the target remuneration set at the beginning of the financial year. The total gross remuneration paid to the Chairman and Chief Executive Officer, until the end of his term of office, in respect to the first four months of the 2006 financial year, thus amounted to €2,553,817, including €6,273 in benefits in kind and €47,544 in attendance fees. The Chairman and Chief Executive Officer had a company car and a chauffeur at his disposal.

The remuneration of the Chairman and Chief Executive Officer approved by the Board of Directors for 2006 and the previous years was as follows:

In €	2003	2004	2005	2006 <sup>(1)</sup>
<b>Items of remuneration</b>				
Fixed remuneration paid	3,000,000	3,500,000	3,750,000	1,250,000
Variable remuneration paid	3,500,000	3,000,000	3,500,000	1,250,000
Attendance fees due	56,860	75,874	87,937	47,544
Benefits in kind	19,333	20,509	20,406	6,273
Total gross remuneration	6,576,193	6,596,383	7,358,343	2,553,817
	+5 %	+0.3 %	+11,6 %	-

(1) The remuneration for 2006 comprises all the amounts received by the Chairman and Chief Executive Officer up until the end of his term of office.

At its meeting on April 25<sup>th</sup>, 2006, the Board of Directors took note of the decision by Sir Lindsay Owen-Jones to apply for his pension as from May 1<sup>st</sup>, 2006. As Sir Lindsay Owen-Jones has always been treated by the Board in the same way as L'Oréal's senior managers for all matters that are linked to his salary, he received, at that time, a retirement indemnity based on the calculation schedule applicable at L'Oréal for a projected length of service of forty-one years and seven months at the age of 65, namely six months of his average remuneration for the twelve months prior to the date of his retirement. The base applied consists of three-twelfths of the fixed and variable remuneration for 2006 on an annual basis and nine-twelfths of the same amounts for 2005.

Since May 1<sup>st</sup>, 2006, Sir Lindsay Owen-Jones has been entitled to the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de Conjoncture")<sup>(2)</sup>.

In accordance with the Regulations governing this scheme, pension cover is initially calculated on the basis of the beneficiary's length of service. As Sir Lindsay Owen-Jones joined L'Oréal on September 1<sup>st</sup>, 1969, his length of service amounted to thirty-six years and eight months at the time of his retirement. Thus, after this initial calculation, his pension cover could have amounted to 66.66% of the average of the remuneration for the three best-paid full calendar years of his career out of the last seven years; these years are 2003, 2004 and 2005. However, the Regulations for this scheme also expressly provide that the pension cover may not exceed the average amount of fixed remuneration for the same three years. This capping mechanism applied to the pension cover for Sir Lindsay Owen-Jones, which represents 46.43% of his total gross remuneration for his last full calendar year of service, namely 2005. This pension cover includes both his basic and supplementary pensions.

Pursuant to the usual accounting principles, provisions had been set aside both for this indemnity and this pension cover in the accounts of L'Oréal.

The Board did not propose any other specific financial measure with regard to Sir Lindsay Owen-Jones at the time of his retirement although it congratulated him on the company's remarkable performance during his successive terms of office, as measured, in particular, by two performance indicators that are particularly important for the shareholders:

### Change in the share price and stock market capitalisation of L'Oréal

Between October 26<sup>th</sup>, 1984, the date when Sir Lindsay Owen-Jones was first appointed as Chief Executive Officer, and April 25<sup>th</sup>, 2006, the date on which he handed over the duties of Chief Executive Officer to Mr Jean-Paul Agon, i.e. a period of twenty-one and a half years, the share price was multiplied by over 25, i.e. an average increase of 16.2% per annum and the stock market capitalisation was multiplied by nearly 30, i.e. an average increase of 17.1% per annum.

	L'Oréal share price	L'Oréal stock market capitalisation
10.26.1984	€2.94 <sup>(3)</sup>	€1.65 billion
04.25.2006	€74.10	€48.8 billion

(3) Adjusted price.

### Separation of the duties of Chairman from those of Chief Executive officer

On April 25<sup>th</sup>, 2006, the Board of Directors decided to separate the duties of Chairman from those of Chief Executive Officer. The Chairmanship of the Board of Directors was offered to Sir Lindsay Owen-Jones and the position of Chief Executive Officer to Mr Jean-Paul Agon; they both accepted these appointments.

(2) For details of the Regulations for this scheme, please refer to "Pension plan commitments and supplementary benefits" (Reference Document, Volume 2, page 134).

### Remuneration of the Chairman

Sir Lindsay Owen-Jones declined all remuneration related to this new office for the last eight months of 2006, including the part of such remuneration corresponding to attendance fees. On April 25<sup>th</sup>, 2006, the Board of Directors set the Chairman's fixed remuneration for 2007 at an amount of €2,000,000 on an annual basis; this remuneration will be paid to him as from January 1<sup>st</sup>, 2007. This fixed remuneration could be supplemented, for 2007, with a variable part which will be considered by the Board at the end of the financial year, based on standard practice. The Board has adopted a rule that, if it decides to grant a variable part of remuneration, this variable amount may not exceed €1,500,000. The Chairman has a secretarial staff, a company car and a chauffeur at his disposal.

### Remuneration of the Chief Executive Officer

The fixed remuneration of the Chief Executive Officer was set on April 25<sup>th</sup>, 2006 by the Board of Directors at €2,000,000 on an annual basis, and this amount was paid to him on a prorated basis to the length of his term of office over the year, as from May 1<sup>st</sup>, 2006, i.e. €1,333,336. The variable part of his remuneration for the whole of 2006 was set by the Board at €1,900,000 at the end of the financial year. In addition, the Chief Executive Officer received €35,000 in attendance fees. The Chief Executive Officer thus received the amount of €3,268,336 for 2006. The Chief Executive Officer has a company car and a chauffeur.

### Stock options granted to the corporate officers appointed by the Board

The Board of Directors granted to the Chairman, on April 25<sup>th</sup>, 2006, a total 2,000,000 stock options to subscribe for shares, at a price of €72.60, which may normally be exercised between April 26<sup>th</sup>, 2011 and April 25<sup>th</sup>, 2016.

Through this grant of stock options, the Board wished first of all to highlight and recognise the exemplary manner in which Sir Lindsay Owen-Jones had envisioned, organised and conducted the process of arranging for his replacement at the head of the company. In fact, Jean-Paul Agon was singled out as soon as he joined the company, in 1978. Sir Lindsay Owen-Jones did everything from the first moment to expose him progressively to broader and broader responsibilities in more and more significant countries. At the end of this career path, which lasted for twenty-five years, and was personally devised and supervised by Sir Lindsay Owen-Jones, Mr Jean-Paul Agon was appointed as Chief Executive Officer by the Board of Directors, on April 25<sup>th</sup>, 2006.

The Board also wanted to involve Sir Lindsay Owen-Jones, within his new responsibilities, in the success of the new Chief Executive Officer, Mr Jean-Paul Agon, and in the future success of the company, as it does with those L'Oréal employees whom its expects will make the most significant contributions.

The stock options which were granted by the Board of Directors to Sir Lindsay Owen-Jones in 2006 and previous years, and which can still be exercised are as follows:

Date of grant	Number of options not yet exercised	1 <sup>st</sup> possible date of exercise	Date of expiry	Acquisition (A) or Subscription (S) Price in €
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	500,000	12.04.2008	12.03.2013	63.02 (S)
	500,000			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	700,000	12.01.2010	11.30.2015	61.37 (S)
	300,000			62.94 (A)
04.25.2006	2,000,000	04.26.2011	04.25.2016	72.60 (S)

The Board of Directors granted on December 1<sup>st</sup>, 2006, to Mr Jean-Paul Agon in his capacity as Chief Executive Officer, 500,000 stock options to subscribe for shares, at a price of €78.06, which may normally be exercised between December 2<sup>nd</sup>, 2011 and December 1<sup>st</sup>, 2016.

### Undertakings made in relation to the corporate officers appointed by the Board

The Board of Directors of L'Oréal has an ongoing policy of treating the corporate officers it appoints as equivalent to senior managers for all matters which are linked to their remuneration. Corporate officers are therefore covered by the same benefit systems as senior managers of L'Oréal, particularly relating to pension and provident schemes. The Board keeps itself regularly informed of these schemes.

The Board of Directors treats the Chief Executive Officer, Mr Jean-Paul Agon, as a senior manager for all matters linked to his remuneration. He is therefore covered by the same pension and provident schemes as the senior managers of L'Oréal. Mr Jean-Paul Agon will be entitled to the "Garantie de Retraite des Membres du Comité de Conjoncture" at the end of his career in the company if he fulfils all the conditions for access to this scheme at that date.

The Board of Directors has not made any other specific undertaking with regard to the corporate officers it has appointed.

### Attendance fees and other benefits

Each of the directors of L'Oréal received attendance fees on the following basis in respect of 2006:

- a fixed annual sum of €30,000 as attendance fees,
- an amount of €5,000 for each Board meeting which the director attended,
- an amount of €15,000 for each of the members of the Strategy and Implementation Committee and the Management and Remuneration Committee and an additional amount of €15,000 for the Chairmen of these Committees,
- an amount of €20,000 for each of the members of the Audit Committee and an additional amount of €20,000 for the Chairman of this Committee.

The total amount of attendance fees for 2006 was €907,500 and was broken down as follows for each of the directors, as compared with 2005:

In €	2006	2005
Mr Jean-Paul Agon	35,000	—
Mr Werner Bauer	60,000	35,000
Mrs Liliane Bettencourt	100,000	95,000
Mrs Françoise Bettencourt Meyers	55,000	55,000
Mr Peter Brabeck-Letmathe	85,000	70,000
Mr Francisco Castañer Basco	95,000	85,000
Mr Xavier Fontanet	95,000	85,000
Mr Bernard Kasriel	82,500	70,000
Mr Marc Ladreit de Lacharrière	50,000	55,000
Mr Jean-Pierre Meyers	95,000	85,000
Sir Lindsay Owen-Jones	45,000	85,000
Mr Franck Riboud	50,000	45,000
Mr Louis Schweitzer	60,000	25,000

### Stock options exercised by the corporate officers appointed by the board

On December 19<sup>th</sup>, 2006, Sir Lindsay Owen-Jones exercised 250,000 stock options out of the total number of stock options granted by the Board of Directors on October 17<sup>th</sup>, 1997, which consisted of 500,000 stock options to purchase shares, at a price of €34.01. He also exercised, on December 19<sup>th</sup>, 2006, 100,000 stock options out of the total number of stock options granted by the Board of Directors on October 15<sup>th</sup>, 1998, which consisted of 100,000 stock options to purchase shares, at a price of €39.41.

Mr Jean-Paul Agon has not exercised any stock options since his appointment as Chief Executive Officer, on April 25<sup>th</sup>, 2006.

### Summary of trading by the corporate officers in L'Oréal shares in 2006

In €	Purchaser	Price per share	Gross amount purchase
February 17 <sup>th</sup> , 2006	Groupe	70.39	503,288.50
February 20 <sup>th</sup> , 2006	Marc de Lacharrière	71.275	498,925.00
April 28 <sup>th</sup> , 2006	(FIMALAC) <sup>(1)</sup>	73.40	225,631.60
May 2 <sup>nd</sup> , 2006		73.62	2,282,220.00
May 3 <sup>rd</sup> , 2006		73.61	1,177,760.00
May 5 <sup>th</sup> , 2006		74.09	1,333,620.00
May 8 <sup>th</sup> , 2006		74.57	745,700.00
May 9 <sup>th</sup> , 2006		73.97	601,645.95
May 10 <sup>th</sup> , 2006		72.73	509,110.00
May 11 <sup>th</sup> , 2006		72.20	1,444,000.00
May 12 <sup>th</sup> , 2006		70.84	1,416,800.00
May 15 <sup>th</sup> , 2006		69.56	1,112,960.00
May 16 <sup>th</sup> , 2006		69.33	485,310.00
May 17 <sup>th</sup> , 2006		68.94	1,378,800.00
May 18 <sup>th</sup> , 2006		67.11	268,440.00
May 22 <sup>nd</sup> , 2006		67.30	336,500.00
June 8 <sup>th</sup> , 2006		65.95	461,650.00
December 19 <sup>th</sup> , 2006	Sir Lindsay Owen-Jones,	34.01	8,502,500.00
December 19 <sup>th</sup> , 2006	Chairman of the Board of Directors <sup>(2)</sup>	39.41	3,941,000.00

(1) Legal entity related to Mr Marc Ladreit de Lacharrière, Director.

(2) Acquisition via the exercise of stock options to purchase shares.

## BUYBACK BY THE COMPANY OF ITS OWN SHARES

### Information concerning share buybacks made since January 1<sup>st</sup>, 2006

In 2006, the company bought back 16,813,000 of its own shares for an amount of €1,241.8 million, representing an average purchase price of €73.86 per share. Furthermore, between January 1<sup>st</sup> and February 14<sup>th</sup>, 2007, 867,000 shares were purchased, for a total amount of €66.5 million, representing an average purchase price of €76.73 per share. In all, between January 1<sup>st</sup>, 2006 and February 14<sup>th</sup>, 2007, the Company purchased 17,680,000 of its own shares, for an amount of €1,308.3 million, and an average purchase price of €74.00 per share.

These share buybacks were all made directly by the company, without being entrusted to an investment services provider, and without the use of derivatives. They gave rise, in 2006, to €2,450,362.40 in trading fees and, from January 1<sup>st</sup> to February 14<sup>th</sup>, 2007, to trading fees of €123,161.40, namely, for the entire period from January 1<sup>st</sup>, 2006 – February 14<sup>th</sup>, 2007, an amount of trading fees of €2,573,523.80.

The table set out below summarises the transactions carried out within this framework, and the use made of the shares bought back:

Date of authorisation of the Annual General Meeting	April 26 <sup>th</sup> , 2005 (11 <sup>th</sup> resolution)	April 25 <sup>th</sup> , 2006 (12 <sup>th</sup> resolution)	
Expiry date of the authorisation	April 25 <sup>th</sup> , 2006	October 24 <sup>th</sup> , 2007	
Maximum amount of authorised buybacks	10% of the capital at the date of the Annual General Meeting, i.e. 67,606,216 shares, for a maximum amount of €6,422 million	10% of the capital at the date of the Annual General Meeting, i.e. 65,876,966 shares, for a maximum amount of €6,258 million	
Maximum purchase price per share	€95	€95	
Authorised purposes	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth	Cancellation Share purchase options Free grants of shares Liquidity and market stabilisation External growth Other market practice authorised by the AMF	
Board of Directors' meeting that decided on the buyback	June 29 <sup>th</sup> , 2005	April 25 <sup>th</sup> , 2006	June 28 <sup>th</sup> , 2006
Purpose of buybacks	Cancellation	Cancellation	Cancellation
Period of buybacks made	January 1 <sup>st</sup> - April 25 <sup>th</sup> , 2006	April 26 <sup>th</sup> - June 26 <sup>th</sup> , 2006	June 30 <sup>th</sup> , 2006 - February 14 <sup>th</sup> , 2007
Number of shares purchased	4,600,000	3,708,000	9,372,000
Average purchase price per share	€70.13	€70.32	€77.36
Use of shares purchased	Cancellation: 4,600,000 <sup>(1)</sup> Other: none	Cancellation: 3,708,000 <sup>(2)</sup> Other: none	Cancellation: 9,372,000 <sup>(2)</sup> Other: none

(1) 4,420,000 shares cancelled by the Board of Directors at its meeting of April 25<sup>th</sup>, 2006, and 180,000 shares cancelled by the Board of Directors at its meeting on February 14<sup>th</sup>, 2007.

(2) Board of Directors' meeting of February 14<sup>th</sup>, 2007.

### Transactions carried out by L'Oréal with respect to its shares between March 11<sup>th</sup>, 2006 (the day following the date on which the report on the previous programme was prepared) and February 14<sup>th</sup>, 2007

Percentage of share capital held by the company directly and indirectly at February 14 <sup>th</sup> , 2007: (all intended to cover existing stock option plans to subscribe for shares)	3.4 %
Number of shares cancelled during the last 24 months	50,020,000
Number of shares held in the portfolio	21,142,600
Net book value of the portfolio	€1,535.6 million
Market portfolio value	€1,726.3 million

	Total gross transactions	
	Purchases	Sales/Transfers <sup>(1)</sup>
Number of shares	14,598,000	1,757,350
Average transaction price	€75.13	
Average exercise price		€48.33
Amounts	€1,096.7 million	€84.9 million

(1) Exclusively the exercise of stock options to purchase shares granted to employees and corporate officers of group companies.

No use was made of derivatives to make the share buybacks. There is no open buy or sell position as of February 14<sup>th</sup>, 2007.

### Renewal by the Annual General Meeting of the authorisation given to the Board to trade in the company's shares

By voting a new resolution, the Annual General Meeting will provide the Board of Directors with the means to enable it to continue its share buyback policy.

This authorisation would be given for a maximum period of 18 months as from the date of the Annual General Meeting and the purchase price per share could not exceed €120.

The company would be able to buy its own shares for the following purposes:

- their cancellation,
- their allocation to employees and corporate officers,
- stabilisation of the share price,
- retaining them and subsequently using them as payment in connection with external growth operations.

The authorisation would concern up to 10% of the share capital for a maximum amount of €7.5 billion, it being specified that the company may never at any time hold over 10% of its own share capital. In light of the number of its own shares held by the company at February 14<sup>th</sup>, 2007 representing 3.4% of the capital, i.e. 21,142,600 shares, the maximum percentage of share buybacks that may be made as of February 15<sup>th</sup>, 2007 amounts to 6.6%, i.e. an amount of €4,977.6 million on the basis of a maximum repurchase price of €120 per share.

Share purchases made within the scope of this authorisation may be made by any available means, either on or off the stock market and, in particular, in whole or in part through transactions involving blocks of shares or the use of derivatives.

**The Board of Directors**

# Notes to the Management Report

## 2006 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 6, the Chairman is required to present a supplementary Report, attached to the Management Report:

"The Chairman of the Board of Directors gives an account, in a Report attached to the Report mentioned in Articles L. 225-100, L. 225-102, L. 225-102-1 and L. 233-26, of the ways in which the Board's work is prepared and organised, and on the internal control procedures put in place by the company. Without prejudice to the provisions of Article L. 225-56, the report also indicates any limitations that the Board of Directors exercises on the powers of the Chief Executive Officer."

### The ways in which the Board's work is prepared and organised

The composition of the Board of L'Oréal, the rules it applies to its work, its *modus operandi*, and the work that it has carried out in the year, evaluated on an annual basis since 1996 by the directors during their 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 directors.

### A code of good conduct, regularly updated in accordance with legal requirements, regulations and recommendations

The Board conducts its work in accordance with Internal Rules (published in full as an appendix to the Management Report) 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.

These Rules were updated in 2006, when the Board decided to separate the roles of Chairman and Chief Executive Officer, in which context it appeared appropriate to specify the duties and roles of each. The Chairman of the Board of Directors organises and oversees the Board's work and reports thereon to the shareholders' Annual General Meeting. He is actively involved in defining the company's growth strategy and encourages and strengthens, *inter alia*, links between the company and the main economic players. The Chairman oversees the work of the company's bodies responsible for corporate governance and ensures, in particular, that the directors are able to perform their duties. He may ask for any document or information that is likely to assist

the Board of Directors in preparing for its meetings. The Chairman of the Board of Directors must use his best efforts to promote the values and image of the company at all times. The Chairman expresses his views in that capacity. He is provided with the material resources required to perform his duties.

The Chief Executive Officer, who may be the Chairman of the Board of Directors or another individual, is vested with the broadest powers to act in all circumstances in the name of the company. He must exercise these powers within the limit of the company's purpose subject to the powers expressly granted by French law to shareholders' meetings and the Board of Directors. The Chief Executive Officer represents the company in its dealings with third parties.

However, transactions which may materially impact the scope of consolidation of the company, in particular, transactions involving an amount in excess of €150,000,000, and all new transactions which are outside the normal course of business, must be submitted to the Board. In any event, the Board of Directors must be informed of the conclusion and implementation of all transactions.

Directors, who are required to act with due care and attention, again exercised their complete freedom of judgement in 2006. This freedom of judgement allowed them in particular to participate, in total independence, in taking the collective decisions of the Board, and, where applicable, in conducting preparatory work and making proposals through the Board Committees.

In order to participate in the discussions and to make well-informed decisions, each director must be provided with the documents and information required for the accomplishment of his or her duties and for the appropriate collective organisation of the Board's work.

### Best practices, ethical behaviour

The Board met six times in 2006, with an average attendance rate of 87.2%. The directors are diligent in performance of their duties and also attend the Annual General Meeting.

The Board constantly strives to apply a *modus operandi*, which strictly complies with legal requirements, and is also conducive to good corporate governance.

Appointed by 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 General Management, has contributed to setting up Insider Trading Rules within the group, and ensures they are regularly updated. On the basis of the legal provisions, regulations and recommendations, these rules point out that confidential information must only be passed on and used for professional purposes. Confidential information is precise information of a non-public nature, which, if made public, could have a significant influ-



ence on the share price of the Company. At L'Oréal, confidential 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 schedule for production and publication of annual and interim financial statements, 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 in possession of confidential 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 area may result in criminal proceedings.

The Internal Rules of the Board point out specifically that a director is requested to refrain from trading in L'Oréal shares in certain periods, if he has access, as a result of his particular functions, to confidential information.

Lastly, directors are required to notify the AMF of each transaction carried out by themselves or their close relatives and friends relating to L'Oréal shares.

#### **A Board that regularly reviews its *modus operandi* and assesses its organisation and the quality of its work**

The Board of Directors has adopted a method for assessing its work that is closely related to the concerns of directors, in the strict context of their 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.

On the proposal of the Board of Directors, the Annual General Meeting held in 2006 renewed 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 expired at that meeting.

The Board also thanked Mr Jean-Louis Dumas, who did not seek renewal of his tenure as a director in 2006. With all the experience that he acquired in an internationally prestigious enterprise, and all of his personal and moral qualities, Mr Dumas contributed a great deal to the Board of L'Oréal.

The Board lastly welcomed the appointment of Mr Jean-Paul Agon as a director.

The separation of the duties of Chairman and Chief Executive Officer in 2006 was considered to be a major event. The directors consider that the transition was well prepared and that the change in the organisational structure was a success and represents genuine progress.

Board meetings are considered to be lively and discussions are of an in-depth nature. The manner in which the directors express themselves is genuinely independent. The presence of senior managers in the meetings was greatly appreciated, and their presentations are considered to be of a high quality.

The volume and type of information specifically prepared for and provided to the directors is considered to be satisfactory. The Board expressed its wish that this be maintained in 2007, while ensuring itself at all times of the importance and relevance of such information in the context of the Board's duties and the preparation of its meetings.

#### **The board's work is facilitated and is constantly focussed on strategy**

During its meetings, the Board reviews numerous strategic aspects of the organisation and development of L'Oréal's activity.

Many subjects are dealt with throughout the year, usually in the presence of the senior managers concerned, enabling the Board to assess the strategic matters for the group and to take the corresponding decisions.

The Board's discussions and decisions are facilitated by the preparatory work performed by its Review Committees, which report to it regularly.

#### **Review Committees actively preparing the Board's work**

##### *The Strategy and Implementation Committee*

The remit of the Strategy and Implementation Committee is to clarify, through its analyses and debates, the group's strategic orientations as submitted to the Board of Directors, and to monitor the implementation and progress of significant operations in progress.

In particular, the Committee reviews the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences, acquisition opportunities, and financial transactions 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 maintaining key aspects of its financial structure.

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; moreover, an independent director is also part of this committee.

The Strategy and Implementation Committee met six times in 2006.

In 2006, in addition to trends in sales and results for L'Oréal internationally, the Committee particularly reviewed the share buyback programmes, the acquisition of The Body Shop, the strategic development of business in major countries, such as Japan and the United States, and the situation of the group's investment in Sanofi-Aventis.

##### *The Audit Committee*

The role of the Audit Committee is to ensure 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 routine and exceptional operations.

To successfully carry out its work, the Audit Committee interviews senior managers of the company, particularly those that are responsible for the preparation of the financial statements and for internal control. It also interviews Internal Audit team members.

The Audit Committee may be consulted on any question relating to procedures for controlling unusual risks, particularly when the Board or General Management considers it appropriate to submit such questions to it. Furthermore, if in the course of its work the Committee detects a substantial risk, which in its view is not adequately dealt with, it warns the Chairman of the Board accordingly. The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its duties, particularly managers with economic and financial responsibilities and those in charge of processing financial information.

The Audit Committee met four times in 2006, in the presence of all its members and the Statutory Auditors. It considered, and was reassured in this view by the Statutory Auditors, that the work performed by L'Oréal enables the financial statements to be prepared in a satisfactory and secure manner.

The Committee also noted the quality of internal control systems by reviewing them, in particular, with the company managers responsible for these areas, in accordance with the list of priorities it had set itself:

- the adequacy of provisions for litigation and claim contingencies related to the group's commercial and industrial activities,
- international insurance programmes,
- pension commitments,
- foreign currency hedging policy,
- the management reporting and consolidation system (organisation and frequency),
- the key components of the group's internal control projects.

#### **The Management and Remuneration Committee**

The main roles of the Management and Remuneration Committee are to enquire about the general remuneration policies applied in the group, to assist the Chairman and the Board in their deliberations on succession plans for the group's senior management positions, to consider the composition of the Board of Directors and any possible changes therein and 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).

The Management and Remuneration Committee thus makes proposals to the Board, each year, concerning remuneration and the grant of stock options, following completion of two independent analyses:

- an analysis of the performance of the group and of the performance of each corporate officer appointed by the Board, which leads it to present its proposals with regard to remuneration. Thus, at the start of each year, the Management and Remuneration Committee submits for decision to the Board the amount of the fixed part of the remuneration of each corporate officer and the rules and criteria for determining of the variable portion of their remuneration for the coming year, which is half based on an analysis of the group's performance through a review of major economic indicators, and half-based on an assessment of qualitative

aspects of management. At the end of the year, the Committee notes developments in these different areas and, on this basis, proposes a fixed amount for the variable part of the remuneration of each corporate officer for the past year to the Board,

- an analysis of prospects of an increase in the share price, which leads it to its proposals in terms of stock option grants, with the objective of providing an incentive to corporate officers in respect of the long-term increase in the value of the group and in the share price, in accordance with their contribution to this increase.

The Management and Remuneration Committee reports on its work to the Board of Directors; it can meet at any time it considers appropriate, for example to assess the performance of the company's Management.

The Committee met five times in 2006 in full independence, and, in addition to all of the questions that it reviews in the context of its remit, it prepared in particular its proposal to the Board of Directors regarding the separation of the duties of Chairman and Chief Executive Officer, including the definition and the limitations of the roles of each. The Board thus decided to update its Internal Rules.

Regarding the Chief Executive Officer's remuneration, the Board thought it appropriate to restate that, in accordance with the results of the Committee's work and with a view to good governance, it considers that on the appointment of a corporate officer, who has an employment contract with the company, the rights to indemnities or benefits under such a contract are not to be increased or decreased but simply kept at the same level, in accordance with the conditions set by applicable regulations.

L'Oréal has indeed a constant policy of treating such corporate officers as being equivalent to senior managers in terms of the company's benefit and welfare practices for all ancillary matters related to their remuneration.

In particular, in this respect, these corporate officers are covered by the same pension and protection schemes as senior managers.

#### **Internal control**

At the request of the Chairman of the Board of Directors and the Chief Executive Officer, the Administration and Finance Division compiled the information contained in this report based on the different tasks carried out by divisions working on internal control within the group. The resulting report was submitted to the Audit Committee.

#### **Objectives of internal control**

In L'Oréal, internal control is a process aimed at:

- creating and maintaining an organisation, 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 ("the group"),
- ensuring that economic and financial targets are achieved in compliance with the laws and regulations in force,
- making sure that the group's financial and accounting information is reliable and prepared truly and fairly, that the group's assets are valued and 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 if no absolute guarantee of total absence of risk can be given, in a control environment appropriate for the group's businesses.

### **The internal control environment**

The control environment, which is critical to the internal control system, good risk management and the application of procedures, is based on people, behaviour and the organisational structure. In L'Oréal, it forms part of a culture of rigour and commitment communicated by management and is also in line with the group's strategic choices.

### *The group's values*

L'Oréal has built up its business on the basis of strong values that have guided its development and contributed to making its reputation: integrity, loyalty, confidence and transparency, together with respect for the individual and diversity. These values are notably described in the code of business ethics.

This charter has been issued to all L'Oréal staff and is given to each new employee. This charter sets out the principles for action that each individual must comply with and 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 to 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."*

### *Organisational structure of the group*

The group is organised into Operational Divisions and geographical zones, which are fully responsible, with management of each country, business unit or industrial entity, for the achievement of the objectives set by the General Management. Functional Divisions bring their expertise to each Operational Division or geographical zone and are represented within these structures by specialists dedicated to the service of the Divisions and the zones. Specialists in management, logistics, information systems, human relations or industrial techniques form part of both operating and functional reporting structures. This matrix organisational structure facilitates communication of best practices and control of operations, while incorporating the specific aspects of different markets and distribution channels.

### *Human resources policy*

The quality and skills of staff are key components of the internal control system. Human resources policy within L'Oréal is defined by the constant search for excellence on recruitment and by the development of talent within the group, so as to ensure that it has the required level of skills in all areas. This also forms part of the group's diversity policy, which seeks to value and respect difference throughout the organisation. The centres for Continuing Education propose programmes in technical areas or

in assistance with integration or management that are tailored to different job profiles and have the goal of providing mastery of different skills in all areas of activity.

### **Risk management**

In order to ensure the sustainability of its development and the achievement of its objectives, the group constantly strives to anticipate and manage the risks to which it is exposed in its different areas of activity.

The systems whose purpose is to ensure control of the main operational and financial risks are described respectively in the Management Report in the "Risk factors" chapter and in the Insurance policy, and are also set out in note 23 to the consolidated financial statements "Derivatives and exposure to market risks". They are mainly composed of foreign currency risks and interest rate risks. In the area of foreign currencies, the group policy is to hedge at least 80% of the risk through forward purchases, sales, or using options, on the basis of operating budgets prepared for the coming year. To reduce the net exposure to interest rate risk, as the group refinances its activities mainly at floating rates, the policy is to use swaps and interest rate options traded with specific counterparts.

### **The players**

The main players involved in managing internal control are:

- the General Management, and in particular the Management Committee,
- the Audit Committee,
- the Functional Divisions,
- the Internal Audit Division,
- the Internal Control Division,

### *General Management, and in particular the Management Committee*

The role of the General Management is to define the general principles in the area of internal control and to ensure that they are correctly put in place.

Worldwide responsibilities for representation, co-ordination and internal control are entrusted to each of the members of the Management Committee. They rely on operational and functional managers, according to their respective areas of expertise, in the context of the matrix organisational structure defined above. Senior managers must ensure application of these general principles and ensure the correct operation of procedures enabling the level of internal control required by General Management to be attained.

### *The Audit Committee*

The Board of Directors has always asserted the importance that it attributes, with General Management, to internal control and to its main areas of application. Since its creation, the Audit Committee is responsible for monitoring actions undertaken in the area of internal control and it reports thereon to the Board of Directors. The Audit Committee particularly analyses the procedures which contribute to:

- compliance with accounting standards and regulations and the correct application of the principles on which the financial statements are based,

- reporting and processing information,
- application of internal control standards in the area of preparation of financial information,
- compliance with stock market regulations, and more specifically with the correct application of insider trading rules within the company.

The points which have been covered in Audit Committee meetings in 2006 are described above in the paragraph on “Review Committees involved in the preparation of the Board’s work”.

Each year, the Committee performs a review of the principles and methods, the programme, the objectives and the general conclusions of Internal Audit engagements. The Committee then prepares a report on its own deliberations to the attention of the Board of Directors.

#### *The Functional Divisions*

The Functional Divisions each define guidance and procedures for their own areas, which they communicate to the different countries and entities.

The main role of **the Administration and Finance Division** is to assist and control the Operational Divisions in their administrative, financial, legal and commercial logistics activities. It sets the operating rules that apply to all entities in these areas and is responsible for the definition and promotion of tools, procedures and best practices, particularly in the following areas: management control, accounting and consolidation, financing and treasury, tax, legal affairs, insurance, financial reporting, information systems, commercial logistics and non-production purchasing.

#### • In the area of Insurance

The group’s choice is to only have recourse to first-rate insurers and to give preference to the insurance of its client debt. The results of audits performed by insurance companies in the factories and distribution centres are used to improve the internal control of these entities.

#### • In the area of Information systems

Strategic choices in terms of systems are determined by the Administration and Finance Division, which is responsible for harmonisation of a single ERP (Enterprise Resource Planning, management software) for the great majority of subsidiaries and which issues directives in the area of systems’ security. The worldwide roll-out plan for the integrated software package also contributes to strengthening the reliability and the security of the process of production of information, notably accounting and financial information. In particular, in order to ensure correct segregation of duties among users, work is in progress on the user profiles and the formalisation of access rights.

**The Production and Technology Division** with its quality, packaging research, SHE (Safety Health Environment), production and logistics and purchasing (for production) departments defines standards and methods in the areas of production quality, safety and the environment. It assists the Operational Divisions in the definition and implementation of their manufacturing policies. A quality and safety audit programme for industrial sites is in place,

covering one third of sites per year. Its goal is to measure the performance and progress of entities in the areas of production quality, safety, health and the environment.

**The other Functional Divisions** involved in internal control are the Human resources Division, the Research and Development Division, which is responsible in particular for cosmetics vigilance and the quality of the formulae used in product composition, and the Communications and External Relations Division, which co-ordinates communications initiatives, prepares crisis management principles and ensures that they are applied. This Division is also responsible for the co-ordination of sustainable development initiatives.

#### **The Internal Audit Division**

The Internal Audit Division verifies the correct application of internal control processes. Internal Audit engagements are submitted to the General Management and the Audit Committee and, with the agreement of these bodies, are included in an annual audit plan. The choice of engagements notably takes into account the assessment of the most important risks identified by the heads of the Divisions and the geographical zones. The size, contribution to key economic indicators and length of existence of the entities, together with the pattern of their development, are factors that are also taken into consideration.

Internal Audit carried out 47 engagements in 2006 of which 32 concerned commercial entities representing 29.3% of the group’s sales. In addition, Internal Audit carried out four audits of factories representing 12% of worldwide production in units and eleven specific engagements, which were performed after a prior definition of their objectives. Internal audit engagements lead to the preparation of a report comprising a presentation of the findings, related risks and recommendations regarding the action plan to be put in place by the audited entity.

The action plans are regularly monitored by the Internal Audit Division, which measures the rate of progress weighted by level of risk, in close co-ordination with the Divisions and zones in question. The summary of performance and results of engagements and of progress with action plans are presented to the Audit Committee.

In addition, cross-functional analyses of possible weaknesses enable identification of areas for improvement and strengthening of procedures, in co-ordination with the Internal Control Department. In 2006, a kit of specific transactions on the group’s integrated ERP software package contributed to increased effectiveness of internal audit engagements.

Internal Audit shares the results of its audits with the Statutory Auditors.

#### **The Internal Control Department**

This Department, which was created in 2005 and is separate from Internal Audit, continues to distribute the *Fundamentals of internal control*; a manual summarising standards, charters, procedures and best practices. The Internal Control Department has created and co-ordinates training modules designed to ensure that operational staff take on board the tools and techniques made available to them. Together with all applicable procedures, these are available on an Intranet site.

The Internal Control Department, with the group's experts in its various disciplines, strives to improve understanding of internal control rules. Lastly, if applicable, this new Department monitors and anticipates regulatory changes in order to adapt the group internal control system as required.

### Reference texts, standards and procedures

The charters, codes, standards, rules, procedures and best practices are summarised in the *Fundamentals of internal control*, the reference framework within which the group's operational activities must be placed, in the form of a summary sheet by area. This document has been validated by the experts in the different disciplines and presented to the Management Committee. Each summary sheet refers to the group's detailed procedures. An approach by function brings together the right questions that need to be asked in order to identify areas for improvement.

This reference framework includes the following components:

- in the area of human resources, in addition to the ethics charter referred to above, the requirements in the area of personnel management set out rules concerning documents to be provided to employees, dealing with such employees and charges in relation to them, control and monitoring of payroll, and procedures for recruitment, training and assessment,
- in the legal area, the legal charter notably sets out limitations of powers, the internal principles for signature on behalf of the company, the general and specific rules relating to contracts, trademark law, patents, intellectual property, company law and competition law, and emphasise that compliance with local legislation is compulsory. The Insurance charter reaffirms that the group mainly uses integrated worldwide programmes to cover all its entities against third party liabilities, damage to property and operating losses resulting from an insured event,
- in the safety and quality area, procedures relating to the protection of property, data and persons, including in particular the internal rules issued by the group's Production and Technology Division, set out the principles for covering industrial and logistical risks relating to organisation and safety. In addition, production quality standards define rules governing the quality of products, for all stages from design to production to distribution. The majority of factories are ISO 9001 certified,
- in the area of finance and treasury, the insider trading rules referred to above in the section concerning the way in which the Board's work is prepared and organised are applicable to all employees in question. In addition, the financial charter and the foreign currency risk management standard specify, in particular, the principles to be applied by group entities to ensure that management of foreign currency risk is both prudent and centralised,
- in the area of purchasing, the *Expense Commitment Request* procedure has the purpose of facilitating and strengthening control of the spending of group entities, and exists in conjunction with the general purchasing and payment conditions,
- in the area of commercial logistics, the main logistics principles cover inventory management, subcontracting, transport, product traceability, the business continuity plan, best practices with respect to general conditions of sale, pricing and contracts, invoicing methods,

control of sales policies, management of customer returns and customer disputes and management of customer credit,

- in the area of information systems, the information technology security charter, which includes confidentiality precautions and management of contingency plans, also contains rules governing best practices for the use of workstations, management and administration of servers and the choice of software applications. The Security Framework policy, aligned on standard ISO17799, has been formalised, with distribution to all group entities of a self-assessment tool. The crisis management procedure has been strengthened,
- in the area of consolidation and management control, the applicable issues are described in the following paragraph.

### Internal control systems relating to the preparation and processing of financial and accounting information

#### Scope and objectives

The scope of application of internal control procedures relating to the preparation and processing of financial and accounting information encompasses the parent company and all subsidiaries included in the consolidated financial statements.

For processes that contribute to accounting figures, the process of preparation of financial information and the accounts closing processes, internal control systems aim to ensure:

- compliance with accounting standards and regulations and the correct application of the principles on which the financial statements are based,
- the quality of reported information that contributes to the preparation of the published financial statements and the reliability of their centralised treatment by the group with a view to their internal and external distribution,
- control of the production of financial, accounting and management information,
- protection of assets.

#### Organisation

The preparation of the group's consolidated results is the responsibility of the Economic Affairs Division, which forms part of the Administration and Finance Division. The presence of a financial controller, at each level of the matrix organisational structure, who reports both operationally and functionally, contributes to the strengthening of internal control systems. This network of subsidiary financial controllers is co-ordinated by the Economic Affairs Department in close liaison with the financial controllers of the Operational Divisions and the geographical zones.

For the preparation of the consolidated financial statements, validation procedures apply to each stage of the process of reporting and processing information. On a half-yearly basis, their purpose is to verify in particular that:

- intercompany transactions are correctly adjusted and eliminated,
- consolidation operations are validated,
- standards are correctly applied,
- the consolidated published accounting and financial figures are harmonised and that, in particular, accounting figures and management figures used in the preparation of the financial information are consistent.

The reporting and consolidation system, used by all entities, provides assurance of the consistency and reliability of figures at the level of each subsidiary, through blocking controls that operate before the figures are uploaded to group level. In this area, the operating profit and loss account by function, which is common to both management reporting and accounting, contributes to strengthening the control of individual captions through the use of an identical reference framework for both areas.

In addition, the group's organisation, which is based on reporting from each subsidiary that is provided directly to the parent company by each country, without preparation of any intermediate aggregates, enables optimisation of the transfer and completeness of the information, and in particular enables the accuracy of the foreign exchange conversion rates to be controlled. Twice a year, the managing director and the finance director of each subsidiary make joint commitments as to the quality, reliability and completeness of the financial information that they have prepared and sent to the group's Economic Affairs Department. They do this by jointly signing a representation letter.

#### *Accounting and financial procedures*

The group has put in place a set of accounting and management reporting policies, which must be obligatorily applied by all consolidated subsidiaries, and which enable reliable financial information to be provided:

**Accounting standards:** these set out the principles required for harmonised accounting treatment of transactions. They specify in particular the means of identification and measurement of off-balance sheet commitments. They are in accordance with IFRS, the new accounting standards framework applicable to the consolidated financial statements since 2005. The group Accounting Department continues to monitor new IFRS standards under preparation with a view to both alerting as to, and anticipating as well as possible, their effects on the group's financial statements.

**The chart of accounts:** it provides the definitions and the methodology for the preparation of the reporting required for the preparation of the financial statements.

**Management reporting standards:** they specify in addition the rules applicable to the valuation of certain significant accounts in the Balance Sheet and the Profit and Loss Account.

The system for monthly reporting of various economic indicators also enables developments in the performance of each entity to be monitored in a continuous and harmonised manner. It also enables assurance to be obtained that such performance is in line with the objectives set for them.

Processing and pooling of cash flows and hedging of foreign currency and interest rate risks is carried out by the Financial Services Department, which is in charge of identification of commitments enabling their accounting recognition.

Investment plans are approved by the Management Committee and all changes compared to forecasts must obtain prior specific authorisation.

The Internal Control Department has initiated a formalised analysis of the major accounting and financial risks for the Company, addressing the processes in subsidiaries, which contributed to the main captions in the group's accounts. The objective of this analysis is to verify that systems of key controls exist to cover each risk identified.

#### *The Statutory Auditors*

All accounting and financial information prepared by consolidated subsidiaries is, at a minimum, subjected to a limited review at the time of the half-year closing process and to an audit at year-end, by the external auditors. Audit engagements in the countries in which the group operates are almost all entrusted to members of the networks of the two Statutory Auditors who, after having jointly performed the review of the group's accounts and the manner in which they were prepared, are responsible for issuing an opinion on the group's consolidated financial statements. The Statutory Auditors issue an opinion as to whether the consolidated financial statements and parent company financial statements give a true and fair view. They are kept informed as from the early stages of preparation of the financial statements and present an overview of their work to the group's accounting and finance managers and to the Audit Committee at the time of the half-year and annual closing.

#### *Financial communication*

Managers in charge of financial communications prepare a precise timetable for provision of up-to-date information on the group to the financial markets. This timetable is communicated within the group and complies with the requirements of market authorities. These managers ensure, with the assistance of the Legal Division, that communications are made within the required deadlines and in accordance with laws and regulations, which they constantly monitor. Their role is also to transmit with precision and accuracy the information provided by the Economic Affairs Department, the Legal Department and the Administration and Finance Division. All material information communicated to the financial community reflects with truth and transparency the situation and activity of the group and is carried out in accordance with the principle of equal provision of information to all shareholders.

#### **Chairman of the Board of Directors**

## INFORMATION ABOUT CORPORATE OFFICERS

### List of offices and directorships held by corporate officers during the last five years

<b>Sir Lindsay Owen-Jones</b>	Expiry date of term of office
<b>Chairman of the Board</b>	<b>2010</b>
<b>Chairman of the “Strategy and Implementation” Committee</b>	
<b>Professional address:</b> L’Oréal – 41 rue Martre – 92117 Clichy cedex – France	
<b>Holds 2,529,005 L’Oréal shares</b>	

#### Other corporate offices and directorships held

##### French companies

Alba Plus SASU	Chairman [since July 4 <sup>th</sup> , 2006]
L’Air Liquide SA	Vice-Chairman of the Board
Sanofi-Aventis SA	Director

##### Foreign companies

Ferrari Spa (Italie)	Director ( <i>Amministratore</i> )
L’Oréal U.K. Ltd (United Kingdom)	Chairman & Director
L’Oréal USA Inc. (United States)	Chairman & Director

#### Corporate offices and directorships over the last five years that have expired

#### Expiry date of term of office

##### French companies

L’Air Liquide SA	Vice-Chairman of the Supervisory Board	May 2006
BNP Paribas SA	Director	December 2005
L’Oréal SA	Chief Executive Officer	April 2006
Gesparal SA ( <i>merged into L’Oréal</i> )	Director	April 2004

##### Foreign company

Galderma Pharma (Switzerland)	Director	May 2006
	Chairman of the Board	May 2004

### Jean-Paul Agon

#### Expiry date of term of office

#### Chief Executive Officer since April 25<sup>th</sup>, 2006

**Professional address:** L’Oréal – 41 rue Martre – 92117 Clichy cedex – France  
**Holds 11,500 L’Oréal shares**

#### Other corporate offices held

##### Foreign companies

Galderma Pharma SA (Switzerland)	Chairman of the Board and director ( <i>since May 1<sup>st</sup>, 2006</i> )
L’Oréal USA Inc. (United States)	Director
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director ( <i>since June 12<sup>th</sup>, 2006</i> )

#### Main corporate offices and directorships <sup>(1)</sup> over the last five years that have expired

#### Expiry date of term of office

##### French company

L’Oréal SA	Deputy Chief Executive Officer	April 2006
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##### Foreign companies

L’Oréal Canada (Canada)	Director and Chairman of the Board	June 2005
L’Oréal USA Inc. (United States)	President & Chief Executive Officer	June 2005

(1) Mr Jean-Paul Agon has also held various corporate offices and directorships over the last five years in group companies that are subsidiaries of L’Oréal USA where he was President and Chief Executive Officer until June 2005.

<b>Jean-Pierre Meyers</b>	<b>Expiry date of term of office</b>
<b>Director</b>	<b>2009</b>
<b>Vice-Chairman of the Board</b>	
<b>Member of the Audit Committee</b>	
<b>Member of the "Strategy and Implementation" Committee</b>	
<b>Professional address:</b> Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France	
<b>Holds 15,332 L'Oréal shares</b>	

**Other corporate offices and directorships held**

**French companies**

Gespral SA	Director
Téthys SAS	Chief Executive Officer Member of the Supervisory Board

**Foreign company**

Nestlé SA	Director
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**Other**

Fondation Bettencourt Schueller	Vice-Chairman of the Board
Fondation Ophthalmologique Adolphe de Rothschild	Director

**Corporate offices and directorships over the last five years that have expired**

**Expiry date of term of office**

**French company**

Gesparal SA (merged into L'Oréal)	Director	April 2004
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<b>Peter Brabeck-Letmathe</b>	<b>Expiry date of term of office</b>
<b>Director</b>	<b>2009</b>
<b>Vice-Chairman of the Board</b>	
<b>Member of the “Management and Remuneration” Committee</b>	
<b>Member of the “Strategy and Implementation” Committee</b>	
<b>Holds 1,000 L’Oréal shares</b>	

**Main corporate office held outside L’Oréal**

Nestlé SA (Switzerland)

Chairman of the Board  
Chief Executive Officer**Professional address:** Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland**Other corporate offices and directorships held****Foreign companies**

Credit Suisse group (Switzerland) Director

Roche Holding SA (Switzerland) Director

Uprona (Canada) Ltd (Canada) Director

**Other**

Cereal Partners Worldwide (Switzerland) Co-Chairman of the Supervisory Board

ECR Europe (Belgium) Co-Chairman of the Executive Board (since October 19<sup>th</sup>, 2006)

Forum Economique Mondial (Switzerland) Member of the Foundation Board

Table Ronde des Industriels Européens (Belgium) Member

**Corporate offices and directorships over the last five years that have expired****Expiry date of term of office****French company**

Gesparal SA (merged into L’Oréal) Director April 2004

**Foreign companies**

Alcon, Inc (Switzerland) Vice-Chairman of the Board May 2006

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

Dreyer’s Grand Ice Cream Holdings, Inc (United States) Vice-Chairman of the Board March 2006

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

<b>Liliane Bettencourt</b>	<b>Expiry date of term of office</b>
<b>Director</b>	<b>2007</b>
<b>Chairwoman of the “Management and Remuneration” Committee</b>	
<b>Member of the “Strategy and Implementation” Committee</b>	
<b>Professional address:</b> Téthys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France	
<b>5,633 L’Oréal shares held in absolute ownership and 185,654,833 L’Oréal shares held in absolute ownership or beneficial ownership by Téthys, a company of which Mrs Bettencourt is the Chairwoman.</b>	

**Other corporate offices and directorships held**

**French companies**

Clymene SAS	Chairwoman
Eugène Schueller SARL	Managing Director
Gespral SA	Chairwoman of the Board of Directors
Téthys SAS	Chairwoman Chairwoman of the Strategy Committee Member of the Supervisory Board

**Other**

Fondation Bettencourt Schueller	Chairwoman
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**Corporate offices and directorships over the last five years that have expired** **Expiry date of term of office**

**French companies**

Compagnie Nouvelle d’Investissement SA (dissolved)	Director	June 2005
Gesparal SA (merged into L’Oréal)	Director	April 2004

**Françoise Bettencourt Meyers** **Expiry date of 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 and 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
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**Corporate offices and directorships over the last five years that have expired** **Expiry date of term of office**

**French company**

Gesparal SA (merged into L’Oréal)	Director	April 2004
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<b>Werner J. Bauer</b> <b>Director</b> <b>Holds 1,000 L'Oréal shares</b>	<b>Expiry date of term of office</b> <b>2009</b>
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**Main corporate office held outside L'Oréal**

Nestlé SA (Switzerland)	Executive Vice-President
<b>Professional address:</b> 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
Nestlé Deutschland AG (Germany)	Member of the Supervisory Board (since January 1 <sup>st</sup> , 2006)
Nutrition-Wellness Venture AG (Switzerland)	Director
Sofinol SA (Switzerland)	Director and Chairman (since June 29 <sup>th</sup> , 2006)
Uprona (Canada) Ltd (Canada)	Director

**Other**

Bertelsmann Foundation (Germany)	Member of the Board of Trustees
Cereal Partners Worldwide (Switzerland)	Member of the Supervisory Board
Société Suisse des Industries Chimiques (Switzerland)	Board Member

**Corporate offices and directorships over the last five years that have expired****Expiry date of 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
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

**Francisco Castañer Basco****Expiry date of term of office**

<b>Director</b> <b>Member of the Audit Committee</b> <b>Member of the "Strategy and Implementation" Committee</b> <b>Holds 1,500 L'Oréal shares</b>	<b>2010</b>
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**Main corporate office held outside L'Oréal**

Nestlé SA (Switzerland)	Chief Executive Officer
<b>Professional address:</b> Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland	

**Other corporate offices and directorships held****Foreign companies**

Alcon Inc. (Switzerland) (formerly Alcon Universal)	Director
	Vice-Chairman (since May 2 <sup>nd</sup> , 2006)
Galderma Pharma SA (Switzerland)	Director
Uprona (Canada) Ltd (Canada)	Director

**Corporate offices and directorships over the last five years that have expired****Expiry date of term of office****French company**

Gesparal SA (merged into L'Oréal)	Director	April 2004
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**Foreign companies**

Alcon Laboratories, Inc. (United States)	Director	April 2002
Galderma Pharma SA (Switzerland)	Chairman of the Board	May 2006

**Jean-Louis Dumas****Director****Member of the “Management and Remuneration” Committee**} Until April 25<sup>th</sup>, 2006**Other corporate offices and directorships held<sup>(1)</sup>****French companies**

Berfa SC	Managing Director
Emile Hermès SARL	Managing Director
Gaulme SA	Honorary Chairman of the Supervisory Board
Hermès Sellier SAS	Member of the Management Board
SCI du Faubourg Saint Honoré “SIFAH”	Managing Director

**Corporate offices and directorships over the last five years that have expired<sup>(1)</sup>****Expiry date of term of office****French companies**

Gaulme SA	Vice-Chairman and Member of the Supervisory Board	October 2006
Gaumont SA	Director	October 2002
Hermès International SCA	Active Partner	March 2006
Hermès Sellier SA	Director, Artistic Director	March 2006
Peugeot SA	Member of the Supervisory Board	June 2006
SIN REJAC SA	Permanent representative of Sport Soie, Director	July 2002
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**

Financière Saint-Eloi (Luxembourg)	Permanent representative of Hermès International, Director
Leica Camera (Germany)	Member of the Supervisory Board

(1) Mr Dumas has also held various corporate offices and directorships in other companies of the Hermès group.

**Xavier Fontanet****Director****Chairman of the Audit Committee****Holds 1,000 L'Oréal shares****Expiry date of term of office****2010****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
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**Foreign companies**

EOA Holding Co. Inc. (United States)	Director
Essilor of America Inc. (United States)	Director
Essilor Manufacturing India PVT Ltd (India)	Director (since March 1 <sup>st</sup> , 2006)
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 over the last five years that have expired****Expiry date of term of office****French company**

Chantiers Beneteau SA	Director	January 2005
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**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
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<b>Bernard Kasriel</b>	<b>Expiry date of term of office</b>
<b>Director</b>	<b>2008</b>
<b>Member of the “Management and Remuneration” Committee</b>	
<b>Member of the “Strategy and Implementation” Committee</b>	
<b>Holds 1,290 L’Oréal shares</b>	

**Main corporate office held outside L’Oréal**

LBO France Partner and Member of the Management Board (since September 2006)  
**Professional address:** 148 rue de l’Université – 75007 Paris – France

**Other corporate offices and directorships held****French companies**

Arkema SA	Director (since May 10 <sup>th</sup> , 2006)
Lafarge SA	Director

**Foreign companies**

Nucor (United States)	Director (since January 1 <sup>st</sup> , 2007)
Sonoco Products Company (United States)	Director

**Corporate offices and directorships over the last five years that have expired****Expiry date of term of office****French companies**

Edifixio SAS	Director	2006
Lafarge SA	Vice-Chairman and Chief Executive Officer	May 2003
	Chief Executive Officer	December 2005

**Foreign companies**

Blue Circle North America (United States)	Director	December 2006
Compagnie Coppée de Développement Industriel (Belgium)	Director	May 2004
Lafarge North America (United States)	Vice-Chairman of the Board	December 2005
	Director	November 2006
Lafarge Roofing GmbH (Germany)	<i>Aufsichtsratsvorsitzender</i> (Member of the Supervisory Board)	July 2006
Sabelfi (Belgium)	Director	May 2006
Ybitas Lafarge (Turkey)	Director	March 2004

<b>Marc Ladreit de Lacharrière</b>	<b>Expiry date of term of office</b>
<b>Director</b>	<b>2010</b>
<b>Holds 40,040 L'Oréal shares</b>	

**Main corporate office held outside L'Oréal**

F. Marc de Lacharrière (Fimalac)

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	Chairman of the Management Board (since December 18 <sup>th</sup> , 2006)
Renault SA	Director
Renault SAS	Director

**Foreign companies**

Algorithmics (Canada)	Director (since January 2006)
Fitch group Inc. (United States)	Chairman
Fitch Inc. (United States)	Chairman

**Other**

American Friends of the Louvre	Member
Association Les Amis de Vaux-le-Vicomte	Member (since January 12 <sup>th</sup> , 2006)
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
Institut de France	Member
Musée des Arts Décoratifs	Member (since January 1 <sup>st</sup> , 2006)
Société des Amis du Louvre	Member
Société des Amis du Musée du Quai Branly	Member

**Corporate offices and directorships over the last five years that have expired****Expiry date of term of office****French companies**

Casino	Member of the Supervisory Board	September 2003
Canal+ SA	Director	August 2003
Euris	Observer	November 2003
Fimalac Investissements SA	Director	November 2003
Groupe Flo SA	Member of the Supervisory Board	October 2002
Groupe Marc de Lacharrière	Managing Director	December 2006
Lille Royale SA	Director	April 2002
SCI Onzain-Ars	Managing Director	June 2003
Sibmar SC	Managing Director	February 2004

**Foreign companies**

Cassina (Italie)	Director	June 2005
Fitch group Holdings (United States)	Chairman	2006
Engelhard-Cial (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

<b>Franck Riboud</b>	<b>Expiry date of term of office</b>
<b>Director</b>	<b>2010</b>
<b>Holds 1,000 L'Oréal shares</b>	

**Main corporate office held outside L'Oréal**

Groupe Danone	Chairman & Chief Executive Officer and Chairman of the Executive Committee
<b>Professional address:</b> 17 boulevard Haussmann – 75009 Paris – France	

**Other corporate offices and directorships held****French companies**

Accor SA	Member of the Supervisory Board
Lacoste France SA	Director (since June 22 <sup>nd</sup> , 2006)
Renault SA	Director
Renault SAS	Director

**Foreign companies**

Bagley LatinoAmerica SA (Spain)	Director
Danone SA (Spain)	Director
ONA (Maroc)	Director
Wadia BSN India Ltd (India)	Director

**Other**

Association Nationale des Industries Agroalimentaires	Director
Conseil National du Développement durable	Member, representative of Danone group
Fondation Gain (Global Alliance for Improved Nutrition)	Director (since May 15 <sup>th</sup> , 2006)
International Advisory Board HEC	Director

**Corporate offices and directorships over the last five years that have expired****Expiry date of term of office****French companies**

Compagnie Gervais Danone SA	Chairman of the Board	October 2006
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
Finalim III SAS	Representative of Cie Gervais Danone, Chairman	October 2006
Finalim IV SAS	Representative of Cie Gervais Danone, Chairman	October 2006
Générale Agro-Alimentaire de Participations SAS	Representative of Cie Gervais Danone, Chairman	October 2006
Générale Biscuit SA	Chairman of the Board	October 2006
Lu France	Permanent representative of Générale Biscuit	August 2004
Produits Laitiers Frais Nord Europe (formerly Sageb SAS)	Representative of Cie Gervais Danone, Chairman	March 2005
Société des Eaux de Volvic	Permanent representative of Cie Gervais Danone	February 2002

**Foreign companies**

Abi Holdings Ltd (ABIH) (United Kingdom)	Director	December 2004
Associated Biscuits International Ltd (ABIL) (United Kingdom)	Director	December 2004
Danone Asia Pte Ltd (Singapore)	Chairman and Director	November 2006
PT Tirta Investama (Indonesia)	Commissioner	January 2005
Quiksilver (United States)	Director	August 2006
Scottish & Newcastle Plc (United Kingdom)	Director	November 2003
Sofina SA (Belgium)	Director	May 2006
Strauss Dairy Limited (Israel)	Director	April 2002

**Other**

ANSA	Director	February 2005
Banque de France	Member of the Consultative Council	May 2004

<b>Louis Schweitzer</b> <b>Director</b> <b>Holds 2,000 L'Oréal shares</b>	<b>Expiry date of term of office</b> <b>2009</b>
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**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
Philips (Netherlands)	Vice-Chairman of the Supervisory Board

**Other**

Banque de France	Member of the Consultative Council
Comité des Salons	Chairman (since November 2006)
Festival d'Avignon	Chairman
Fondation Nationale des Sciences Politiques	Member of the Board
Haute Autorité de Lutte contre les Discriminations et pour l'Égalité	Chairman
Institut Français des Relations Internationales	Member of the Board
Le Cercle de l'Orchestre de Paris	Chairman of the Board
Musée du Louvre	Member of the Board
Musée du Quai Branly	Director
Société des Amis du Musée du Quai Branly	Chairman

**Corporate offices and directorships over the last five years that have expired****Expiry date of term of office****French companies**

Compagnie Financière Renault (dissolved)	Director	June 2003
RCI Banque (formerly called Renault Crédit International)	Director	February 2005
Renault	Chairman and Chief Executive Officer	April 2005

**Foreign company**

Renault-Nissan B.V. (Netherlands)	Chairman of the Management Board	April 2005
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**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 with regard to 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 concert with the above parties (see "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 3<sup>rd</sup>, 2004 ("the Agreement") on the one hand by Mrs Liliane Bettencourt and her family, and on the other hand by Nestlé, published on February 5<sup>th</sup>, 2004 (see details in the "Information concerning the share capital" section in the Management Report), providing for an undertaking by the parties to vote in favour of the appointment as directors of three members put forward by the other party.



### Restrictions accepted by the corporate officers concerning the disposal, over certain time periods, 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 "Information concerning the share capital" section of the Management Report) and rules relating to the prevention of 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 do not have a service contract with L'Oréal or any of its subsidiaries 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 a board of directors, management or supervisory board or been prevented from being involved in managing or conducting the business of an issuer.

## INTERNAL RULES OF THE BOARD OF DIRECTORS

### Preamble

These Rules are applicable to all present and future directors, and are intended to complement the legal, regulatory and statutory rules in order to state accurately the *modus operandi* of the Board of Directors and its Review Committees, in the best interests of the company and of its shareholders.

### 1 - Duties and authority of the Board of Directors

#### 1.1 - Board of Directors

The Board of Directors determines the company's business strategy and oversees the implementation thereof.

Subject to the powers expressly conferred on general shareholders' meetings and within the limit of the company's purpose, the Board deals with all matters regarding the smooth running of the company and settles issues concerning the company by virtue of its decisions.

The Board of Directors carries out the controls and verifications it considers appropriate. The company's Chairman or Chief Executive Officer must provide each director with all of the documents and information required to carry out his/her duties.

The Board of Directors may entrust one or more of its members or third parties with special assignments or projects with a view, *inter alia*, to examining one or more specific topics.

It can decide to set up Committees responsible for examining matters submitted by the Board or its Chairman for their opinion.

The directors of the company:

- provide their expertise and 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.

#### 1.2 - Chairman of the Board of Directors

The Board of Directors must elect a Chairman from among its members.

The Chairman of the Board of Directors organises and oversees the Board's work and reports thereon to the Shareholders' Annual General Meeting. The Chairman is actively involved in defining the company's growth strategy and encourages and strengthens, *inter alia*, links between the company and the main market players.

The Chairman oversees the work of the company's bodies responsible for corporate governance and ensures, in particular, that the directors are able to perform their duties. He may ask for any document or information that is likely to assist the Board of Directors in preparing for its meetings.

The Chairman of the Board of Directors must use his best efforts to promote the values and image of the company at all times. The Chairman expresses his views in that capacity. He is provided with the material resources required to perform his duties.

#### 1.3 - Form of General Management

The Board of Directors determines the form of the company's General Management.

General Management of the company is carried out, under his responsibility, by either the Chairman of the Board of Directors or by another individual appointed by the Board of Directors with the position of Chief Executive Officer.

The Board of Directors chooses one of these two forms of General Management upon the appointment or renewal of the tenure of the Chairman of the Board or the Chief Executive Officer.

The Board of Directors consistently aims to ensure the ongoing and continued implementation by the General Management of the strategic orientations defined by the Board.

To this end, the Board entrusts its Chairman with the task of developing and maintaining an ongoing, trusting relationship between the Board of Directors and the Chief Executive Officer.

#### 1.4 - Powers of General Management

The Chief Executive Officer, who may be the Chairman of the Board of Directors or another individual, is vested with the broadest powers to act in all circumstances in the name of the company. He must exercise these powers within the limit of the company's purpose subject to the powers expressly granted by French law to shareholders' meetings and the Board of Directors. However, transactions which may materially impact the scope of consolidation of the company, in particular, transactions involving an amount in excess of €150,000,000, and all new transactions which are outside the normal course of business, must be submitted to the Board.

In any event, the Board of Directors must be informed of the conclusion and implementation of all transactions.

The Chief Executive Officer represents the company in its dealings with third parties.

Upon a proposal by the Chief Executive Officer, the Board of Directors may appoint one or more individuals responsible for assisting the Chief Executive Officer, who will hold the corporate office of Deputy Chief Executive Officer(s).

## 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 provide 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 the 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 for 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 or telecommunication facilities

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 or telecommunication facilities are deemed to be present for the purpose of calculating the quorum and the majority.

However, these facilities may not be used when the Board is deliberating on any of the following points:

- the closing of the parent company financial statements and the consolidated financial statements,
- the preparation 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 provided 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 or telecommunication facilities. The minutes also indicate whether any technical incidents occurred during a meeting held by means of videoconference or telecommunication facilities, 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 or telecommunication 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 meeting held by videoconference or telecommunication facilities.

## 3 - Review Committees

If the Board of Directors sets up any Review Committees, the Board will appoint the members of these Committees and determine their duties and responsibilities.

The Committees act within the remit granted to them by the Board and therefore have no decision-making power.

The Board may entrust to the Chairman of the Committee or one or more of its members with a special assignment or project to carry out specific research or study future possibilities.

The designated individual will report on this work to the Committee concerned such that the Committee may deliberate on this work and in turn report thereon to the Board of Directors.

### 3.1 - Audit committee

#### 3.1.1 Remit

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 preparation 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 the company.

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 preparing 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 Department.

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 Remit

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 corporate officers appointed by the Board on two occasions.

The Committee must submit the following matters to the Board for it to make a decision:

- at the beginning of each financial year, the amount of the fixed portion of the remuneration to be awarded to each corporate officer for the following year,
- at the end of each financial year, the amount of the variable portion of the remuneration awarded to each corporate officer for the past year,
- 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 - Strategy and Implementation Committee

### 3.3.1 Remit

The remit of the Strategy and Implementation Committee 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 or 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 Strategy and Implementation Committee 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 Strategy and Implementation Committee 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 4.6.

### 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 or telecommunication facilities, all 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 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 5, 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 the company's 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 Articles 621-1 *et seq.* of the General Regulations of the French financial markets supervisory authority (AMF).

#### 4.6.4 Obligation of declaring trading in the securities of the company

In accordance with the applicable regulations, the directors and individuals closely related to them, as defined by decree, must inform the AMF of all acquisitions, sales, subscriptions or exchanges involving the company's financial instruments and of transactions involving related instruments where the cumulative amount of such transactions is higher than €5,000 for the calendar year in progress.

The directors and individuals closely related to them must submit their declaration to the AMF by e-mail ([declarationdirigeants@amf-france.org](mailto:declarationdirigeants@amf-france.org)) within five trading days following completion of the transaction.

Within this same five-day time limit, these individuals or, upon their request, the custodian of their account, must remit the notice pertaining to execution of the transaction to the AMF.

These individuals must simultaneously provide a copy of this notice to the Secretary of the company's Board of Directors.

The declarations are then posted on the AMF's website and are mentioned in an annual summary set out in the company's management report.

### 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 the corporate officers

### 5.1 - Remuneration of directors

The directors receive 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, which amount is doubled for the Committee's Chairman.

The Board of Directors may award the directors special remuneration for specific assignments or projects entrusted to them.

### 5.2 - Remuneration of the corporate officers appointed by the Board

The Board of Directors sets the remuneration of the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers as it sees fit.

Upon the appointment by the Board of Directors of a corporate officer who has an employment contract with the company, the terms of the contract that also relate to his tenure are suspended. To ensure good corporate governance, the Board of Directors considers that, upon the appointment of a corporate officer who has an employment contract with the company, the rights to indemnities or benefits arising from said contract must not be increased or reduced; they must simply be maintained in accordance with French law.

Therefore, the Board has an ongoing policy of considering corporate officers who have an employment contract with the company as senior executives within the meaning of the company's employment-related practice with regard to any amounts ancillary to their remuneration.

In this respect, these corporate officers will, in particular, be covered by the same pension and welfare funds as senior executives. During their tenure, the fringe benefits of corporate officers are determined based on their total length of service (in relation with their employment contract and corporate office) within the company.

In order to calculate the basis for these benefits, in particular where this is a multi-annual basis, periods of activity in relation with both the employment contract and corporate office are taken into account.

At the end of their tenure, the corporate officers' employment contracts automatically resume full effect and the last amount of the fixed portion of remuneration received in relation with their corporate office is that then shown under their employment contract, providing that the remuneration corresponds to that of a senior executive with the same qualifications from a standpoint of company practice or, if this is not the case, as authorised by the shareholders' general meeting prior to the end of the tenure.

These officers' total length of service (accrued in relation with both their employment contract and corporate office) will be taken into account under the employment contract that has resumed its effect.

## 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

In € thousands	Situation at 12.31.2005		Acquisitions		Subscriptions		Sales		Situation at 12.31.2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Chimex	5,955.3	100.00			14,000.0	100.00			19,955.3	100.00
Club Créateurs de Beauté Korea	890.0	50.00					890.0	50.00 <sup>(2)</sup>	0.0	0.00
Cosmetique Active Product (ex Lidv)	5,015.0	100.00			34.4	97.73 <sup>(3)</sup>			5,049.4	80.14
Créa Mundi			45,422.2	100.00					45,422.2	100.00
Episkin	1.5	99.00			6,660.0	100.00			6,661.5	100.00
Geral Inc.	302.4	100.00					302.4	100.00 <sup>(2)</sup>	0.0	0.00
Laboratoires Innéov	6,300.0	50.00			3,500.0	50.00			9,800.0	50.00
L'Oréal Bulgaria					102.3	100.00			102.3	100.00
L'Oréal Malaysia SDN BHD	9,314.8	96.02					2,858.5	100.00 <sup>(1)</sup>	6,456.3	94.34
L'Oréal Panama					168.0	100.00			168.0	100.00
L'Oréal Ukraine	514.6	100.00			875.4	100.00			1,390.0	100.00
L'Oréal Uruguay	471.8	100.00			4,963.3	100.00			5,435.1	100.00
L'Oréal USA	2,691,122.4	100.00			184,262.5	100.00			2,875,384.9	100.00
The Body Shop International PLC			992,444.6	100.00					992,444.6	100.00
Socinay	34.4	97.73					34.4	97.73 <sup>(3)</sup>	0.0	0.00
<b>Total</b>	<b>2,719,922.2</b>		<b>1,037,866.8</b>		<b>214,565.9</b>		<b>4,085.3</b>		<b>3,968,269.6</b>	

(1) Return of capital.

(2) Liquidation.

(3) Merge takeover.

## 5-YEAR FINANCIAL SUMMARY

### L'OREAL parent company (excluding subsidiaries)

€ millions (except for earnings per share, shown in euros)	2002	2003	2004	2005	2006
<b>I. Financial position at financial year-end</b>					
Share capital	135.2	135.2	135.2	131.8	127.9
Number of shares and investment certificates issued	676,062,160	676,062,160	676,062,160	658,769,660	639,616,410 <sup>(1)</sup>
Number of convertible bonds	0	0	0	0	0
<b>II. Overall results of operations</b>					
Net sales	1,609.3	1,706.1	1,774.2	1,856.6	2,003.4
Pre-tax profit before depreciation, amortisation, provisions and reversals of provisions (including provision for investment and profit sharing reserve)	1,330.4	1,261.5	1,341.1	1,403.0	1,484.4
Income tax	57.3	124.2	-20.8	-58.8	-54.5
Net income	1,014.3	939.5	1,230.1	1,589.6	1,690.3
Amount of distributed profits	432.7	493.5	554.4	658.8	754.5 <sup>(2)</sup>
<b>III. Results of operations per share or per investment certificate</b>					
Profit after tax and profit sharing, but before depreciation, amortisation and provisions	1.87	1.66	1.99	2.20	2.38
Net earnings	1.50	1.39	1.82	2.41	2.64
Dividend paid on each share and investment certificate (not including tax credit)	0.64	0.73	0.82	1.00	1.18 <sup>(2)</sup>
<b>IV. Personnel</b>					
Number of employees <sup>(3)</sup>	5,627	5,731	5,746	5,759	5,793
Total salaries	311.2	325.7	331.8	339.2	345.4
Amount paid for welfare benefits (social security, provident schemes, etc.)	121.2	134.4	133.9	138.8	142.3

(1) The share capital comprises 639,616,410 shares with a par value of €0.2, following the cancellation of 19,229,250 shares and the subscription of 76,000 shares following the exercise of stock options.

(2) The dividend will be proposed to the Annual General Meeting of April 24th, 2007.

(3) Not including the avoir fiscal (special tax credit on dividends).

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(\*) This information, taken together, constitutes the Annual Financial Report as provided for in Article L. 451-1-2 of the French Monetary and Financial Code.

# 2006 Parent company financial statements

## COMPARED BALANCE SHEETS

€ millions

	12.31.2006	12.31.2005	12.31.2004
<b>Assets (net amounts)</b>			
Intangible assets (note 1)	400.5	420.3	389.9
Tangible assets (note 2)	237.5	232.7	226.0
Financial assets (note 4)	8,424.1	7,164.4	6,779.1
<b>Fixed assets</b>	<b>9,062.1</b>	<b>7,817.4</b>	<b>7,395.0</b>
Inventories	39.4	47.5	42.8
Prepayments to suppliers	15.7	7.5	7.0
Trade accounts receivable (note 7)	326.4	303.4	272.1
Other current assets (note 7)	93.9	166.1	142.3
Marketable securities (note 6)	1,418.4	1,418.4	1,339.0
Cash and cash equivalents	363.4	296.8	322.2
<b>Current assets</b>	<b>2,257.2</b>	<b>2,239.7</b>	<b>2,125.4</b>
<b>Prepaid expenses</b>	<b>23.2</b>	<b>24.7</b>	<b>19.2</b>
<b>Unrealised exchange losses</b> (note 11)	<b>6.0</b>	<b>4.6</b>	<b>3.8</b>
<b>TOTAL ASSETS</b>	<b>11,348.5</b>	<b>10,086.4</b>	<b>9,543.4</b>



€ millions

	12.31.2006	12.31.2005	12.31.2004
<b>Liabilities and shareholders' equity</b>			
Capital stock	127.9	131.8	135.2
Additional paid-in capital	958.5	953.9	953.5
Reserves and retained earnings	4,263.7	4,537.5	4,807.1
Net profit	1,690.3	1,589.6	1,230.1
Regulated provisions	52.9	50.3	48.2
<b>Shareholders' equity</b>	<b>7,093.3</b>	<b>7,263.1</b>	<b>7,174.1</b>
<b>Provisions for liabilities and charges (note 8)</b>	<b>123.1</b>	<b>147.6</b>	<b>185.0</b>
Borrowings and debts (note 9)	3,581.8	2,159.3	1,662.7
Trade accounts payable (note 10)	298.8	292.8	281.8
Other current liabilities (note 10)	247.5	220.8	235.0
<b>Other liabilities</b>	<b>4,128.1</b>	<b>2,672.9</b>	<b>2,179.5</b>
<b>Unrealised exchange gains (note 11)</b>	<b>4.0</b>	<b>2.8</b>	<b>4.8</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>11,348.5</b>	<b>10,086.4</b>	<b>9,543.4</b>

## COMPARED PROFIT AND LOSS ACCOUNTS

€ millions

	12.31.2006	12.31.2005	12.31.2004
<b>Revenue</b>	<b>2,108.3</b>	<b>1,956.6</b>	<b>1,902.1</b>
Net sales (note 14)	2,003.4	1,856.6	1,774.2
Reversals of provisions and transfers of charges	25.5	23.1	48.7
Other revenue (note 15)	79.4	76.9	79.2
<b>Expenses</b>	<b>-1,990.3</b>	<b>-1,809.7</b>	<b>-1,764.1</b>
Purchases and change in inventories	-255.0	-258.4	-243.8
Other purchases and external charges	-1,017.1	-907.4	-877.2
Taxes and similar payments	-71.2	-43.6	-40.3
Personnel costs (note 16)	-487.7	-478.1	-465.7
Depreciation, amortisation and charges to provisions (note 17)	-92.5	-66.5	-74.3
Other charges	-66.8	-55.7	-62.8
<b>Operating profit</b>	<b>118.0</b>	<b>146.9</b>	<b>138.0</b>
Net financial revenues	1,316.2	1,244.3	1,167.7
Net charges to/(reversals of) provisions and transfers of charges	217.7	165.7	-152.7
Exchange gains and losses	-15.9	-27.9	19.8
<b>Net financial income (note 18)</b>	<b>1,518.0</b>	<b>1,382.1</b>	<b>1,034.8</b>
<b>Profit before tax and exceptional items</b>	<b>1,636.0</b>	<b>1,529.0</b>	<b>1,172.8</b>
<b>Exceptional items (note 19)</b>	<b>17.2</b>	<b>16.6</b>	<b>54.5</b>
Employee profit-sharing	-17.4	-14.8	-18.0
Income tax (note 20)	54.5	58.8	20.8
<b>Net profit</b>	<b>1,690.3</b>	<b>1,589.6</b>	<b>1,230.1</b>

## CHANGES IN SHAREHOLDERS' EQUITY

The share capital of €127,923,282 comprises 639,616,410 shares with a par value of €0.2 following transactions carried out in 2006:

- cancellation of 19,229,250 treasury shares,
- subscription to 76,000 shares following the exercise of options.

The changes in shareholders' equity are as follows:

€ millions

	Capital stock	Additional paid-in capital	1976 revaluation reserve	Reserves and retained earnings	Net profit	Regulated provisions	Total
<b>Balance at December 31<sup>st</sup>, 2004 before allocation of net profit</b>	<b>135.2</b>	<b>953.5</b>	<b>46.0</b>	<b>4,761.2</b>	<b>1,230.1</b>	<b>48.2</b>	<b>7,174.2</b>
Changes in capital stock	-3.4	0.4		-981.0			-984.0
Allocation of 2004 net profit				711.3	-711.3		0.0
Dividends paid for 2004					-518.8		-518.8
2005 net profit					1,589.6		1,589.6
Other movements during period						2.1	2.1
<b>Balance at December 31<sup>st</sup>, 2005 before allocation of net profit</b>	<b>131.8</b>	<b>953.9</b>	<b>46.0</b>	<b>4,491.5</b>	<b>1,589.6</b>	<b>50.3</b>	<b>7,263.1</b>
Changes in capital stock	-3.9	4.6		-1,247.3			-1,246.6
Allocation of 2005 net profit				973.5	-973.5		0.0
Dividends paid for 2005					-616.1		-616.1
2006 net profit					1,690.3		1,690.3
Other movements during period						2.6	2.6
<b>Balance at December 31<sup>st</sup>, 2006 before allocation of net profit</b>	<b>127.9</b>	<b>958.5</b>	<b>46.0</b>	<b>4,217.7</b>	<b>1,690.3</b>	<b>52.9</b>	<b>7,093.3</b>

The reserves include an amount of €25 million in 2006 corresponding to dividends not paid, as a consequence of L'Oréal's retaining some of its own shares, compared with €21.4 million in 2005. €17.7 million was charged to reserves as a result of the cancellation of shares in 2006.

The regulated provisions consist mainly of the provision for investment that amounted to €19.7 million at December 31<sup>st</sup>, 2006, compared with €27 million at December 31<sup>st</sup>, 2005. In 2006, a charge of €0.8 million was made to the provision for investment in respect of employee profit-sharing for 2005 (compared with €3.5 million in 2005). 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 reversal in 2006 of a provision of €8.1 million set aside in 2001 (compared with €6.5 million in 2005).

Accelerated tax-driven depreciation at December 31<sup>st</sup>, 2006 amounted to €33.1 million, compared with €23.3 million at December 31<sup>st</sup>, 2005.

The details of share-subscription option plans are provided in the Management Report.

**CASH FLOW STATEMENT**

€ millions

	12.31.2006	12.31.2005	12.31.2004
<b>Operating activities</b>			
<b>Net profit</b>	<b>1,690.3</b>	<b>1,589.6</b>	<b>1,230.1</b>
Depreciation and amortisation	58.4	54.1	53.8
Charges to provisions (net of reversals)	-215.6	-196.4	60.2
Gains and losses on disposals of fixed assets	-1.2	-0.3	15.1
<b>Gross cash flow</b>	<b>1,531.9</b>	<b>1,447.0</b>	<b>1,359.2</b>
Changes in working capital (note 22)	81.3	-58.5	-83.7
<b>Net cash provided by operating activities</b>	<b>1,613.2</b>	<b>1,388.5</b>	<b>1,275.5</b>
<b>Investing activities</b>			
Investments in fixed assets	-2,554.1	-1,453.9	-1,167.6
Changes in other financial assets (note 23)	192.3	48.6	196.8
Disposals of fixed assets	9.2	16.1	0.8
<b>Net cash used by investing activities</b>	<b>-2,352.6</b>	<b>-1,389.2</b>	<b>-970.0</b>
<b>Financing activities</b>			
Capital increase	4.6	0.4	0.1
Dividends paid	-616.2	-518.8	-513.8
Changes in financial debt	1,419.2	494.1	343.7
<b>Net cash provided (used) by financing activities</b>	<b>807.6</b>	<b>-24.3</b>	<b>-170.0</b>
Change in cash and cash equivalents	68.2	-25.0	135.5
Cash and cash equivalents at beginning of year	292.5	317.5	182.0
<b>Cash and cash equivalents at end of year (note 24)</b>	<b>360.7</b>	<b>292.5</b>	<b>317.5</b>

## 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 prepared in accordance with the 1999 General Accounting Plan and with generally accepted accounting principles.

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 in the balance sheet at purchase cost.

The value of the newly acquired brands is calculated based on a multi-criteria approach taking into consideration their reputation and their future 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.

Non-depreciable brands are subject, at least once a year, to impairment tests on the basis of the valuation model used at the time of their acquisition; this can lead to recognition of a provision for impairment.

Initial trademark registration costs are recorded as charges since 2005.

Patents are amortised over five years.

Software of material value is amortised using the straight-line method over its probable useful life, generally between five and seven years. It is also subject to recognition of accelerated tax-driven amortisation using the declining balance method over a twelve month period.

Other intangible assets are usually amortised over periods not exceeding twelve years.

### Tangible assets

Tangible assets are recognised at purchase cost.

The useful lives of tangible assets are as follows:

	Useful lives
Buildings	20/50 years
Fixtures and fittings	10 years
Industrial machinery and equipment	10 years
Other tangible assets	3/10 years

Depreciation, whether calculated using the straight-line or declining balance method, represents depreciation calculated over the period of actual use of the asset. Industrial machinery and equipment is however an exception as it is depreciated using the straight-line method over ten years, with all additional depreciation being considered to be of a tax-driven nature.

### Financial assets

#### Investments and advances

These items are recognised in the balance sheet at purchase cost excluding incidental expenses. Their value is assessed annually, by reference to their value in use, which is based in particular on the current and forecast profitability of the subsidiary in question and the share of shareholders' equity owned. If the value in use falls below the purchase cost, a provision for impairment is recognised.

#### Other financial assets

Loans and other receivables are valued at their nominal amount. Loans and other receivables denominated in foreign currencies are translated at the exchange rate prevailing at the end of the financial year. If necessary, provisions are made against these items to reduce them to their value in use at the end of the financial year.

Treasury stock acquired in the context of buyback programmes is recognised in *Other fixed asset securities*.

At the end of the financial year, *Other fixed asset securities* are compared with their probable sale price, and a provision for impairment is recognised if necessary.

### Inventories

Inventories are valued using the weighted average cost method. A provision for impairment of obsolete and slow-moving inventories is recognised on the basis of actual and forecast sales.

### Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recorded at their nominal value. Where appropriate, a provision is recognised based on an assessment of the risk of non-recovery.

### Marketable securities

Marketable securities are recognised at purchase cost and are valued at the end of the financial year at their probable sale price.

Treasury stock held that is specifically allocated to employee stock option plans is recognised in *Marketable securities*.

In the case of stock option plans prior to 2000, a provision for impairment has been made to cover the difference between the acquisition price of the shares and the price at which the options may be exercised by the beneficiaries. Since January 1<sup>st</sup> 2000, no discount has been granted on the exercise price of the options. Provided that the shares are purchased at a lower price than the exercise price, no provision for impairment is required. However, a provision for impairment is recognised in the event of a decline in the market price below the carrying amount of the treasury stock; the provision is calculated as the difference between the carrying amount of the treasury stock and the average share price over the month preceding the balance sheet date.

**Provisions for liabilities and charges**

Provisions for liabilities and charges are recognised to cover probable outflows of resources to the benefit of third parties, without receipt of equivalent consideration by the company. They relate mainly to industrial and commercial contingencies and litigation (legal actions, product returns) and to tax and employee-related contingencies.

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 hedging of exchange rate risks**

In accordance with group policy, the company does not take any speculative positions on financial markets.

All receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing at the end of the financial year.

Exchange rate hedging instruments are traded in order to cover commercial transactions recognised in the balance sheet or future transactions that are considered to be highly probable. The losses and gains generated by these instruments are recognised symmetrically with recognition of the hedged items.

Translation differences on operating assets and liabilities and related hedging instruments are recognised in the balance sheet as *Unrealised exchange losses* or *Unrealised exchange gains*. A provision is recognised if the sum of these unrealised exchange gains and losses shows a potential exchange loss based on the overall exchange position of all currencies taken together.

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 hedged.

**Accounting for interest rate instruments**

With regard to the interest rate risk, profit and loss on interest rate swaps and caps hedging financial liabilities are recorded symmetrically with profit and loss on the debts hedged, on a time-proportion basis.

**Employee retirement obligations and related benefits**

L'Oréal participates in and provides pensions, early retirement and other benefit schemes for employees and retired employees in accordance with 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 benefit schemes.

Partial external funding has been put in place in respect of these obligations, in order to gradually build up a fund through contributions paid. The contributions are included in the charges for the financial year under the *Other purchases and external charges* caption.

The related obligations are measured using an actuarial valuation method based on the final salary.

Net unfunded obligations are not recognised as a provision in the balance sheet. They remain as off-balance sheet commitments.

Since 2004, the obligation in respect of long-service awards is no longer recognised as an off-balance sheet commitment; instead, a provision, whose amount is based on an actuarial valuation, is recognised in the balance sheet.

**Net sales**

These are comprised of sales of goods (net of rebates and discounts) as well as services (including technological royalties).

**Advertising and promotion expenses**

Expenses relating to the advertisement and promotion of products to customers and consumers are recognised as charges in the year during which the advertisement or promotion takes place.

**Research and development costs**

Research and development costs are recognised in *Other purchases and external charges* in the year in which they are incurred.

**Income tax**

The company has opted for the French tax group regime. As from 2004, French companies included in the scope of tax consolidation recognise an income tax charge in their own accounts on the basis of their own taxable profits and losses.

L'Oréal, as the parent company of the tax group, recognises as tax income the difference between the aggregate tax charges recognised by the subsidiaries and the tax due on the basis of consolidated taxable profit or loss of the tax group.

## Notes to the balance sheet and off-balance sheet items

## Note 1 - Intangible assets

€ millions	12.31.2005	Increase/Acquisition	Decrease/Sale	12.31.2006
Patents and trademarks	345.3	0.2	–	345.5
Business goodwill	3.0	–	–	3.0
Other intangible assets	169.0	30.0	15.2	183.8
Advances and prepayments	n/s	–	–	n/s
<b>Gross value</b>	<b>517.3</b>	<b>30.2</b>	<b>15.2</b>	<b>532.3</b>
Patents and trademarks	28.0	2.5	–	30.5
Business goodwill	0.3	–	–	0.3
Other intangible assets	68.7	15.6	2.6	81.7
<b>Amortisation</b>	<b>97.0</b>	<b>18.1</b>	<b>2.6</b>	<b>112.5</b>
Patents and trademarks		15.8	–	15.8
Other intangible assets		3.5	–	3.5
<b>Provisions for impairment</b>	<b>0</b>	<b>19.3</b>	<b>0</b>	<b>19.3</b>
<b>Net book value</b>	<b>420.3</b>	<b>7.2</b>	<b>12.6</b>	<b>400.5</b>

## Note 2 - Tangible assets

€ millions	12.31.2005	Increase/Acquisition	Decrease/Sale	12.31.2006
Land	48.4	–	3.7	44.7
Buildings	343.1	40.3	8.6	374.8
Industrial machinery and equipment	143.8	11.1	3.4	151.5
Other tangible assets	82.5	9.1	9.3	82.3
Fixed assets in progress	19.2	26.6	38.3	7.5
Advances and prepayments	1.2	1.2	n/s	2.4
<b>Gross value</b>	<b>638.2</b>	<b>88.3</b>	<b>63.3</b>	<b>663.2</b>
Buildings	233.9	20.1	7.4	246.6
Industrial machinery and equipment	113.1	10.7	3.3	120.5
Other tangible assets	58.5	9.4	9.3	58.6
<b>Depreciation</b>	<b>405.5</b>	<b>40.2</b>	<b>20.0</b>	<b>425.7</b>
<b>Net book value</b>	<b>232.7</b>	<b>48.1</b>	<b>43.3</b>	<b>237.5</b>

The annual depreciation charge of a straight-line basis amounts to €24.2 million.

The annual depreciation charge on a tax-driven declining balance basis amounts to €15.6 million.

Exceptional depreciation of €0.4 million was also recognised.

## Note 3 - Fixed assets under finance leases

€ millions	Fixed assets under finance leases at 12.31.2006			Balance sheet total including fixed assets under finance leases			
	Cost on initial recognition <sup>(1)</sup>	Depreciation <sup>(2)</sup> For year <sup>(3)</sup>	Accumulated	Net book value	Gross value	Accumulated depreciation	Net book value
Land and buildings	95.7	3.6	56.8	38.8	515.2	303.4	211.8
Industrial machinery and equipment	–	–	–	–	151.5	120.6	30.9
<b>Total at 12.31.2006</b>	<b>95.7</b>	<b>3.6</b>	<b>56.8</b>	<b>38.8</b>	<b>666.7</b>	<b>424.0</b>	<b>242.7</b>
<b>Total at 12.31.2005</b>	<b>95.7</b>	<b>3.6</b>	<b>53.2</b>	<b>42.5</b>	<b>630.9</b>	<b>400.1</b>	<b>230.8</b>

(1) Value of the assets at the date of signature of the leases.

(2) Depreciation charge for year, and accumulated depreciation, that would have been recognised for these assets if they had been acquired.

(3) Depreciation method used: straight-line 5% to 2%.

€ millions	Finance lease commitments						
	Lease payments made		Lease payments outstanding at year end				Residual purchase price <sup>(1)</sup>
Balance sheet captions	In the year	Accumulated	Less than 1 year	1 to 5 years	More than 5 years	Total payable	
Land and buildings	12.8	144.1	4.0	16.0	19.8	39.8	1.4
Industrial machinery and equipment	–	–	–	–	–	–	–
<b>Total at 12.31.2006</b>	<b>12.8</b>	<b>144.1</b>	<b>4.0</b>	<b>16.0</b>	<b>19.8</b>	<b>39.8</b>	<b>1.4</b>
<b>Total at 12.31.2005</b>	<b>10.6</b>	<b>131.3</b>	<b>10.5</b>	<b>12.8</b>	<b>17.7</b>	<b>41.0</b>	<b>1.4</b>

(1) According to the contract.

**Note 4 - Financial assets**

€ millions	12.31.2005	Increase Acquisition Subscription	Decrease Sale	12.31.2006
Investments	6,271.7	1,245.6 <sup>(1)</sup>	1.2	7,516.1
Loans and other receivables	170.4	390.9	459.7	101.6
Treasury stock	932.0	1,241.8	1,140.0	1,033.8
Other	8.6	0.5	0.6	8.5
<b>Gross value</b>	<b>7,382.7</b>	<b>2,878.8</b>	<b>1,601.5</b>	<b>8,660.0</b>
Investments	213.1	30.5	13.2	230.4
Loans and other receivables	-	-	-	-
Treasury stock	-	-	-	-
Other	5.2	0.3	n/s	5.5
<b>Provision for impairment</b>	<b>218.3</b>	<b>30.8</b>	<b>13.2</b>	<b>235.9</b>
<b>Net book value</b>	<b>7,164.4</b>	<b>2,848.0</b>	<b>1,588.3</b>	<b>8,424.1</b>

(1) This mainly represents the acquisition of shares in The Body Shop for an amount of €992.4 million.

In 2006, L'Oréal purchased 16,807,000 shares of treasury stock in the context of buyback programmes and cancelled 17,660,000 shares. At year end, L'Oréal owns 14,187,000 shares of treasury stock, compared with 15,040,000 shares at December 31<sup>st</sup>, 2005. The total market value of treasury stock amounted to €1,082.9 million euros at the average share price for December, compared with €1,076.8 million at the closing share price on December 31<sup>st</sup>.

The table of subsidiaries and holdings is presented at the end of the notes to the financial statements.

**Note 5 - Transactions and balances with related entities**

€ millions	12.31.2006	12.31.2005
Financial assets	7,371.4	6,215.1
Trade accounts receivable	180.4	168.4
Other accounts receivable	10.3	6.0
Borrowings	75.2	47.8
Trade accounts payable	60.4	66.8
Other payables	0.1	1.3
Financial expenses	17.1	12.4
Financial revenues	1,411.7	1,304.8

**Note 6 - Marketable securities**

This account is broken down as follows:

€ millions	12.31.2006	12.31.2005
L'Oréal shares	1,462.5	1,706.2
Financial instruments	2.4	1.6
Premiums paid on options	5.8	1.3
<b>Gross value</b>	<b>1,470.7</b>	<b>1,709.1</b>
L'Oréal shares	52.3	290.7
Financial instruments	-	-
Premiums paid on options	-	-
<b>Provision for impairment</b>	<b>52.3</b>	<b>290.7</b>
<b>Net book value</b>	<b>1,418.4</b>	<b>1,418.4</b>

The 19,707,300 L'Oréal shares of treasury stock held for the employee stock option plans have a net value of €1,410.2 million (after a reversal in the year of €230.1 million in the provision for impairment through profit and loss, and of €8.3 million through equity corresponding to shares cancelled), compared with €1,415.5 million at December 31<sup>st</sup>, 2005.

During 2006, stock options were exercised in respect of 2,479,500 shares and 1,569,250 shares were cancelled.



For 2006, the total market value of treasury stock amounted to €1,504.3 million based on the average price in December and to €1,495.8 million at the closing share price on December 31<sup>st</sup>.

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 31<sup>st</sup>.

#### Note 7 - Maturities of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
<b>Fixed assets</b>					
Loans and other receivables	21.1	80.6	101.7	0	101.7
Other financial assets	–	8.2	8.2	5.3	2.9
<b>Current assets</b>					
Trade accounts receivable	329.8	0	329.8	3.4	326.4
Other current assets,	93.9	–	93.9	0	93.9
of which: Tax and employee-related receivables	41.5	–	41.5	–	41.5
Group and shareholders	16.3	–	16.3	–	16.3
Other receivables	36.1	–	36.1	–	36.1
<b>Prepaid expenses</b>	<b>23.1</b>	<b>–</b>	<b>23.1</b>	<b>–</b>	<b>23.1</b>

Accrual accounts included in current assets amounted to €11.9 million at December 31<sup>st</sup>, 2006, compared with €54.7 million at December 31<sup>st</sup>, 2005

#### Note 8 - Provisions for liabilities and charges

€ millions	12.31.2005	Charges	Reversals (provisions used)	Reversals (provisions not used)	12.31.2006
Provisions for litigation	25.9	25.1	4.3	5.9	40.8
Provision for exchange losses	1.8	2.0	1.8	0	2.0
Provisions for charges	25.9	15.0	15.2	2.0	23.7
Other provisions for liabilities <sup>(1)</sup>	94.0	24.1	21.9	39.6	56.6
<b>Total</b>	<b>147.6</b>	<b>66.2</b>	<b>43.2</b>	<b>47.5</b>	<b>123.1</b>

(1) This caption notably includes provisions for tax risks, and for industrial and commercial risks relating to operations (contracts, product returns) and employee-related liabilities.

The changes in provisions for liabilities and charges impacted different levels of the profit and loss account as follows:

€ millions	Charges	Reversals (provisions used)	Reversals (provisions not used)
Operating profit	12.3	10.6	3.1
Net financial income	11.1	10.3	2.6
Exceptional items	23.8	19.1	37.7
Income tax	19.0	3.3	4.0
<b>Total</b>	<b>66.2</b>	<b>43.3</b>	<b>47.4</b>

**Note 9 - Borrowings and debts**

L'Oréal obtains financing through medium-term bank loans, and by the issue of short-term commercial paper in France. The amount of the programme is €2,600 million.

Liquidity on the issue commercial paper is ensured by confirmed short-term credit facilities with banks in an amount of €2,625 million at December 31<sup>st</sup>, 2006, being the same amount as at December 31<sup>st</sup>, 2005. These short-term credit facilities, like the medium-term loans, are not subject to any financial ratio clauses or ratings clauses.

Total borrowings and debts are broken down as follows:

**Breakdown by type of debt**

€ millions	12.31.2006	12.31.2005
Bonds	n/s	n/s
Borrowings and debts due to financial institutions	1,794.8	751.7
Perpetual loan <sup>(1)</sup>	77.4	80.4
Commercial paper	1,577.8	1,224.6
Other borrowings and debts	130.5	100.4
Overdrafts	1.3	2.2
<b>Total</b>	<b>3,581.8</b>	<b>2,159.3</b>

(1) In accordance with OEC recommendation no. 28, the perpetual loan is recorded under Borrowings and Debts caption. Given that this loan is due to mature in 2007, and in application of the 2006 French Finance Act, no impact was recognised for the 2006 financial year in respect of tax estimated at €9.7 million.

**Breakdown by maturity**

€ millions	12.31.2006	12.31.2005
Less than 1 year	1,749.6	1,726.8
1 to 5 years	1,831.1	431.5
More than 5 years	1.1	1.0
<b>Total</b>	<b>3,581.8</b>	<b>2,159.3</b>

During the financial year, the main changes recognised were as follows:

€ millions	
Borrowings taken out	3,229.3
Borrowings repaid	1,812.5

At December 31<sup>st</sup>, 2006, the perpetual loan taken out by L'Oréal in 1992 generated an overall interest expense in the year of €10.6 million, including €5 million of accrued interest.

**Note 10 - Maturities of payables**

€ millions	Total
<b>Trade accounts payable</b>	<b>298.8</b>
<b>Other current liabilities</b>	<b>247.5</b>
Of which: Tax and employee-related payables	154.1
Fixed asset related payables	22.4
Group and shareholders	n/s
Other payables	71.0

No payables are due within more than one year, with the exception of €8.1 million of the fixed asset related payables.

Accrual accounts included in trade accounts payable amount to €146.2 million at December 31<sup>st</sup>, 2006, compared with €131.3 million at December 31<sup>st</sup>, 2005. Accrual accounts included in tax and employee-related payables amount to €92 million at December 31<sup>st</sup>, 2006, compared with €85.6 million at December 31<sup>st</sup>, 2005. They are mainly comprised of the provision for employee profit sharing (€17.5 million at December 31<sup>st</sup>, 2006) and of the provision for incentives (€47.5 million at December 31<sup>st</sup>, 2006).

Accrual accounts included in fixed asset related payables amount to €7.3 million.

Accrual accounts included in other payables amount to €51.3 million.

**Note 11 - Unrealised exchange gains and losses**

The revaluation of receivables and payables denominated in foreign currencies at exchange rates prevailing at December 31<sup>st</sup> led to the recognition of the following unrealised exchange gains/unrealised exchange losses:

€ millions	Unrealised exchange gains		Unrealised exchange losses	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005
Financial receivables	0.3	n/s	-	n/s
Trade accounts receivable	0.9	0.1	0.2	0.8
Borrowings and debts	-	1.7	0.8	0.1
Trade accounts payable	0.2	0.4	0.6	0.2
Financial instruments	4.6	2.4	2.4	1.7
<b>Total</b>	<b>6.0</b>	<b>4.6</b>	<b>4.0</b>	<b>2.8</b>

The overall foreign exchange position, determined in accordance with the accounting principles described earlier in the notes, is an unrealised loss, mainly on the US dollar, of €2 million, which has been recognised through profit and loss.

**Note 12 - Derivatives**

The financial instruments held to hedge exchange rate risks are mainly related to forward transactions, and are broken down as follows:

€ millions	Notional		Market value	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005
<b>Currency forwards, net</b>				
Sale of USD/Purchase of EUR	-	150.9	-	-9.2
Purchase of USD/Sale of EUR	22.0	-	-3.3	-
Sale of ARS/Purchase of EUR	26.7	-	-0.9	-
Sale of ARS/Purchase of USD	-	22.5	-	0.8
Sale of AUD/Purchase of EUR	8.8	21.8	-0.2	-0.5
Sale of BRL/Purchase of USD	7.4	-	-0.3	-
Sale of BRL/Purchase of EUR	14.0	-	-0.1	-
Sale of RUB/Purchase of EUR	0.9	64.9	n/s	-3.3
Sale of CAD/Purchase of EUR	13.0	40.2	0.6	-3.0
Sale of GBP/Purchase of EUR	15.1	17.9	-0.4	-0.4
Sale of PLN/Purchase of EUR	5.7	11.6	-0.2	-0.7
Sale of HKD/Purchase of EUR	-	9.5	-	-0.4
Sale of MXN/Purchase of EUR	8.8	9.4	0.1	-1.0
Sale of CHF/Purchase of EUR	4.9	7.7	n/s	n/s
Purchase of JPY/Sale of EUR	15.5	13.5	-1.4	-0.5
Sale of CNY/Purchase of USD	4.0	80.4	n/s	0.6
Sale of CNY/Purchase of EUR	83.0	-	0.7	-
Sale of CNY/Purchase of JPY	6.2	0.8	-0.3	n/s
Purchase of other curr./Sale of EUR	1.8	3.2	0.1	n/s
Sale of other curr./Purchase of EUR	31.3	50.0	-0.2	-1.2
<b>Total currency forwards</b>	<b>269.1</b>	<b>504.3</b>	<b>-5.8</b>	<b>-18.8</b>
<b>Currency options</b>				
USD/EUR	43.8	28.0	3.0	-1.7
GBP/EUR	6.4	3.2	0.1	n/s
CAD/EUR	3.9	-	0.3	-
BRL/EUR	-26.5	-	1.8	-
BRL/USD	3.8	-	0.2	-
CNY/EUR	-5.6	-	0.4	-
CNY/USD	0.4	4.5	0.1	n/s
RUB/EUR	-	17.6	-	-0.8
RUB/USD	-	17.8	-	-0.5
Others/EUR	6.0	7.4	0.1	-0.4
<b>Total currency options</b>	<b>32.2</b>	<b>78.5</b>	<b>6.0</b>	<b>-3.4</b>
Of which: options purchased	27.7	78.5	5.8	-3.4
options sold	4.5	-	0.2	-
<b>Total forward instruments</b>	<b>301.3</b>	<b>582.8</b>	<b>0.2</b>	<b>-22.2</b>

Total options sold solely correspond to the resale of options previously purchased when it appeared appropriate to replace them with other hedging instruments.

Financial instruments held to hedge interest rate risks are as follows:

€ millions	Notional		Market value	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005
Interest rate derivatives				
<b>Interest rate swaps – borrower floating rate</b>				
EUR Euribor/fixed rate	128.8	309.5	3.6	13.3
<b>Interest rate swaps – borrower fixed rate</b>				
EUR Euribor/fixed rate	2.5	–	n/s	–
<b>Interest rate swaps floating /floating</b>				
EUR Euribor/Euribor	7.1	210.2	n/s	–
<b>Total</b>	<b>138.4</b>	<b>519.8</b>	<b>3.6</b>	<b>13.3</b>

### Note 13 - Off-balance sheet commitments

#### a) Off-balance sheet commitments are as follows:

Confirmed credit facilities are set out in note 10.

€ millions	12.31.2006	12.31.2005
Commitments granted in the area of employee retirement obligations and related benefits <sup>(1)</sup>	571.0	575.2
Commitments to buyout minorities	67.4	75.3
Guarantees given <sup>(2)</sup>	656.7	716.1
Guarantees received	4.8	5.4
Capital expenditure orders	51.3	39.6
Documentary credits	6.9	4.2

(1) The discount rate used to measure these commitments in 2006 is 4.25 % for plans providing a capital sum and 4.50 % for plans providing an annuity, compared with 4.25 % in 2005 for both types of plan. An agreement for the mutualisation of employee-related liabilities was put in place in 2004. This agreement leads to the allocation of commitments among the different French companies in the group and to organising their financing in proportion to the companies respective payroll costs (personalised by plan) so that the companies are severally responsible for meeting the aforementioned commitments within the limit of the collective funds constituted.

(2) This caption includes miscellaneous guarantees and warranties, including €649.7 million at December 31<sup>st</sup>, 2006 on behalf of direct and indirect subsidiaries, compared with €709.1 million at December 31<sup>st</sup>, 2005. Warranties regarding liabilities are also included in this amount.

#### b) In addition, operating lease commitments amount to €51.0 million within less than one year, to €148.4 million between 1 and 5 years and €23.2 million after 5 years.

The breakdown of finance lease commitments is provided in note 3.

#### c) Contingent liabilities

In its normal course of business, L'Oréal is involved in legal actions and is subject to tax audits, 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 a serious level of probability affect the results, financial situation, assets or operations of the company.

## Notes to the income statement

### Note 14 - Net sales

€ millions	12.31.2006	12.31.2005
Goods	908.4	873.4
Raw materials, packaging	18.4	17.5
Services <sup>(1)</sup>	928.4	826.7
Rental	36.7	32.9
Other revenues of ancillary activities	111.5	106.1
<b>Total</b>	<b>2,003.4</b>	<b>1,856.6</b>

(1) Mainly concerns invoicing of technological assistance.

The amount of net sales in France was €1,224.3 million in 2006, compared with €1,151.8 million in 2005.

**Note 15 - Other revenue**

This account caption mainly includes royalties from brands.

**Note 16 - Breakdown of the average headcount**

Average headcount is broken down as follows:

	2006	2005
Executives	2,537	2,453
Supervisors	2,146	2,148
Administrative staff	469	503
Workers	316	335
Sales representatives	325	320
<b>Total</b>	<b>5,793</b>	<b>5,759</b>
Of which: apprentices	144	140
external temporary workers	190	178

**Note 17 - Depreciation, amortisation and charges to provisions**

Depreciation, amortisation and charges to provisions are broken down as follows:

€ millions	12.31.2006	12.31.2005
Depreciation and amortisation	57.9	53.5
Impairment of fixed assets	19.3	-
Impairment of current assets	3.0	2.0
Provisions for liabilities and charges	12.3	11.1
<b>Total</b>	<b>92.5</b>	<b>66.6</b>

**Note 18 - Net financial income**

Net financial income amounts to €1,316.2 million at December 31<sup>st</sup>, 2006, compared with €1,244.3 million at December 31<sup>st</sup>, 2005, and mainly includes the following items:

€ millions	12.31.2006	12.31.2005
Dividends received	1,410.8	1,303.7
Revenues on other receivables and marketable securities	30.8	11.2
Interest expense on loans	-118.7	-54.4
Losses paid to partnership entities (SNCs)	-2.6	-11.9

The *Net charges to/(reversals of) provisions and transfers of charges* caption amounts to €217.7 million at December 31<sup>st</sup>, 2006, compared with €165.7 million at December 31<sup>st</sup>, 2005 and mainly includes:

€ millions	12.31.2006	12.31.2005
Charges to provisions for impairment of financial assets net of reversals (excluding treasury stock) versus net reversals as of 12.31.2005	-17.6	0.6
Reversals of provisions for impairment of treasury stock	230.1	156.7
Net charges to provisions for liabilities and charges of a financial nature	1.8	5.3

**Note 19 - Exceptional items**

Exceptional items represented profit of €17.2 million and mainly include movements in provisions for liabilities and charges, being a charge to such provisions of €23.8 million and a reversal of unused provisions of €37.7 million.

**Note 20 - Income tax**

The tax charge (income) for the year breaks down as follows:

€ millions	12.31.2006	12.31.2005
Tax on profit before tax and exceptional items	-53.6	-46.9
Tax on exceptional items and employee profit-sharing	-12.6	-12.2
Net provisions for taxes	11.7	0.3
<b>Income tax</b>	<b>-54.5</b>	<b>-58.8</b>

The application of tax legislation led to an increase in profit for the year of €3.1 million, mainly because of the charge to regulated provisions and research, sponsorship and family tax credits.

#### Note 21 - Increases or reductions in future tax liabilities

€ millions	Start of the year		Changes		End of the year	
	Asset	Liability	Asset	Liability	Asset	Liability
<b>Temporary differences</b>						
Regulated provisions		9.3	3.5	5.9		11.7
Temporary non-deductible charges	129.3		21.3	106.5	44.1	
Charges deducted (or revenue taxed) for tax purposes but not yet recognised in accounts		0.7	3.0	3.0		0.7
Temporary non-taxable revenue		0.6	0.2			0.4
<b>Items deductible</b>						
Tax losses, etc.						
<b>Items potentially taxable</b>						
Special reserve for long-term capital gains		176.8				176.8

The figures have been calculated taking account of the social contribution of 3.3% which increases both the standard and reduced rates of tax.

#### Notes to the cash flow statement

##### Note 22 - Changes in working capital

Changes in working capital were €81.3 million at December 31<sup>st</sup>, 2006, compared with €-58.5 million at December 31<sup>st</sup>, 2005. They are broken down as follows:

€ millions	12.31.2006	12.31.2005
Inventories	7.8	-3.5
Receivables	40.5	-52.3
Payables	33.0	-2.7
<b>Total</b>	<b>81.3</b>	<b>-58.5</b>

##### Note 23 - Changes in other financial assets

This caption includes flows related to treasury stock in the year, classified in marketable securities.

##### Note 24 - Cash and cash equivalents at end of year

Cash and cash equivalents at end of year amount to €360.7 million at December 31<sup>st</sup>, 2006 compared with €292.5 million at December 31<sup>st</sup>, 2005 and are broken down as follows:

€ millions	12.31.2006	12.31.2005
Cash, excluding accrued interest	362.0	294.7
Bank overdrafts	-1.3	-2.2
<b>Total</b>	<b>360.7</b>	<b>292.5</b>

TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31<sup>ST</sup>, 2006

## 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		
<b>A. Main French subsidiaries - Holdings of over 50%</b>							
Areca & Cie	35	1	99.78	35	35	-89	(1)
Banque RE.GE.FI.	19,250	62,389	100	75,670	75,670	9,382	13,728
Beauté Créateurs	4,612	162	50	3,425	3,425	-1,054	2,902
Biotherm Distribution & Cie	182	415	99.90	472	472	5,457	3,126
Centrex	1,800	30	100	3,532	3,532	17	(1)
Chimex	1,958	25,702	100	21,501	21,501	3,296	(1)
Cosmétique Active France	21	4,724	69.91	130	130	17,222	12,250
Cosmétique Active International	17	4,119	87.94	15	15	9,701	5,447
Cosmétique Active Production	186	15,861	80.14	5,081	5,081	6,646	(1)
Créa Mundi	552	85	100	45,422	45,422		
Episkin	6,662	0	100	6,662	6,662	-346	(1)
Exclusive Signatures International	10	0	99	10	10	98	(1)
Fapagau & Cie	15	5,912	79	12	12	6,543	(1)
Faprogi	15	6,012	59.9	9	9	2,386	(1)
Finval	2	0	99	2	2	930	(1)
Gemey Maybelline Garnier	50	1,438	66.61	34	34	50,118	32,397
Gemey Paris-Maybelline NY	35	7,879	99.96	46	46	17,158	17,486
Goldys International	15	0	99.90	15	15	0	(1)
Helena Rubinstein	30	1	99.95	46,661	46,661	4,173	3,783
Holdial	1	0	98	1	1	722	(1)
L & J Re	1,500	7,679	100	1,500	1,500	688	(1)
La Roche-Posay Laboratoire Pharmaceutique	380	4,437	99.98	27,579	27,579	8,262	8,145
Laboratoire Garnier & Cie	580	2	99.97	5,784	5,784	5,851	4,781
Laboratoires Innéov	7,350	-748	50	9,800	2,582	-5,260	(1)
Lancôme Parfums et Beauté & Cie	1,192	1	100	3,235	3,235	-2,614	31,290
Lascad	18	340	99.17	18	18	42,965	37,165
Lehoux et Jacque	39	56	100	263	263	335	222
L'Oréal Produits de Luxe France	63	4,087	74.33	46	46	18,217	13,540
L'Oréal Produits de Luxe International	76	2,872	99.2	76	76	49,771	40,103
Par-bleue	2	0	99	2	2	-994	(1)
Parfums Cacharel & Cie	1	1	99	2	2	-508	(1)
Parfums Guy Laroche	332	5,370	100	1,656	1,656	70	0
Parfums Paloma Picasso & Cie	2	0	99	2	2	-50	(1)
Parfums Ralph Lauren	2	0	99	2	2	-58	(1)
Prestige & Collections International	32	3,952	56.67	18	18	13,936	5,810
Sicos & Cie	375	8,450	80	999	999	4,356	(1)
Société de Développement Artistique	2	0	99	2	2	3,744	(1)
Soprocos	8,250	10,210	100	11,904	11,904	1,378	1,421
Soproréal	15	8,629	99.9	15	15	1,076	(1)
Sparlys	750	1,498	100	3,826	3,826	978	929
Viktor & Rolf Parfums	2	0	99	1	1	-639	(1)
<b>B. Main French investments - Holdings of less than 50%</b>							
Galderma International	932	72,368	26.67	2	2	-9,050	(1)
Groupement Plessis Mornay	2,453	1	n/s	1	1	-24	(1)
Innéov France	150	-1,214	n/s	n/s	n/s	-3,162	(1)
Laboratoire Sanoflore	1,143	2,107	0.04	15	15	-97	(1)
La Roche-Posay Dermatocosmétique	2		1	0	0	0	(1)
Sanofi-Aventis	2,718,869	(2)	10.52	512,853	512,853	(2)	217,423

(1) The SNCs (general partnerships), GIEs (economic interest groupings) and *Sociétés Civiles* (non-trading companies), that are not tax consolidated, distribute all their profits.

(2) Sanofi-Aventis: 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		
<b>A. Main foreign subsidiaries - Holdings of over 50%</b>							
Aofi (Anglo Overseas Finance) (India)	2,333	-52	100	4,306	2,247	-1	(1)
Avenamite SA (Spain)	242	48	100	6,216	6,216	91	154
Beautycos International Co. Ltd (China)	41,984	7,189	90	44,313	44,313	10	(1)
Beautylux Intern.Cosm (Shanghai) China	5,629	-7,665	100	16,871	16,871	1,639	(1)
Beautytech Intern.Cosm (YiShang) China	3,070	-5,633	100	131,239	131,239	876	(1)
Biotherm (Monaco)	152	17	99.8	3,545	3,545	1,777	2,907
Caribel Fragrances Inc. (Puerto Rico)	0	0	100	0	0	0	(1)
Club des Créateurs de Beauté Japon K.K	4,309	-6,386	50	2,173	802	-490	(1)
Cosmelor Ltd (Japan)	3,554	19,413	100	35,810	35,810	857	451
Cosmephil Holdings Corpo. (Philippines)	171	-143	100	400	14	0	(1)
Cosmética Activa Portugal Ltda	75	15	95	709	709	2,960	1,972
Cosmétique Active Belgilux (Belgium)	3,240	1,323	86.71	3,423	3,423	2,985	2,805
Cosmétique Active Hellas (Greece)	705	322	99.97	14,468	14,468	5,484	4,858
Cosmétique Active Ireland Ltd (Ireland)	82	161	100	732	732	531	(1)
Cosmétique Active Osterreich (Austria)	75	64	100	1,579	1,579	2,628	2,502
Cosmétique Active Suisse (Switzerland)	32	319	100	4,645	4,645	3,022	2,814
Elebelle (Proprietary) Ltd (South Africa)	806	50,119	100	61,123	49,123	0	(1)
Erwiton (Uruguay)	739	80	100	17	17	3,767	6,909
Galderma Pharma SA (Switzerland)	31,388	375,064	50	10,124	10,124	75,572	(1)
Kosmepol Sp ZOO (Poland)	38,844	18,444	99.73	48,965	48,965	2,924	(1)
Lai Mei Cosmetics Int. Trading (China)	9,500	2,820	100	11,197	11,197	12,546	8,856
Lancarome A/S (Denmark)	403	-8	100	953	953	4,402	3,815
Le Club des Créateurs de Beauté (Belgium)	250	-545	50	251	0	-548	(1)
Le Club des Créateurs de Beauté (Taiwan)	234	-19	50	328	32	-372	(1)
L'Oréal Adria	131	1,331	100	1,503	1,503	299	265
L'Oréal Argentina Sociedad anonima	13,081	8,327	100	81,068	35,154	4,568	2,986
L'Oréal Australia	2,711	15,616	100	18,794	18,794	19,843	20,332
L'Oréal Balkan (Serbia)	1,241	255	100	1,285	1,285	62	(1)
L'Oréal Baltic (Latvia)	387	3,441	100	529	529	1,850	(1)
L'Oréal Belgilux (Belgium)	10,000	26,519	99.99	35,583	35,583	24,743	22,255
L'Oréal Bulgaria	102	0	100	102	102	10	(1)
L'Oréal Canada Inc.	1,784	12,988	100	144,226	144,226	63,429	44,854
L'Oréal Ceska Republica (Czech Republic)	8,936	-1,394	100	8,678	8,678	4,140	(1)
L'Oréal Chile (Chile)	20,888	3,217	100	43,784	42,398	10,596	6,781
L'Oréal China Co. Ltd (China)	23,745	-26,822	100	37,482	37,482	-58	(1)
L'Oréal Colombia (Colombia)	1,931	1,973	94	6,395	4,757	79	77
L'Oréal Danmark A/S (Denmark)	269	5,195	100	7,382	7,382	6,933	6,525
L'Oréal Deutschland GmbH (Germany)	12,647	57,116	99.99	71,832	71,832	102,435	84,103
L'Oréal Espana SA (Spain)	59,911	67,849	63.86	228,809	228,809	59,773	39,606
L'Oréal Finland Oy (Finland)	673	13	100	1,280	1,280	8,269	6,976
L'Oréal Guatemala SA	1,044	1,068	100	2,162	2,162	427	1,671
L'Oréal Hellas (Greece)	3,465	4,552	77.41	2,112	2,112	12,000	8,716
L'Oréal Hong Kong Ltd	3	2,496	99.97	604	604	43,862	40,871
L'Oréal India Private Ltd	39,908	-25,245	100	54,902	19,971	3,974	(1)
L'Oréal Investments B.V. (Netherlands)	18	8	100	18	18	0	(1)
L'Oréal Israël Ltd	4,119	8,528	92.97	38,497	33,597	3,114	3,328
L'Oréal Italia Spa	153,818	29,859	100	161,801	161,801	78,147	77,201
L'Oréal Japan Ltd (Japan)	370	-545	100	275	0	-27	(1)
L'Oréal Korea Ltd (South Korea)	1,991	-3,326	100	20,794	0	-3,296	(1)
L'Oréal Liban SAL	3,139	978	99.88	7,698	7,698	1,652	2,057
L'Oréal Luxe Producten Nederland B.V.	908	0	100	1,937	1,937	6,784	10,822
L'Oréal Luxury Products Norge (Norway)	298	397	100	853	853	2,058	1,664
L'Oréal Luxury Products Sverige (Sweden)	110	123	100	108	108	2,441	2,108
L'Oréal Magyarorszag Kosmetikai Kft (Hungary)	4,249	1,190	100	7,815	7,815	2,205	1,217
L'Oréal Malaysia SDN BHD (Malaysia)	4,749	684	94.34	6,456	6,456	5,421	3,553
L'Oréal Mexico S.A de C.V	2,349	29,016	100	8,443	8,443	38,751	38,169
L'Oréal Middle East (United Arab Emirates)	2,156	1,074	100	2,507	2,507	12,987	7,718
L'Oréal Nederland BV (Netherlands)	34	3	100	4,894	4,894	18,385	16,549



€ 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		
L'Oréal New Zealand Ltd	42	1,669	100	624	624	4,393	3,774
L'Oréal Norge A/S (Norway)	1,144	1,617	100	3,198	3,198	9,177	8,380
L'Oréal Österreich GmbH (Austria)	2,785	305	100	2,240	2,240	8,882	7,613
L'Oréal Panama	159	-91	100	168	168	1,799	(1)
L'Oréal Peru (Peru)	2,096	323	100	3,739	3,307	880	558
L'Oréal Philippines Inc.	2,062	617	95.38	12,478	2,481	-327	(1)
L'Oréal Polska Sp. Z.O.O. (Poland)	21,686	19,072	100	38,210	38,210	19,763	13,163
L'Oréal Portugal LDA	114	2,501	99.08	1,369	1,369	11,966	9,043
L'Oréal Produits de Luxe Portugal LDA	250	50	99.9	317	317	4,254	3,481
L'Oréal Produits de Luxe Belgique (Belgium)	250	760	99.97	2,885	2,885	7,192	7,908
L'Oréal Produits de Luxe Hellas A.E.	1,026	1,616	99.89	2,135	2,135	4,418	5,241
L'Oréal Produits de Luxe Suisse (Switzerland)	257	815	100	556	556	3,069	3,080
L'Oréal Romania SRL (Romania)	2,187	1,016	100	5,883	5,883	2,232	1,217
L'Oréal Singapore Pte Ltd (Singapore)	1,165	-45	100	18,991	18,991	5,976	5,708
L'Oréal Slovenija kosmetica D.O.O. (Slovenia)	465	416	100	856	856	2,202	1,855
L'Oréal Slovensko S.R.O. (Slovakia)	1,598	76	100	1,673	1,673	2,567	1,806
L'Oréal Suisse (Switzerland)	193	945	100	116,776	116,776	14,843	15,207
L'Oréal Sverige AB (Sweden)	1,927	3,781	100	2,139	2,139	8,075	7,917
L'Oréal Taiwan (Taiwan)	16,408	-12,761	100	40,942	37,572	13,620	(1)
L'Oréal Thailand	3,992	-2,839	100	5,238	4,746	1,742	(1)
L'Oréal Türkiye Kozmetik Sanayi Ve Ticar	16,235	1,223	100	22,207	22,207	8,176	5,517
L'Oréal UK Ltd	24,740	3,333	100	47,372	47,372	81,286	73,836
L'Oréal Ukraine	1,483	-1,241	100	1,390	1,390	1,804	(1)
L'Oréal Uruguay	5,349	-3,120	100	5,435	1,474	-1,276	(1)
L'Oréal USA Inc.	4,402	1,253,901	100	2,875,385	2,875,385	268,353	205,779
L'Oréal Venezuela C.A.	1,733	-631	100	12,502	7,021	3,076	3,064
Maybelline Suzhou Cosmetics (China)	53,652	-33,950	66.75	49,601	19,371	9,789	(1)
Nihon L'Oréal KK (Japan)	138,845	10,402	100	377,752	363,752	3,845	(1)
P.T. L'Oréal Indonesia	1,510	-129	99	2,305	1,906	460	(1)
P.T. Yasulor Indonesia	4,769	10,981	99.98	40,854	15,871	-677	(1)
Parbel of Florida Inc. (USA)	40	-255	100	100,317	100,317	26,037	23,217
Parmobel Ltd (Cyprus)	572	-3,689	100	34,776	34,776	4,080	7,817
Procosa Productos de Beleza Ltda (Brazil)	102,462	49,536	100	170,243	170,243	27,238	10,488
Scental Ltd (Hong Kong)	5	168	100	8	8	0	(1)
Sofamo (Monaco)	160	2,186	99.97	1,851	1,851	595	956
The Body Shop International PLC <sup>(3)</sup>	15,914	306,016	100	992,445	992,445	-9,928	
Venprobel (Venezuela)	20	-222	100	2,722	0	0	(1)
Yue-Sai Kan Cosmetics (Shenzhen) China	4,167	6,040	100	168,708	168,708	489	(1)
<b>B. Main foreign investments - Holdings of less than 50%</b>							
	n/s	n/s	n/s	n/s	n/s	n/s	n/s

(3) The Body Shop International: published information as of February 25<sup>th</sup>, 2006.

For foreign subsidiaries and investments, the capital, reserves and retained earnings have been translated into thousands of euros on the basis of year-end exchange rates, while profits and losses have been translated at the average exchange rate for 2006.

It is specified that the list of companies set out above is not exhaustive.

### Information relating to all subsidiaries and investments

€ thousands	Subsidiaries		Investments	
	French	Foreign	French	Foreign
Book value of shares held:				
• gross restated	278,609	6,724,594	512,870	1
• net	270,495	6,502,328	512,870	1
Amount of loans and advances granted	78,849	10,622		
Amount of guarantees and security granted	643,314	2,733		
Amount of dividends collected	234,648	937,492	217,423	0

# 2007 Annual General Meeting

## REPORT OF THE BOARD OF DIRECTORS ON THE DRAFT RESOLUTIONS SUBMITTED FOR APPROVAL TO THE ANNUAL GENERAL MEETING ON APRIL 24<sup>TH</sup>, 2007

### Ordinary part

#### Approval of the annual financial statements, allocation of the company's net income for 2006, and declaration of the dividend (first, second and third resolutions)

Having reviewed the Reports of the Board of Directors and the Statutory Auditors, the Annual General Meeting is called on to approve:

- the parent company financial statements, with a profit and loss account which shows net income of €1,690.3 million for 2006 compared with €1,589.6 million at December 31<sup>st</sup>, 2005,
- and the 2006 consolidated financial statements, the main details of which are set out in the 2006 Annual Report, together with the main information included in the file for calling the Annual General Meeting on Tuesday April 24<sup>th</sup>, 2007.

The Board of Directors proposes to the Annual General Meeting a net dividend of €1.18 per share, representing an increase of 18% compared with the net dividend for 2005.

This dividend will be paid on Thursday May 3<sup>rd</sup>, 2007.

#### Regulated agreements and regulated commitments (fourth resolution)

No new regulated agreement referred to in Article L. 225-38 of the French Commercial Code was concluded or continued in 2006.

A regulated commitment referred to in Article L. 225-42-1 of the French Commercial Code is submitted for the approval of the Annual General Meeting. In this regard, at its meeting on April 25<sup>th</sup>, 2006, the Board of Directors placed on record the suspension of Mr Jean-Paul Agon's employment contract as from the date of his appointment as Chief Executive Officer and decided to consider him as equivalent to a senior management executive throughout the length of his tenure, so that he is able to continue to benefit from the same schemes and plans as those he was entitled to prior to his appointment and, in particular, the same pension plan and benefit fund.

This commitment is described in detail in the special report of the Statutory Auditors.

#### Renewal of the tenure as director of Mrs Liliane Bettencourt (fifth resolution)

The Board of Directors proposes to the Annual General Meeting that it should renew the tenure as director of Mrs Liliane Bettencourt which expires at the end of this Annual General Meeting. This tenure would then run for a period of four years as provided for by the Articles of Association, expiring at the end of the Ordinary General Meeting to be held in 2011 to review the financial statements for 2010.

#### Appointment as director of Mrs Annette Roux (sixth resolution)

The Board of Directors proposes that the Annual General Meeting should appoint as a new director, Mrs Annette Roux, Vice-Chairman of the Supervisory Board of Bénéteau SA.

Mrs Annette Roux took over the helm of Bénéteau, then a family business, in 1964 and showed her ability to build an international group, the world leader in its market sector. This extraordinary success owes a lot to the personal qualities of Mrs Roux, a woman of conviction, who is open and energetic and has demonstrated her ability to put her talents to good use in developing her business, which has been listed on the Paris stock exchange since 1984. Mrs Roux embodies one of the resounding success stories in French industry. Her skills, her experience and her independence will help to strengthen and enrich the Board of Directors of L'Oréal.

Mrs Annette Roux would be appointed for a period of four years as provided for by the Articles of Association, expiring at the end of the Ordinary General Meeting to be held in 2011 to review the financial statements for 2010.

#### Authorisation for the company to buy back its own shares (seventh resolution)

During 2006 and up until February 14<sup>th</sup>, 2007, the Board of Directors continued with the implementation of its policy of buying back then cancelling shares: 17.68 million shares were bought back, for a total amount of €1,308.3 million while 29.7 million shares were cancelled.

As the existing authorisation is due to expire in October 2007, a proposal is made to the Annual General Meeting that it should grant the Board a further authorisation enabling it to continue with its share buyback policy, depending on the opportunities that may arise.

A detailed report on the transactions carried out and a description of the authorisation that is being put to your vote are included in the Chapter of the Management Report entitled "Buyback of its own shares by the Company".

The authorisation would be granted for a period of 18 months at a purchase price per share that may not be greater than €120. The authorisation would concern no more than 10% of the capital for a maximum amount of €7.5 billion, it being stipulated that the company may at no time hold over 10% of its own capital, and that share buybacks made in this manner could not continue during a public offer period.

### Extraordinary Part

#### Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts (eighth resolution)

The authorisation given to the Board of Directors on April 26<sup>th</sup>, 2005 to increase the share capital either through the issue of cash shares with preferential subscription rights, or *via* the capitalisation of reserves, is due to expire. This authorisation was never used by the Board: it is proposed that the Annual General Meeting should renew this authorisation.

The total amount of the capital increases that may thus be carried out immediately and/or in future may not lead to the share capital, which currently amounts to €125,225,382, being increased to over €185,000,000, i.e., for information purposes, a maximum increase of 47.7% as compared with the current capital.

This delegation of authority would be valid for a period of 26 months, as from the date of the Annual General Meeting.

**Authorisation given to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares (ninth resolution)**

It is proposed that the Annual General Meeting should give a further authorisation to the Board of Directors to grant stock options to purchase and subscribe for shares.

Stock options bring the interests of their beneficiaries closer in line with the interests of the shareholders themselves by having them 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 foster loyalty particularly among the employees and corporate officers 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 of encouraging or attracting talented individuals.

The beneficiaries would be employees and/or certain corporate officers. The total number of stock options that could be granted may not give entitlement to subscribe for or purchase a total number of shares representing more than 2% of the share capital at the date of the decision made by the Board of Directors. The exercise price would comply with French legal provisions, without the possibility of granting a discount, as clearly specified in the resolution.

If the Annual General Meeting approves this resolution, any allocations to be made will be decided by the Board of Directors, on the basis of the proposals made by the General Management and reviewed by the Management and Remuneration Committee.

This authorisation would be granted for a period limited to 26 months as from the date of the decision made by the Annual General Meeting.

**Allocation, for no consideration, of existing shares or shares to be issued, to employees of the company (tenth resolution)**

It is proposed that the Annual General Meeting should authorise the Board of Directors to make, on one or more occasions, free grants of existing shares or shares to be issued.

A free grant of shares offers the advantage of not requiring any payment to be made by beneficiaries. It is being considered as a replacement for, or a means of supplementing, grants of small numbers of stock options as the attractiveness of such a grant may appear limited. The free grants of shares will be performance-related.

No free grants of shares will be made either to corporate officers or members of the Management Committee of L'Oréal.

The number of shares that may be granted free of charge may not represent over 0.2% of the share capital on the date of the Board of Directors' decision.

It is proposed to the Annual General Meeting that the free grant of shares to beneficiaries should become final and binding:

- either, for all or part of the shares granted, at the end of a minimum vesting period of four years, in such case without any minimum retention period,
- or, at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to retain these shares for a minimum period of two years after the date of the final grant thereof.

By eliminating the minimum retention period, a possibility offered by the French law of December 30<sup>th</sup>, 2006 provided that the minimum vesting period is four years, the Annual General Meeting will enable the Board of Directors to remove, for some or all of the shares granted free-of-charge, certain local constraints which could hinder the internationalisation of free grants of shares within the group.

The Board of Directors will have the possibility, in any event, to set a longer vesting or retention period than these minimum periods, including in the event that the minimum retention period is abolished by the Annual General Meeting, which will make it possible, in particular, to adapt to the various local constraints.

If the Annual General Meeting approves this resolution, any free grants of shares will be decided by the Board of Directors, on the basis of the proposals made by the General Management and reviewed by the Management and Remuneration Committee.

The authorisation requested from the Annual General Meeting would be granted for a period limited to 26 months as from the date of the decision made by the Annual General Meeting. The expiry date of this authorisation would coincide with the end of the authorisation to grant stock options to purchase or subscribe for shares which is also being put to the vote of the Annual General Meeting.

**Corresponding authorisation for the purpose of carrying out a capital increase reserved for employees (eleventh resolution)**

The delegation of authority to the Board of Directors to increase the share capital, and the authorisations to grant stock options to subscribe for shares and to make free grants of shares to be issued, give rise to a corresponding obligation to submit to the Annual General Meeting a draft resolution enabling a potential capital increase to be carried out reserved for employees.

The Annual General Meeting is therefore requested to delegate to the Board of Directors, for a period of 26 months, and within a limit of 1% of the share capital, the power to decide to carry out the said capital increase.

**Amendment of the Articles of Association  
(twelfth resolution)**

It is proposed that the Annual General Meeting should decide to amend Article 12 of the Articles of Association in accordance with the new provisions of the French Decree of March 23<sup>rd</sup>, 1967 as amended by the French Decree of December 11<sup>th</sup>, 2006 concerning:

- the conditions of access to General Meetings: removal from the Articles of Association of the requirement for a certificate of unavailability in order to enable shareholders holding bearer shares to attend General Meetings; the Decree provides in this respect that the capacity of shareholder (of either registered shares or bearer shares) is now to be assessed in light of an entry in the share register on the third working day at zero hours, Paris time, prior to the Annual General Meeting, and
- the conditions for distance voting prior to the Annual General Meeting: inclusion in the Articles of Association of the possibility to vote using an electronic voting form, if the Board of Directors so decides at the time when the General Meeting is called.

**Powers for formalities  
(thirteenth 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 activity of the L'Oréal company since the beginning of the 2007 calendar-year, please refer to the financial news releases available on the [www.loreal-finance.com](http://www.loreal-finance.com) website.

**The Board of Directors**

**STATUS OF FINANCIAL AUTHORISATIONS IN FORCE GRANTED BY THE ANNUAL GENERAL MEETING TO THE BOARD OF DIRECTORS AND PRESENTATION OF THE AUTHORISATIONS PROPOSED TO THE ANNUAL GENERAL MEETING ON TUESDAY, APRIL 24<sup>TH</sup>, 2007**

Authorisations in force			Authorisations proposed to the AGM of April 24 <sup>th</sup> , 2007			
AGM (Resolution No)	Length (Expiry date)	Maximum authorised amount	Use made of the authorisation at February 28 <sup>th</sup> , 2007	Resolution	Length	Maximum ceiling
<b>Share capital increases</b>						
<b>Capital increase through the issue of shares with maintenance of preferential subscription rights or via the capitalisation of reserves</b>	2005 AGM (12 <sup>th</sup> ) 26 months (June 26 <sup>th</sup> , 2007)	An increase in the share capital to €200,000,000	None	8 <sup>th</sup>	26 months	An increase in the share capital to €185,000,000
<b>Capital increase reserved for employees</b>	2006 AGM (14 <sup>th</sup> ) 26 months (June 25 <sup>th</sup> , 2008)	1% of the share capital at the time of the AGM	None	11 <sup>th</sup>	26 months	1% of the share capital (6,261,269 shares)
<b>Buyback by the company of its own shares</b>						
<b>Buyback by the company of its own shares (maximum purchase price per share proposed for the 2007 AGM: €120)</b>	2006 AGM (12 <sup>th</sup> ) 18 months	10% of the share capital at December 31 <sup>st</sup> , 2005	Treasury shares held by the company at February 28 <sup>th</sup> , 2007 3.44% of the share capital (21,559,950 shares), 0.12% of which (750,000 shares) are for cancellation	7 <sup>th</sup>	18 months	10% of the share capital (62,612,691 shares)
<b>Reduction in the share capital via cancellation of shares</b>						
<b>Cancellation of shares bought back by the company within the scope of Art. L. 225-209 of the French Commercial Code</b>	2003 AGM (10 <sup>th</sup> ) 5 years (May 22 <sup>nd</sup> 2008)	10% of the share capital on the date of cancellation per 24-month period	Use made of the authorisation at February 28 <sup>th</sup> , 2007 48,220,000 shares (7.70% of the share capital)		None	
<b>Cancellation of shares bought back by the company within the scope of Art. L. 225-208 of the French Commercial Code</b>	2006 AGM (15 <sup>th</sup> ) 26 months (June 25 <sup>th</sup> , 2008)	1.8 million shares (0.29% of the share capital)	1,800,000 shares (0.29% of the share capital)		None	
<b>Stock options and free grant of shares</b>						
<b>Allocation of stock options to purchase shares (no discount with regard to exercise price)</b>	2006 AGM (13 <sup>th</sup> ) 26 months (June 25 <sup>th</sup> , 2008)	12 million shares (i.e., for information purposes, 1.82% of the share capital at the time of the AGM)	Stock options allocated at February 28 <sup>th</sup> , 2007 7,500,000 stock options to subscribe for shares	9 <sup>th</sup>	26 months	2% of share capital at the date of the decision made by the Board to allocate stock
<b>Allocation of stock options to subscribe for shares (no discount with regard to exercise price)</b>						
<b>Free grant of existing shares or shares to be issued</b>		None		10 <sup>th</sup>	26 months	0.2% of share capital at the date of the decision made by the Board to make the free grant of shares

## DRAFTS RESOLUTIONS SUBMITTED FOR APPROVALS TO THE ORDINARY AND EXTRAORDINARY GENERAL MEETING APRIL 24<sup>TH</sup>, 2007

### Ordinary part

#### 1<sup>st</sup> resolution

##### Approval of the 2006 parent company financial statements

The Annual General Meeting, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the Report of the Board of Directors and the 2006 parent company financial statements showing net income of €1,690,255,720.74 compared with €1,589,592,354.89 for 2005.

#### 2<sup>nd</sup> resolution

##### Approval of the 2006 consolidated financial statements

The Annual General Meeting, having reviewed the Reports of the Board of Directors and the Statutory Auditors, approves the 2006 consolidated financial statements.

#### 3<sup>rd</sup> resolution

##### Allocation of the company's net income for 2006 and declaration of the dividend

The Annual General Meeting, on the proposal of the Board of Directors, decides to allocate the 2006 net income, amounting to €1,690,255,720.74 as follows:

In euros

No allocation to the legal reserve which already – represents over one-tenth of the share capital	
An amount of	738,829,753.80
will be allocated to shareholders as a dividend <sup>(1)</sup>	
The balance, that is	951,425,966.94
will be allocated to the "Other reserves" <sup>(2)</sup> item	

(1) Including an initial dividend equal to 5% of the amounts paid up on the shares, i.e. the total amount of the share capital.

(2) This amount takes into account the number of shares forming the capital at February 14<sup>th</sup>, 2007 and will be adjusted to reflect the number of shares issued following the exercise of options to subscribe for shares with 2006 dividend rights on the dividend payment date.

The Annual General Meeting therefore declares a net dividend to be paid for the financial year of €1.18 per share.

The Annual General Meeting decides that the dividend will be paid on May 3<sup>rd</sup>, 2007.

The amount of income corresponding to the dividends not paid on treasury shares held by the company will be allocated to the *Ordinary reserve* item.

In accordance with Article 243 bis of the French Tax Code (*Code général des impôts*), the dividend distributed to natural persons who have their tax residence in France is eligible in full for the 40% tax deduction provided for in Article 158-3-2° of the French Tax Code.

The net dividends<sup>(3)</sup> per share paid for the last three years were the following:

2003	2004	2005
€0.73	€0.82	€1.00

(3) For certain taxpayers, the dividend granted entitlement to a tax credit equal to 50% of the dividend for distributions made for 2003.

#### 4<sup>th</sup> resolution

##### Regulated agreements and regulated commitments

The Annual General Meeting, having reviewed the special report of the Statutory Auditors on agreements provided for in Article L. 225-40 of the French Commercial Code (*Code de commerce*), approves the commitment described in this report.

#### 5<sup>th</sup> resolution

##### Renewal of the tenure as director of Mrs Liliane Bettencourt

The Annual General Meeting renews the tenure as director of Mrs Liliane Bettencourt for a period of four years as provided for by the Articles of Association.

Her tenure will expire at the end of the Ordinary General Meeting to be held in 2011 to review the financial statements for the year ending December 31<sup>st</sup>, 2010.

#### 6<sup>th</sup> resolution

##### Appointment as director of Mrs Annette Roux

The Annual General Meeting decides to appoint Mrs Annette Roux as director for a period of four years as provided for by the Articles of Association, and this period will expire at the end of the Ordinary General Meeting to be held in 2011 to review the financial statements for the year ending December 31<sup>st</sup>, 2010.

#### 7<sup>th</sup> resolution

##### Authorisation for the company to buy back 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 delegate, to trade in the company's shares on the Stock Exchange or otherwise, in accordance with the requirements of Articles L. 225-209 and seq. of the French Commercial Code, and subject to the following conditions:

- the purchase price per share may not be greater than €120,
- the number of shares to be bought by the company may not exceed 10% of the number of shares forming the capital at February 14<sup>th</sup>, 2007, that is 62,612,691 shares for a maximum amount of €7.5 billion, it being stipulated that the company may at no time hold over 10% of its own capital.

In the event of any transactions affecting the company's capital, the amounts indicated above will be adjusted on the basis of the characteristics of the transaction.

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 a reduction in the capital, in accordance with the authorisation granted by the Extraordinary General Meeting of May 22<sup>nd</sup>, 2003 for a period of five years,
- their allocation to employees and corporate officers of the company and affiliates, under the terms and conditions provided for by French law, and in particular within the scope of employee

profit-sharing schemes, stock options, free grants of shares or company savings schemes,

- animate the market through a liquidity agreement entered into with an investment services provider,
- retaining them and subsequently using them as payment in connection with external growth transactions.

Purchase, sale, exchange and transfer operations carried out within the scope of this authorisation may be carried out by any means on or off the stock markets and, in particular, in whole or in part, *via* transactions involving blocks of shares or the use of derivatives, in accordance with the applicable regulations.

The General Meeting grants this authorisation for a period of 18 months as from the date of this General Meeting; this authorisation will cancel that granted by the General Meeting on April 25<sup>th</sup>, 2006 for the period of such authorisation that has not yet elapsed, as from the date of implementation of such authorisation by the Board of Directors.

The Annual General Meeting grants full powers to the Board of Directors, with the possibility to delegate, to make all trades, enter into all agreements, prepare all documents, particularly for information purposes, carry out all formalities and make all declarations and filings with all organisations and, in general, to take all actions that are necessary for the implementation of this resolution.

### Extraordinary part

#### 8<sup>th</sup> resolution

##### **Delegation of authority to the Board of Directors to increase the share capital either through the issue of ordinary shares with maintenance of preferential subscription rights, or via the capitalisation of share premiums, reserves, profits or other amounts**

The Annual General Meeting, having reviewed the report of the Board of Directors and in accordance with the provisions of Article L. 225-129-2 of the French Commercial Code:

1 - Delegates to the Board of Directors the authority to decide on one or more increases in the share capital:

a - through the issue of ordinary shares of the company,  
b - and/or *via* the capitalisation of share premiums, reserves, profits or other amounts which it will be possible to capitalise pursuant to French law and the Articles of Association in the form of allocations of bonus shares or an increase in the par value of existing shares.

The delegation of authority thus granted to the Board of Directors is valid for a period of 26 months as from the date of this meeting,

2 - Decides that the total amount of the capital increases that may thus be carried out either immediately and/or in future may not lead to the share capital, which currently amounts to €125,225,382, being increased to over €185,000,000, i.e., for information purposes, a maximum increase of 47.7% as compared with the current capital.

3 - Decides, if the Board of Directors uses this delegation of authority within the scope of the share issues referred to in paragraph 1.a that:  
a - the shareholders will have a preferential subscription right to

the shares issued pursuant to this resolution, in proportion to the amount of their shares,

b - the number of shares to be issued may be increased within thirty days of the end of the subscription period within the limit of 15% of the initial share issue and at the same price as that used for the initial share issue, when the Board of Directors notes that demand exceeds the number of available shares,

c - if subscriptions made by shareholders by way of right on the basis of the shares they hold and, where applicable, their subscriptions for excess shares, do not cover the full number of shares or securities issued as defined above, the Board will be able to offer to the public all or part of the non-subscribed shares or securities.

4 - Decides that, if the Board of Directors uses this delegation of authority within the scope of capitalisations of share premiums, reserves, profits or other amounts referred to in paragraph 1.b, where applicable, in accordance with Article L. 225-130 of the French Commercial Code, the fractional share rights will not be negotiable and the corresponding shares will be sold: the amounts derived from the sale will be allocated to the holders of the rights within thirty days at the latest after entry in their account of the whole number of shares allocated.

5 - Records that this delegation renders ineffective any prior delegation for the same purpose.

#### 9<sup>th</sup> resolution

##### **Authorisation given to the Board of Directors to grant stock options to purchase and/or subscribe for L'Oréal shares**

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 options to purchase existing shares and/or to subscribe for new shares of L'Oréal, to employees or corporate officers of L'Oréal or companies or economic interest groupings that are directly or indirectly affiliated with it under the conditions of Article L. 225-180 of the French Commercial Code,

- sets at 26 months from the date of this General Meeting the period of validity of this authorisation which may be used on one or more occasions,

- decides that the total number of options thus granted by the Board of Directors may not entitle to subscribe for or purchase a total number of shares representing more than 2% of the share capital on the date of the Board of Directors' decision,

- decides that:

- the purchase price for the shares paid by the beneficiaries will be set by the Board of Directors, without any discount, on the date when the options are granted; this price may not be less than either the average of the opening prices for the twenty trading days before the day on which the options are granted, or the average purchase price of the shares held by the company pursuant to Articles L. 225-208 and L. 225-209 of the French Commercial Code;

- the share subscription 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 for 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 as from the date on which they are granted,

- decides that if the company carries out financial transactions in particular affecting the capital after the allocation of the options, the Board of Directors will take the necessary steps to protect the interests of the beneficiaries of the options under the conditions provided for by the laws and regulations,
- records that this authorisation entails, in favour of the beneficiaries of options to subscribe for shares, express waiver by the shareholders of their preferential subscription rights to the shares that will be issued as and when the options are exercised,
- delegates full powers to the Board of Directors, with the possibility to further delegate to the Chief Executive Officer, to set all the other terms and conditions for allocation of the options and their exercise, and notably to:
  - provide for the possibility to temporarily suspend the exercise of options, in the event that any financial or securities transactions are carried out,
  - deduct, if he deems it appropriate, the expenses incurred to increase the share capital from the amount of the share premiums related 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 this authorisation, with the possibility to further delegate in accordance with the conditions of the laws and regulations, and particularly to record the increases in the share capital resulting from the options which are exercised, to amend the Articles of Association accordingly, to carry out all actions and formalities or have them carried out, and more generally to do all that is necessary,
- records that this authorisation renders ineffective, as from the date hereof, any previous authorisation for the same purpose, to the extent of the unused part, if any.

#### 10<sup>th</sup> resolution

##### **Allocation, for no consideration, of existing shares or shares to be issued, to employees of the company**

The Extraordinary General Meeting, having reviewed the Report of the Board of Directors and the Special Report of the Statutory Auditors, in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code:

- authorises the Board of Directors to carry out, on one or more occasions, to employees of the company or of affiliates within the meaning of Article L. 225-197-2 of the French Commercial Code or certain categories of such employees, free grants of existing shares or shares to be issued of L'Oréal,
- sets at 26 months as from the date of this meeting, the period of validity of this authorisation which may be used on one or more occasions,
- decides that the Board of Directors will determine the identity of the beneficiaries of the grants as well as the conditions and, where applicable, the criteria for the grant of shares,
- decides that the number of shares thus granted free of charge may not represent over 0.2% of the share capital on the date of the Board of Directors' decision,
- decides that the grant of these shares to their beneficiaries will become final and binding:
  - either, for all or part of the shares granted, at the end of a minimum vesting period of four years, in such case without any minimum holding period,

-or, at the end of a minimum vesting period of two years, it being specified that the beneficiaries will then be required to hold these shares for a minimum period of two years after the date of the final grant thereof,

- decides that the grant of these shares to their beneficiaries will become final and binding prior to the expiry of the above-mentioned vesting periods in the event of disability of the beneficiary corresponding to classification in the second or third categories provided for in Article L. 341-1 of the French Social Security Code (*Code de la Sécurité sociale*) and that such shares will be freely transferable in the event of disability of the beneficiary corresponding to classification in the above-mentioned categories under the French Social Security Code,
- authorises the Board of Directors to make, where applicable, during the vesting period, adjustments to the number of shares related to any potential transactions with regard to the company's capital in order to preserve the rights of the beneficiaries,
- records that this authorisation automatically entails, in favour of the beneficiaries of shares granted free of charge, the waiver by the shareholders of their preferential subscription rights in the event of the issue of new shares,
- delegates full powers to the Board, with the possibility to delegate within the legal limits, to implement this authorisation, it being specified that the Board of Directors will be able to provide for longer vesting and retention periods than the minimum periods provided for above.

#### 11<sup>th</sup> resolution

##### **Delegation of authority 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 decisions, 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 may be subscribed by them,
- decides to cancel the preferential subscription right of shareholders for 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 may be subscribed by them,
- sets the period of validity of this delegation at 26 months as from the date of this General Meeting, and records that this delegation renders ineffective any prior delegation for the same purpose,
- decides to set at 1% of the share capital existing at the date of this General Meeting, the capital increase that could thus be completed, that is an increase in the share capital by a maximum nominal amount of €1,252,253 through the issue of 6,261,269 new shares,
- decides that the price of the shares subscribed for by the beneficiaries referred to above, pursuant to this delegation, will be set



in accordance with the provisions of Article L. 443-5 of the French Labour Code,

• decides that the Board of Directors will have full powers to implement this delegation of authority within the limits and under the conditions specified above in particular in order to:

- set the conditions that must be met by the employees (or former employees) to be able to subscribe, individually or through a unit trust, for the shares issued pursuant to this delegation,
- adopt the conditions of the share issue,
- decide on the list of the companies whose employees may benefit from the share issue,
- decide the amount to be issued, the issue price, the dates and terms and conditions of each share issue,
- set the time period allotted to the members to pay up their shares,
- set the date, even with retrospective effect, as of which the new shares will carry dividend rights, record or cause to be recorded the completion of the capital increase for the amount of the shares that have been effectively subscribed to, or decide to provide for a higher amount of such increase so that all the subscriptions received can effectively be covered,
- deduct, where applicable, the costs, taxes and fees of such issues from the amount of the share premiums and deduct, where applicable, from the amounts of the share premiums, the amounts required to allocate them to the legal reserve to set them at the level required by the French legislation and regulations in force,
- in general, carry out all acts and formalities, take all decisions and enter into any agreements that may be appropriate or necessary for the due and proper completion of the share issues made pursuant to this delegation of authority and, in particular, for the issue, subscription, delivery, granting of dividend rights for, listing, negotiability and financial servicing of the new shares and the exercise of the rights attached thereto, and to record the final completion of the capital increase(s) made pursuant to this delegation of authority and amend the Articles of Association accordingly.

### **12th resolution**

#### **Amendment of the Articles of Association**

The Annual General Meeting, having reviewed the Report of the Board of Directors, decides to amend Article 12 of the Articles of Association in order to bring the Articles of Association of L'Oréal into compliance with the new provisions of the French Decree of March 23<sup>rd</sup>, 1967.

Accordingly, paragraphs 8 to 10 of Article 12 of the Articles of Association that are currently drafted as follows:

“Shareholders may vote by mail in accordance with the conditions stipulated by law; shareholders who use the official form for this purpose within the required time period are placed on an equal footing with shareholders present or represented.

If the Board of Directors so decides when the Meeting is called, any shareholder may take part in the Meeting by videoconference or by any other telecommunication or remote transmission means including the Internet, in the conditions stipulated by the applicable regulations at the time it is used. If this decision is taken, it is communicated in the meeting notice published in the *Bulletin des Annonces Légales Obligatoires (B.A.L.O.)*

The right to take part in the Meetings is conditional on holders of registered shares being shareholders of record at the latest the day of the Meeting, and on holders of bearer shares submitting at least three days before the Meeting, at the places indicated in the notice to attend, a certificate from an authorised custodian, stipulating that the bearer shares will remain in a blocked account up to the date of the Meeting.”

will be replaced by three new paragraphs, drafted as follows:

“Shareholders may participate in the Meetings in accordance with the terms and conditions provided for by the regulations in force.

If the Board of Directors so decides when the General Meeting is called, any shareholder may take part in the Meeting by video-conference or by any other telecommunication or remote transmission means including the Internet, in the conditions stipulated by the applicable regulations at the time it is used. If this decision is taken, it is communicated in the meeting notice published in the *Bulletin des Annonces Légales Obligatoires (B.A.L.O.)*

Shareholders voting by mail or by proxy using the official form for this purpose, within the required time period are placed on equal footing with shareholders present or represented., If the Board of Directors so decides when the Meeting is called, the entry of data and the electronic signature of the form may be made directly on the website set up by the person centralising the Meeting documents by any process adopted by the Board of Directors that meets the conditions provided for in the first sentence of the second paragraph of Article 1316-4 of the French Civil Code (*Code civil*), which may consist, in particular, of an identification code and a password. The proxy form or the vote cast in this manner prior to the Meeting by this electronic means, and the acknowledgement of receipt given,, shall be considered as irrevocable written evidence that is enforceable with regard to all the parties involved, being specified that in the event of a sale of shares that takes place before the third working day prior to the Meeting at zero hour (Paris time), the company shall invalidate or amend the proxy form or vote cast prior to such date and time accordingly, where applicable.”

### **13th resolution**

#### **Powers for formalities**

The Annual General Meeting grants full powers to the bearer of an original, copy or extract of these minutes to accomplish all legal and administrative formalities, and to make all filings and announcements prescribed by law.

# Additional information

## GENERAL INFORMATION RELATING TO THE COMPANY

### Share capital

See information on pages 63 to 66 of this Document.

### Legal form

L'Oréal is incorporated in France as a "*société anonyme*".

### Law governing the issuer

French law.

### Business activity

The L'Oréal company, in addition to its role of strategic, scientific and industrial coordination of the group on a global basis, also functions as a holding company and performs 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.

L'Oréal wholly owns the vast majority of its subsidiaries. In the other subsidiaries, minority interests are not material (pages 46 to 49). It also has substantial investments in non-consolidated companies (pages 49 and 50 and pages 119 to 121).

### 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 1<sup>st</sup>, 1963 and which shall thus expire on December 31<sup>st</sup>, 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 number

632 012 100 Paris Trade and Companies Registry.

### 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 1<sup>st</sup> and to end on December 31<sup>st</sup> 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 shareholders, 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

Annual General Meetings are governed by all the legal provisions and regulations laid down in this connection.

Since the Annual General Meeting of April 29<sup>th</sup>, 2004, 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 provision of the Articles of Association supplements the legal requirements covering disclosures concerning the crossing, upwards or downwards, 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 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 spot market of the Paris Stock Exchange.

Eligible for the Deferred Settlement Service (SRD).

Un-sponsored American Depositary Receipts are freely traded in the United States through certain American banks.

### Share price

Price at December 31 <sup>st</sup> , 2006	€75.90
High	€84.05 at August 31 <sup>st</sup> , 2006
Low	€62.30 at January 3 <sup>rd</sup> , 2006
Annual rise at December 31 <sup>st</sup> , 2006:	
• L'Oréal	+ 20.85%
• CAC 40	+ 17.53%
• Euronext 100	+ 18.81%
• DJ Euro Stoxx 50	+ 22.22%
Market capitalisation at December 31 <sup>st</sup> , 2006:	€48.55 billion
At December 31 <sup>st</sup> , 2006, the L'Oréal share accounted for:	
• of the CAC 40	2.14%
• of the Euronext 100	2.24%
• DJ Euro Stoxx 50	0.97%

## L'OREAL SHARE MARKET

Eurolist – compartment A (Large Caps).  
Deferred Settlement Service of the Paris Bourse.

### Trading volume and change in the price of the company's shares

Date	Price in euros			Average daily trading volume (€ millions)
	High	Low	Average	
<b>2004</b>				
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
<b>2005</b>				
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
<b>2006</b>				
January	67.05	62.30	64.86	108.90
February	76.45	65.15	69.57	129.66
March	75.90	71.90	74.08	101.46
April	74.80	70.60	72.75	101.54
May	75.00	66.70	71.08	147.08
June	73.90	65.60	69.30	99.91
July	79.30	71.65	74.68	98.66
August	84.05	76.60	78.68	109.66
September	82.00	76.65	79.20	105.47
October	80.90	74.55	77.48	116.94
November	79.90	75.65	77.88	82.26
December	79.00	74.35	76.33	87.91
<b>2007</b>				
January	81.85	74.25	77.00	118.56
February	83.24	79.10	81.12	112.01

## 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 coupons and fractional allocation rights.

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1996	Purchase of 50 shares at €297.89	14,894.50		50
07.01.1997	Dividend: €2.13 per share, excluding tax credit		106.71	50
	Reinvestment: purchase of 1 share at €393.93	393.93		51
06.12.1998	Dividend: €2.44 per share, excluding tax credit		124.40	51
	Reinvestment: purchase of 1 share at €473.05	473.05		52
06.15.1999	Dividend: €2.82 per share, excluding tax credit		146.66	52
	Reinvestment: purchase of 1 share at €586.50	586.50		53
06.15.2000	Dividend: €3.40 per share, excluding tax credit		180.20	53
	Reinvestment: purchase of 1 share at €825.00	825.00		54
07.03.2000	Ten-for-one share split			540
06.08.2001	Dividend: €0.44 per share, excluding tax credit		237.60	540
	Reinvestment : purchase of 4 shares at €78.15	312.60		544
06.04.2002	Dividend: €0.54 per share, excluding tax credit		293.76	544
	Reinvestment: purchase of 4 shares at €74.95	299.80		548
05.27.2003	Dividend: €0.64 per share, excluding tax credit		350.72	548
	Reinvestment: purchase of 6 shares at €61.10	366.60		554
05.14.2004	Dividend: €0.73 per share, excluding tax credit		404.42	554
	Reinvestment: purchase of 7 shares at €63.65	445.55		561
05.11.2005	Dividend: €0.82 per share		460.02	561
	Reinvestment: purchase of 9 shares at €56.50	508.50		570
05.10.2006	Dividend: €1.00 per share		570.00	570
	Reinvestment: purchase of 8 shares at €72.65	581.20		578
<b>Total</b>		<b>19,687.23</b>	<b>2,874.49</b>	
<b>Total net investment</b>		<b>16,812.74</b>		

**Portfolio value at December 31<sup>st</sup>, 2006 (578 shares at €75.90 per share): €43,870.20.**

**The initial capital has thus been multiplied by 2.95 over 10 years (10-year inflation rate = 16% - Source: INSEE) and the final capital is 2.61 times the total net investment.**

**The Total Shareholder Return of the investment is thus 10.36% per year (assuming that the shares are sold on December 31<sup>st</sup>, 2006, excluding tax on capital gains).**

**NOTE: any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.**

**20-year evolution of a portfolio of approximately €15,000 invested in L'Oréal shares with reinvestment of coupons and fractional allocation rights.**

Date of transaction	Nature of transaction	Investment (€)	Income (€)	Number of shares after the transaction
12.31.1986	Purchase of 25 shares at €586.17	14,654.25		25
06.30.1987	Dividend: €5.03 per share, excluding tax credit Reinvestment: purchase of 1 share at €525.95	525.95	125.77	25 26
06.30.1988	Dividend: €5.64 per share, excluding tax credit Reinvestment: purchase of 1 share at €509.18	509.18	146.66	26 27
06.30.1989	Dividend: €7.62 per share, excluding tax credit Reinvestment: purchase of 1 share at €697.61	697.61	205.81	27 28
06.29.1990	Dividend: €9.15 per share, excluding tax credit Reinvestment: purchase of 1 share at €827.80	827.80	256.11	28 29
07.06.1990	Ten-for-one share split			290
06.28.1991	Dividend: €1.07 per share, excluding tax credit Reinvestment: purchase of 4 shares at €87.20	348.80	309.47	290 294
06.26.1992	Dividend: €1.28 per share, excluding tax credit Reinvestment: purchase of 3 shares at €140.25	420.76	376.49	294 297
06.25.1993	Dividend: €1.46 per share, excluding tax credit Reinvestment: purchase of 3 shares at €167.69	503.07	434.66	297 300
06.28.1994	Dividend: €1.65 per share, excluding tax credit Reinvestment: purchase of 3 shares at €167.69	503.07	493.93	300 303
06.28.1995	Dividend: €1.86 per share, excluding tax credit Reinvestment: purchase of 4 shares at €185.84	743.36	563.54	303 307
06.28.1996	Dividend: €2.03 per share, excluding tax credit Reinvestment: purchase of 3 shares at €260.54	781.62	622.46	307 310
07.01.1996	Issue of bonus shares (1 for 10)			341
07.01.1997	Dividend: €2.13 per share, excluding tax credit Reinvestment: purchase of 2 shares at €393.93	787.86	727.79	341 343
06.12.1998	Dividend: €2.44 per share, excluding tax credit Reinvestment: purchase of 2 shares at €473.05	946.10	836.64	343 345
06.15.1999	Dividend: €2.82 per share, excluding tax credit Reinvestment: purchase of 2 shares at €586.50	1,173.00	973.01	345 347
06.15.2000	Dividend: €3.40 per share, excluding tax credit Reinvestment: purchase of 2 shares at €825.00	1,650.00	1,179.80	347 349
07.03.2000	Ten-for-one share split			3,490
06.08.2001	Dividend: €0.44 per share, excluding tax credit Reinvestment: purchase of 20 shares at €78.15	1,563.00	1,535.60	3,490 3,510
06.04.2002	Dividend: €0.54 per share, excluding tax credit Reinvestment: purchase of 26 shares at €74.95	1,948.70	1,895.40	3,510 3,536
05.27.2003	Dividend: €0.64 per share, excluding tax credit Reinvestment: purchase of 38 shares at €61.10	2,321.80	2,263.04	3,536 3,574
05.14.2004	Dividend: €0.73 per share, excluding tax credit Reinvestment: purchase of 41 shares at €63.65	2,609.65	2,609.02	3,574 3,615
05.11.2005	Dividend: €0.82 per share Reinvestment: purchase of 53 shares at €56.50	2,994.50	2,964.30	3,615 3,668
05.10.2006	Dividend: €1.00 per share Reinvestment: purchase of 51 shares at €72.65	3,705.15	3,668.00	3,668 3,719
<b>Total</b>		<b>40,215.23</b>	<b>18,652.60</b>	
<b>Total net investment</b>		<b>21,562.63</b>		

**Portfolio value at December 31<sup>st</sup>, 2006 (3,719 shares at €75.90 per share): €282,272.10.**

**The initial capital has thus been multiplied by 19.26 over 20 years (20-year inflation rate = 48.1% - Source: INSEE) and the final capital is 13.09 times the total net investment.**

**The Total Shareholder Return of the investment is thus 15.31% per year (assuming that the shares are sold on December 31<sup>st</sup>, 2006, excluding tax on capital gains).**

**NOTE: any income tax that may be paid by the investor as a result of the successive dividend payments is not taken into account.**

## Dividends

The limitation period for dividends is five years. Any dividends for which payment has not been requested are paid to the Caisse des Dépôts et Consignations.

## 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, in particular, Volume 1, pages 40 and 41),

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 made on an ongoing basis and inherent to the group's activities, particularly in the cosmetics industry. In order to win new market shares, thorough research has to be conducted all over the world, and advertising and promotional expenses have to be incurred 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 OBLIGATIONS AND ADDITIONAL BENEFITS

All over the world, depending on the legislation and practices in each country, L'Oréal adheres to pension, retirement benefit and employee benefit schemes offering a variety of additional coverage for its employees.

### Employee pension schemes in France

In France, L'Oréal has supplemented its retirement plan by creating on January 1<sup>st</sup>, 2001 a defined benefits scheme with conditional entitlements based on the employee's presence in the company at the end of his/her career. Then, on September 1<sup>st</sup>, 2003, a defined contributions scheme with accrued entitlements was introduced.

#### Defined benefits scheme

In order to provide additional cover, if applicable, to compulsory pensions provided by the French Social Security compulsory pension scheme, the ARRCO or AGIRC (mandatory French supplementary pension schemes), L'Oréal introduced on January 1<sup>st</sup>, 2001, a defined benefits scheme with conditional entitlements, the Retirement Income Guarantee for former Senior Managers.

Prior to this, on December 31<sup>st</sup>, 2000, L'Oréal closed another defined benefits scheme, also with conditional entitlements, the "Garantie de Retraite des Membres du Comité de Conjoncture" (Pension Cover of the Members of the "Comité de conjoncture").

Access to the Retirement Income Guarantee for former Senior Managers, created on January 1<sup>st</sup>, 2001, is open to former L'Oréal Senior Executives who fulfil, in addition to having ended their career with the company, the condition of having been a Senior Manager within the meaning of Article L. 212-15-1 of the French Labour Code for at least ten years at the end 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 beneficiary's spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Guaranteed Income is the average of the salaries for the best three years out of the seven calendar years prior to the end of the Senior Manager's career at L'Oréal. The Guaranteed Income is calculated based on the beneficiary's number of years of professional activity in the company at the date of the end of his/her career at L'Oréal, and limited to a maximum 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 for 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 accrued on the date when the retiree applies for his/her pension as a result of his/her professional activity and on the basis of a beneficiary who is 65 years of age. The Life Annuity is the result of the conversion into an annuity at the beneficiary's age on the date he/she applies for his/her pension of the gross Lump Sum Equivalent, excluding any paid notice period and paid holiday, less the amount of all payments due as a result of termination of the employment contract and all salaries paid under an early retirement leave 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 ended their career with the company.

Access to the Pension Cover for Members of the "Comité de conjoncture" has been closed since December 31<sup>st</sup>, 2000.

This former scheme grants entitlement to payment to the beneficiary retiree, after having ended his/her career with the company, of a Life Annuity as well as, after his/her death, the payment to the spouse and/or ex-spouse(s) of a surviving Spouse Pension and, to the children, of an Orphan Pension, subject to the children fulfilling certain conditions. The calculation basis for the Pension Cover is the average of the salaries for the best three years out of the seven calendar years prior to the end of the beneficiary's career at L'Oréal. The Pension Cover is calculated on the basis of the beneficiary's number of years' service and limited to a maximum of 40 years. The Pension Cover may not exceed 40% of the calculation basis for the Pension Cover, 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 the condition, for those in active employment, of fulfilling all the conditions after having ended their career with the company.

**Defined contribution scheme**

Access to the Defined Contribution scheme with accrued entitlements, created on September 1<sup>st</sup>, 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 six times this ceiling. In 2003, the year in which this scheme was created, the contribution was 0.5% payable by the employer. Since 2004, the employees and the company make, each year up until 2008, an increasing contribution to the scheme which will amount at January 1<sup>st</sup>, 2008 to 4% of the income broken down in equal shares between the employees and the company.

This scheme grants entitlement to the payment to the beneficiary retiree, after he/she has applied for his/her pension entitlement from the French Social Security compulsory 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 surviving Spouse Pension. The Life Annuity is calculated on the basis of the capital formed by the contributions made and the financial income on such contributions at the end of the employee's career. The employer's commitment is limited to the payment of the contributions stipulated.

In euros	12.31.2004	12.31.2005	12.31.2006 (estimated)
Number of members	7,840	8,628	8,880
<b>Total net contributions</b>	<b>1,808,833</b>	<b>2,768,544</b>	<b>3,916,920</b>

**Early retirement benefits**

L'Oréal pays particular attention to the retirement conditions of its employees and the specific retirement benefits or advantages made available to them.

**Early retirement leave ("Congé de fin de carrière" – C.F.C.)**

Within the framework of a company-level agreement, employees who meet the conditions for a full-rate pension and who retire between the ages of 60 and 63 benefit from special leave, ranging from three months for 20 years' service to nine months for 30 years' service. They remain salaried employees of L'Oréal and their income is maintained (subject to a ceiling of €8,692 per month), as well as employee profit-sharing, incentives and paid holidays.

**End-of-career leave under the time savings account**

This arrangement, linked to the 35-hour working week agreement and the Time Savings Account (*Compte Epargne Temps – C.E.T.*), enables an employee who has saved 3 days' leave per year each year since 2001 under the C.E.T., to benefit from the possibility to terminate their activities at least 3 months earlier than scheduled (6 months for sales representatives), and this possibility can be combined with the early retirement leave.

**Retirement Indemnities**

The schedule for calculating retirement indemnities applied by L'Oréal is more favourable than that provided for under the French National Collective Bargaining Agreement for the Chemical Industries (L'Oréal agreement of October 1<sup>st</sup>, 2002).

Thus, when he/she retires, an employee may benefit from retirement indemnities ranging from one month's salary for five years' service, to six months' salary for 35 years' service, with this length of service being calculated up to the employee's 65<sup>th</sup> birthday.

In order to increase the special leave prior to retirement, the employee may opt to convert his retirement indemnities into time, or he/she may choose to receive payment of the retirement indemnities which will be made at the time when he/she leaves the company.

	12.31.2003			12.31.2004			12.31.2005			12.31.2006		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Early retirement leave	74	109	183	98	138	236	118	166	284	117	189	306
Compulsory retirement on the company's initiative			8			10			20			21
Voluntary retirement			129			168			200			256

(Source: HR France statistics, 2003, 2004, 2005 and 2006).

These commitments are guaranteed partly by external financial cover aimed at gradually building up funds resulting from premiums paid to external organisations. The commitments net of funds invested and the actuarial differences are booked as a provision in consolidated balance sheet liabilities.

The evaluation method adopted to calculate the retirement and early retirement benefits commitments is the retrospective method and based on estimated calculations of the final salary.

These commitments take into account the employer's contribution to the healthcare schemes for retirees.

€ millions	12.31.2004	12.31.2005	12.31.2006
Provision for pension commitments in consolidated balance sheet liabilities	562.9	570.9	567.1

(For France).

## Employees Benefit schemes in France

In addition to the compulsory Lump Sum Death Benefit for executives under Articles 4 and 4bis of the French National Collective Bargaining Agreement of 1947 (1.5% of Bracket A of income as defined by the French Social Security) and the guarantees accorded under the French National Collective Bargaining Agreement for the Chemical Industries, L'Oréal has set up, in France, under an agreement, an employee benefit scheme providing additional collective guarantees to its employees.

All these 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 on Brackets A, B and C of income as defined by the French Social Security, except for the Education Annuity which is based on Brackets A and B, and the surviving Spouse Pension which is based on Brackets B and C.

This Employee Benefit scheme provides 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,
- **permanent disability**, for all employees, a fraction, depending on the extent of the disability, ranging up to 90% of their gross income, 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, increased depending on the employee's family status. The amount of this Benefit is doubled in the event of accidental death,
  - for executives and comparable categories of employees, 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, comparable categories of employees, and sales representatives, the payment of an Education Annuity to each dependent child, according to an age-based schedule. For the other employees, this guarantee is optional and, if chosen, replaces part of the Lump Sum Death Benefit.

The total amount of the Lump Sum Equivalent for these guarantees may not exceed €2.3 million per event.

The capital for the Spouse Pension is the first to be applied, followed by the Education Annuity; the balance of the basic scheme is then used to calculate the Lump Sum Death Benefit, possibly increased by the minimum guaranteed Lump Sum Death Benefit.

€	12.31.2004	12.31.2005	12.31.2006 (estimated)
Net benefit scheme contributions	8,231,358	8,019,843	8,125,000

## Minimum guaranteed Lump Sum Death Benefits

Since December 1<sup>st</sup>, 2004, and January 1<sup>st</sup>, 2005 for sales representatives, L'Oréal has put in place an additional guaranteed Lump Sum Death Benefit that supplements, where applicable, for all employees, the Lump Sum Death Benefits to the extent of three years' average income. A maximum limit is set for this guarantee.

The total amount of the capital needed to fund the surviving Spouse Pension and Education Annuity, the Lump Sum Death Benefits and the minimum guaranteed Lump Sum Death Benefit is also subject to a ceiling.

## Healthcare expenses

Additional healthcare schemes are offered to the employees of L'Oréal parent company and its French subsidiaries.

These schemes are generally optional and personal and usually financed by the company and the employees in equal shares. Employees have the option of including their family members in these schemes. Retirees can generally continue to benefit from the healthcare scheme, with a contribution by L'Oréal, subject to a membership duration clause.

## Corporate officers appointed by the Board of Directors

It is an ongoing policy of L'Oréal's Board of Directors to treat corporate officers, tied to the company under an employment contract, and appointed by it, in the same way as senior managers for all additional benefits relating to their salary. These corporate officers are therefore covered by the same pension and benefit schemes as the L'Oréal senior managers.

## Pension and Employee Benefit schemes outside France

In 2002, L'Oréal set up a supervisory committee for pension and employee benefit schemes offered by its subsidiaries. This committee ensures the implementation and the monitoring of L'Oréal's pension and employee benefits policy as defined by the L'Oréal Executive Committee. This policy provides for general principles in the following areas: definition and implementation of schemes, relations with employees, financing and cost of the schemes, and management of the schemes. 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 departments of the Divisions and zones.

The characteristics of the pension schemes and other retirement benefits offered by the subsidiaries outside France vary depending on 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 whole series of defined benefit schemes and/or defined contribution schemes (e.g. United States, the Netherlands, Belgium, Canada, and Latin American countries). In some cases, the defined benefit schemes have been closed to new recruits who are offered defined contribution schemes (Germany and the United Kingdom). This series of defined benefit and defined contribution schemes makes it possible to share the financial risks and ensure improved cost stability. In defined contribution schemes, the company's commitment mainly consists in paying a percentage of the employee's annual salary into a pension plan each year.

The defined benefit schemes are financed by payments into specialist funds or by setting up provisions, in accordance with the accounting standards adopted by L'Oréal. The performance of the managers of the main funds established, as well as the financial stability rating of the custodians, is regularly reviewed by the Supervisory Committee.



## MAIN SHAREHOLDERS – OPERATIONS WITH RELATED PARTIES

The stakes held by Mrs Liliane Bettencourt and her family on the one hand, and by Nestlé on the other hand, in the share capital of L'Oréal, the changes in these stakes and the provisions of the agreement signed between these shareholders on February 3<sup>rd</sup>, 2004 are presented in the Management Report (cf. section on "Shareholders' agreements relating to shares in the company's share capital" page 65). The six directors appointed upon a proposal by the two main shareholders are subject to the same obligations as the company's other directors, notably with regard to compliance with corporate interests, as stated in the Internal Rules of the Board of Directors.

The method of organisation and operation adopted by the Board of Directors would enable it, if applicable, to prevent any potential abusive exercise of control by a shareholder, notably by the presence of five independent members on the Board of Directors.

Furthermore, the system of "Regulated Agreements and Commitments" laid down by law provides for a triple control (prior authorisation of the Board of Directors, Statutory Auditors' Special Report [cf. page 152 of this document], and approval by the General Meeting [cf. page 126, fourth resolution submitted to the vote of the General Meeting to be held on April 24<sup>th</sup>, 2007]). This system covers agreements reached between the company and one of its corporate officers, those entered into with one of its shareholders which holds more than 10% of the voting rights and the commitments made by the company with regard to the corporate officers appointed by the Board of Directors.

It is to be noted that the information on "Transactions between related parties" (page 45) is given in note 28 of the Notes to the Consolidated financial statements.

## INFORMATION POLICY

Ever since its first listing on the Paris Stock Exchange over 43 years ago, L'Oréal has constantly been improving the sources of information available to its French and international shareholders and investors. L'Oréal does everything possible to keep them regularly supplied with a wide range of clear and easily accessible financial information.

Thanks to its "evolving sample group of shareholders" and several surveys carried out over the year, L'Oréal allows its shareholders to participate in the changes to its financial communications and to their enrichment. The progress made in this area has been praised by the best observers of the financial community who, through AGEFI, have given L'Oréal an award for the "Quality and transparency of information and communication".

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](http://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. Widely used by everyone, our website was ranked second in the "Grand Prix TLB Boursoscan 2006",
- the Annual General Meeting, which is the high point in the dialogue between senior managers and shareholders. This year, it received the Capitalcom award for the best General Meeting of CAC 40 companies,
- the presentation of the group to shareholders in several large provincial cities in France, in collaboration 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,
- participation in the Actionaria Fair at the Palais des Congrès in Paris on November 17<sup>th</sup> and 18<sup>th</sup>, 2006, 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 into English. Four Letters to Shareholders are also published each year, in French and English, together with a Shareholder Digest. All these documents are available on request and can be downloaded from the financial website [www.loreal-finance.com](http://www.loreal-finance.com). Press releases and financial announcements complete the list.

In 1997, L'Oréal created the specialised financial website [www.loreal-finance.com](http://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 dedicated to shareholders, and can be entered with a single click.

Since 2005, electronic information (RSS Flow) has enabled L'Oréal to advise systematically and in real-time of the publication of new financial information.

Moreover, a freephone service is available to L'Oréal shareholders calling from France (0 800 66 66 66) or other countries (33 1 40 14 80 50), in French, English or Italian. This service provides practical information and enables shareholders to keep track of their L'Oréal share account; it also enables holders of pure registered shares to access a share trading service. (See also Volume 1, page 84.)

## 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 Article 221-1-1 of the General Regulation of the AMF (*Autorité des Marchés Financiers*). This document lists the information published or made public by L'Oréal from January 1<sup>st</sup>, 2006 to March 12<sup>th</sup>, 2007 to meet its legal or regulatory obligations.

Information available on the website [www.loreal-finance.com](http://www.loreal-finance.com)

### Press releases

Dates	Press releases
Weekly from January 2 <sup>nd</sup> , 2006 to March 12 <sup>th</sup> , 2007	Disclosure of trading in own shares
Monthly from November 30 <sup>th</sup> , 2006 to February 29 <sup>th</sup> , 2007	Disclosure of total number of voting rights and number of shares forming the capital
January 13 <sup>th</sup> , 2006	2005 sales
January 16 <sup>th</sup> , 2006	Partnership agreement with Diesel
February 16 <sup>th</sup> , 2006	2005 annual results
February 23 <sup>rd</sup> , 2006	L'Oréal has observed recent trading with regard to The Body Shop International shares
February 27 <sup>th</sup> , 2006	SkinEthic
February 28 <sup>th</sup> , 2006	Episkin, subsidiary of L'Oréal, acquires SkinEthic
March 16 <sup>th</sup> , 2006	Annual Shareholders' Meeting
March 17 <sup>th</sup> , 2006	L'Oréal to make an offer for The Body Shop International PLC
March 23 <sup>rd</sup> , 2006	L'Oréal – The Body Shop
April 12 <sup>th</sup> , 2006	L'Oréal – The Body Shop
April 17 <sup>th</sup> , 2006	Episkin, subsidiary of L'Oréal, announces that it holds 97.19% of the capital of SkinEthic
April 19 <sup>th</sup> , 2006	First quarter 2006 sales
April 25 <sup>th</sup> , 2006	New Management Organisation
May 4 <sup>th</sup> , 2006	L'Oréal/The Body Shop – Offer extended
June 1 <sup>st</sup> , 2006	L'Oréal/The Body Shop – Offer declared unconditional as to acceptances
June 9 <sup>th</sup> , 2006	L'Oréal/The Body Shop - L'Oréal offer declared wholly unconditional
June 13 <sup>th</sup> , 2006	L'Oréal/The Body Shop – Posting of compulsory acquisition notices
June 28 <sup>th</sup> , 2006	Renewal of share buyback programme
July 12 <sup>th</sup> , 2006	First half 2006 sales
August 31 <sup>st</sup> , 2006	First half 2006 results
October 12 <sup>th</sup> , 2006	Sales at September 30 <sup>th</sup> , 2006
October 24 <sup>th</sup> , 2006	L'Oréal acquires Sanoflore organic cosmetics brand
January 11 <sup>th</sup> , 2007	Three new members of the group Management Committee announced
January 25 <sup>th</sup> , 2007	2006 annual sales
February 15 <sup>th</sup> , 2007	2006 annual results
February 15 <sup>th</sup> , 2007	Proposed appointment of Mrs Annette Roux as director

### Reference Document

Date	Type of document
April 6 <sup>th</sup> , 2006	2005 Reference Document D.06.0226 (AMF registration)

### “Bulletin des Annonces Légales et Obligatoires”

Date	Issue No.	Publication
February 3 <sup>rd</sup> , 2006	15	2005 sales
March 20 <sup>th</sup> , 2006	34	Notice of Extraordinary and Ordinary General Meeting of the shareholders
April 5 <sup>th</sup> , 2006	41	2005 consolidated financial statements and parent company financial statements
May 1 <sup>st</sup> , 2006	52	Approval of 2005 financial statements
May 5 <sup>th</sup> , 2006	54	Voting rights
May 15 <sup>th</sup> , 2006	58	1 <sup>st</sup> quarter 2006 sales
August 2 <sup>nd</sup> , 2006	92	2 <sup>nd</sup> quarter 2006 sales
September 20 <sup>th</sup> , 2006	113	Half-year report
October 30 <sup>th</sup> , 2006	130	3 <sup>rd</sup> quarter 2006 sales
February 5 <sup>th</sup> , 2007	16	2006 sales

## Publications of notices in journals of legal notices

Journal of legal notices	Publication date	Purpose of notice
<i>Les Petites Affiches</i>	March 9 <sup>th</sup> , 2006, no. 49	Capital increase, amendment of the Articles of Association
<i>Gazette du Palais</i>	April 7 <sup>th</sup> -8 <sup>th</sup> , 2006, page 68	Notice to attend the Extraordinary and Ordinary General Meeting of Shareholders
<i>Les Petites Affiches</i>	May 19 <sup>th</sup> , 2006, No. 100	Non-renewal of the tenure of a director, appointment of a new director, separation of the duties of Chairman of the Board of Directors from those of Chief Executive Officer, capital increase, capital reduction, amendment of the Articles of Association
<i>Les Petites Affiches</i>	February 21 <sup>st</sup> , 2007, no. 38	Capital increase, capital reduction, amendment of the Articles of Association

## Information registered with the Paris Commercial Court ([www.infogreffe.fr](http://www.infogreffe.fr))

Date and Registration No.	Purpose of registration
03.13.2006, registration no. 24981	Capital increase (extract from the minutes of the Board of Directors' Meeting of February 15 <sup>th</sup> , 2006)
03.13.2006, registration no. 24981	Updated Articles of Association at February 15 <sup>th</sup> , 2006
04.26.2006, registration no. 36914	Capital increase and capital reduction (extract from the minutes of the Board of Directors' Meeting of April 25 <sup>th</sup> , 2006)
05.05.2006, registration no. 18536	2005 annual financial statements
05.05.2006, registration no. 18537	2005 consolidated financial statements
05.24.2006, registration no. 44785	Appointment of a director, amendments to the Articles of Association (extract from the minutes of the Board of Directors' Meeting of April 25 <sup>th</sup> , 2006)
05.24.2006, registration no. 44785	Capital increase and capital reduction, separation of the duties of Chairman of the Board of Directors from those of Chief Executive Officer (extract from the minutes of the Board of Directors' Meeting of April 25 <sup>th</sup> , 2006)
05.24.2006, registration no. 44785	Expiry of the tenure of a director (extract from the minutes of the Board of Directors' Meeting of March 16 <sup>th</sup> , 2006)
05.24.2006, registration no. 44785	Appointment of a Vice-Chairman of the Board of Directors (extract from the minutes of the Board of Directors' Meeting of April 26 <sup>th</sup> , 2005)
05.24.2006, registration no. 44785	Updated Articles of Association at April 25 <sup>th</sup> , 2006
02.22.2007, registration no. 18332	Capital increase and capital reduction (extract from the minutes of the Board of Directors' Meeting of February 14 <sup>th</sup> , 2007)
02.22.2007, registration no. 18332	Updated Articles of Association at February 14 <sup>th</sup> , 2007

## RECENT EVENTS AND OUTLOOK

### News release of Thursday January 11<sup>th</sup>, 2007

#### Three new members of the group Management Committee announced, including the appointment of a 2<sup>nd</sup> woman and further non-French Executives

Mr Jean-Paul Agon, Chief Executive Officer of L'Oréal, has announced that he is to reinforce the group's Executive Committee with the appointment of three new members: Mrs Brigitte Liberman – Managing Director of the Active Cosmetics Division; Mr Jochen Zaumseil – Managing Director of the Asia Zone; and Mr Joseph Bitton – Managing Director of the Latin America Zone.

The appointments illustrate the increasing strategic importance of the group's Active Cosmetics Division, which is today the world leader in dermo-cosmetic products for pharmacies, as well as the essential strategic nature of the major Multidivision regions– Asia and Latin America– both of which play a crucial role in the company's overall growth and success.

From now on, each of the group's four main divisions as well as the three major Multidivision regions will be duly represented within the Group Executive Committee.

Commenting on the appointments, Mr Jean-Paul Agon said, *"I'm particularly delighted that, with the appointment of Mrs Brigitte Liberman, we are able to reinforce the number of women in our senior executive team –and to have the opportunity, through Jochen and Joseph, to further strengthen the international nature of our team"*.

*"The different perspectives and professional expertise they will bring to the team can only help to boost the level of creativity and innovation that are key to accelerating our growth model"*, he continued.

Mrs Brigitte Liberman, 49, joined the group with the Vichy brand in 1986. Since then she has held Marketing Director roles with Biotherm and Vichy International, where, in 2003, she was appointed Managing Director. Mrs Liberman has been Managing Director of the Group's Active Cosmetics Division since January 2005 where she has been responsible for the roll-out of VICHY in China, which, today, offers Chinese consumers a full range of affordable products in more than 1,000 pharmacy outlets. Most recently, she achieved a milestone in the development of the Active Cosmetics business, which also includes the brands LA ROCHE-POSAY and INNÉOV, when she announced that the turnover of the Division had exceeded the €1b (one billion euros) in 2006. Other recent notable developments for the business under the leadership of Mrs Liberman include the acquisition in October 2006 of a certified organic cosmetic products brand, Laboratoire Sanoflore, and, in 2005, that of SKINCEUTICALS, the skincare brand sold in exclusive spas, and by dermatologists and plastic surgeons in the United States.

Mr Jochen Zaumseil, 49, is a German national who has worked at L'Oréal for twenty-three years. He has worked in the group's Professional Products Division and Luxury Division in countries as diverse as Austria, Mexico and Venezuela. More recently, he served as Managing Director of the group's businesses in Canada and Japan before taking up his current position as Managing Director of the Asia Zone in 2006.

Mr Joseph Bitton, 62, a chemist by training, has been with L'Oréal for 38 years. He is a true world-citizen with dual French and Canadian nationality, first joining the group in Morocco in 1969 as Technical Director. He went on to hold the posts of Industry Director and Vice President of Operations in Canada, where, in 1991, he was named General Manager of L'Oréal Canada. In 1996, he became Managing Director of L'Oréal Brazil. M. Bitton has been Managing Director of the group's Latin America Zone since 2001.

The appointments take effect from January 1<sup>st</sup>, 2007.

### News release of Thursday January 25<sup>th</sup>, 2007

#### **2006 annual sales: target reached.**

**Strong growth in annual sales:  
15.8 billion euros, up by +8.7%.**

**Substantial increase in 4<sup>th</sup> quarter sales:  
+9.5% based on reported figures (+6.5% like-for-like).**

**Significant growth in Western Europe.**

**Rapid development of new markets.**

#### **2006 profit targets confirmed.**

The sales of the L'Oréal group, at December 31<sup>st</sup>, 2006, amounted to 15.79 billion euros, representing an increase of + 8.7%. In the fourth quarter, the sales growth rate was + 9.5%.

Currency fluctuations had a slightly negative impact of – 0.2%. Excluding currency fluctuations, the sales growth rate was + 8.9% for the full year 2006.

The net impact of changes in consolidation amounted to + 3.1%, mainly as a result of the acquisition of The Body Shop, consolidated from July 1<sup>st</sup>, 2006 onwards.

Like-for-like (i.e. based on a comparable structure and identical exchange rates), the growth in the group's total sales amounted to + 5.8% at December 31<sup>st</sup>, 2006 (+ 5.7% excluding The Body Shop).

In the 4<sup>th</sup> quarter, the growth rate was + 6.5%.

Commenting on the figures, Mr Jean-Paul Agon, Chief Executive Officer of L'Oréal, said: *"The strong growth of our sales at the end of the year enabled us to achieve the announced growth target for 2006. This growth was achieved thanks to the renewed dynamism in Western Europe and the remarkable performance in the new markets, particularly in Brazil, Russia, India, Mexico and China. The Body Shop delivered a good second half performance, strengthening the group's growth. Overall, the organic growth of our brands and the significant contribution made by the acquisitions led to a strong increase in the group's sales of + 8.7%. These good figures mean that we can confirm our profit targets".*

## Sales by operational division and geographic zone

	At December 31 <sup>st</sup> , 2006			4 <sup>th</sup> quarter 2006		
	€ millions	Growth		€ millions	Growth	
		Like-for-like	Reported		Like-for-like	Reported
<b>By operational division</b>						
Professional Products	2,126	+3.8%	+3.2%	528	+4.8%	+0.8%
Consumer Products	7,903	+5.8%	+5.4%	1,923	+6.5%	+2.4%
Luxury Products	3,773	+5.1%	+5.3%	1,080	+5.4%	+2.5%
Active Cosmetics	1,128	+12.2%	+14.4%	233	+11.3%	+9.5%
<b>Cosmetics total</b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>	<b>3,781</b>	<b>+6.1%</b>	<b>+2.5%</b>
<b>By geographic zone</b>						
Western Europe	6,992	+3.5%	+3.7%	1,702	+3.1%	+3.1%
North America	3,954	+2.7%	+2.2%	990	+3.6%	-4.3%
Rest of the World	4,065	+12.7%	+12.8%	1,089	+14.0%	+8.6%
of which: Asia	1,476	+7.9%	+7.4%	385	+9.4%	+3.6%
Latin America	1,021	+16.1%	+18.6%	277	+14.7%	+8.3%
Eastern Europe	850	+22.0%	+24.8%	247	+23.9%	+25.0%
Other countries	718	+8.5%	+4.5%	180	+11.0%	+1.5%
<b>Cosmetics total</b>	<b>15,011</b>	<b>+5.6%</b>	<b>+5.6%</b>	<b>3,781</b>	<b>+6.1%</b>	<b>+2.5%</b>
The Body Shop	435	+9.7%	–	263	+10.3%	
Dermatology <sup>(1)</sup>	344	+8.6%	+8.1%	105	+9.2%	+4.5%
<b>Group total</b>	<b>15,790</b>	<b>+5.8%</b>	<b>+8.7%</b>	<b>4,148</b>	<b>+6.5%</b>	<b>+9.5%</b>

(Provisional, unaudited figures).

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

### Cosmetics branch

#### Sales trends by division

The **Professional Products Division** recorded a like-for-like growth rate of +3.8%, with positive scores in Western Europe and very strong expansion in the “Rest of the World” zone.

In the United States, our brands achieved high sell-through figures. The year was however affected by inventory reduction in professional distribution and by a reshuffle of our distribution network at the end of the year.

L'ORÉAL PROFESSIONNEL benefited from the launches of the Play Ball and Hair Mix styling ranges, the Série Expert Lumino Contrast line for hair with highlights, and, at the end of the year, the hair colourant Symbio.

KERASTASE very successfully relaunched its Nutritive range and introduced Densitive nutritional complements.

REDKEN launched the Blonde Glam haircare line and a new hair colourant Shimmer One.

MATRIX launched a new range, Matrix for Men, and relaunched its styling range Vavoom.

The **Consumer Products Division** achieved a like-for-like growth rate of +5.8%, with a substantial acceleration in the 4<sup>th</sup> quarter at +6.5%. Western Europe confirmed its upturn, and sales continued to grow in North America. The Rest of the World again saw its sales growth accelerate.

L'ORÉAL PARIS achieved a good year, with strong growth in skincare thanks to Age Re-Perfect and Men Expert as well as in make-up and in haircare with the successful launch of Elsève Nutri-Gloss. Europe and the emerging countries are benefiting from the success of these launches. The hair colourant Casting Crème Gloss is confirming its success in Europe.

GARNIER sales grew strongly, driven by the successful hair colourant Nutrisse and the Fructis haircare line, and by successes in facial skincare, bodycare and sun protection. The brand's vision has been strengthened by the new “Take care” campaign which was internationally rolled out at the end of last year.

MAYBELLINE NEW YORK: the make-up brand achieved impressive growth, evenly distributed between the various zones, driven by the success of Dream Matte Mousse foundation and the great mascaras collection. The fourth quarter was notable for the launch of the highly innovative Watershine Elixir lipstick.

The sales of the **Luxury Products Division** have risen by +5.1% like-for-like. The growth seen in Western Europe continued in the 4<sup>th</sup> quarter, with similarly dynamic trends across all the major markets. Sales improved slightly in North America, thanks in particular to the success of the facial skincare and perfume initiatives. The acceleration in the Rest of the World continued in the fourth quarter, particularly in China, Latin America and Eastern Europe. The dynamic growth trend of the fragrance business is continuing: the new fragrance for women, Code Donna from GIORGIO ARMANI, continued to prove successful in Europe at the end of the year. The brand's flagship products ARMANI, Acqua di Giò and Armani Code confirmed their solidity over the Christmas period. Furthermore, Miracle Forever by LANCÔME and Noa Perle by CACHAREL strengthened the positions of the two brands concerned. Lastly Antidote, the new men's fragrance from VIKTOR & ROLF, proved extremely successful in the United States and in France, where it was first launched.

Skincare sales growth continued to accelerate, with an excellent reception on all markets for Absolue Premium Beta X by LANCÔME, featuring the newly developed molecule Pro-Xylane. BIOTHERM, with its Aquasource serum, and HELENA RUBINSTEIN, with its Prodigy tissue, have also seen their sales gather speed in the skincare business.

Lastly, the make-up business saw the launch of Rouge Unlimited lipstick by SHU UEMURA, which uses a revolutionary pigment technology and is proving extremely successful.

The growth in **Active Cosmetics** sales continued, with a substantial advance in like-for-like sales of + 12.2%, reflecting strong contributions from all the geographic zones.

All the brands achieved double-digit growth, thanks to a good performance from the products in our catalogue, and the positive impact of launches such as the skincare lines Neovadiol and Normaderm from VICHY; Redermic anti-wrinkle skincare; and Toleriane Teint from LA ROCHE-POSAY. Furthermore, the sun protection products of the two brands enjoyed a good season.

INNEOV also achieved strong sales growth, thanks to the launch of Innéov Solaire, the first sun preparation product to include Skin Probiotic.

Furthermore, the certified organic cosmetics brand SANOFLORE joined the Division in November 2006.

### Steady growth in Western Europe

The sales trends of each division confirm the return to growth in France, Germany and Italy, while strong growth continued in the United Kingdom and Spain. All the countries achieved positive scores.

Professional Products recorded growth in all product categories. The American brands REDKEN and MATRIX demonstrated their very powerful appeal, particularly in France, Belgium and Spain. The Consumer Products Division saw sales grow in all countries, particularly in Spain and the United Kingdom. Thanks to its success in skincare (Age Re-Perfect and Men Expert from L'ORÉAL PARIS), facial skincare (GARNIER) and haircare (Fructis by GARNIER), it has made further market share gains in these categories.

Luxury Products are advancing in all the countries on broadly similar trends, with sales gathering speed for LANCÔME, thanks to Absolu Premium Beta X at the end of the year, and excellent momentum for ARMANI and BIODERM, as openings of KIEHL's and SHU UEMURA boutiques continued.

In the Active Cosmetics Division, sales are growing at a rapid rate throughout the zone, driven by LA ROCHE-POSAY in particular.

### North America: Growth despite a background of consolidation in distribution

In North America, the situation in the United States reflected a combination of turbulences in the distribution sector. The market grew less quickly than in 2005; although very dynamic in the mass-market segment, growth was slower in sales to salons and in the department store business.

As a result, like-for-like sales growth amounted to + 2.7%.

The Professional Products Division continued to make market share gains in sales to salons, with good scores for MATRIX and REDKEN hair colourants and the KERASTASE brand. The Division has strengthened its cooperation with its top-selling distributor, and readjusted its geographic distribution agreements. There was a noticeable reduction in the level of distributors' inventories.

The sales growth of the Consumer Products Division has been galvanised by the advances made by GARNIER and its haircare lines Fructis and Nutrisse. MAYBELLINE recorded a good growth figure thanks to Superstay lipstick. The growth rates of L'ORÉAL PARIS varied by category, with a strong performance in make-up but a weaker one in skincare.

In Luxury Products, amounts invoiced were held back throughout the year by the merging of the two main department store chains and the closure of 80 outlets. The Division improved its skincare positions thanks to the success of Absolu Premium Beta X and Collaser Eye by LANCÔME, and in women's fragrances thanks to the success of Armani Code Women and Hypnôse by LANCÔME.

The roll-out of the Active Cosmetics Division gathered speed, with the launch of VICHY in the north-east of the United States and in California, and strong growth for SKINCEUTICALS.

### Rapid development in all the new markets

The expansion in the Rest of the World continued, gathering speed in the fourth quarter when like-for-like growth reached +14%.

Like-for-like sales growth in the **Asia** zone amounted to + 7.9%. In the Japanese market, which was very competitive, Professional Products turned in a good performance.

Asia excluding Japan had a good year, at + 11.8%, with a sharp acceleration in the second half.

In China, the acceleration was particularly noticeable, with sales growth of +21.2%. Growth for the Consumer Products Division was very strong in facial skincare, thanks to L'ORÉAL PARIS (White Perfect, UV Perfect). This division was strengthened in 2006 with the launch of GARNIER skincare which is gradually being rolled out. The Luxury Products Division has confirmed its leadership, driven by the LANCÔME and BIODERM brands. In the Active Cosmetics Division, VICHY and LA ROCHE-POSAY are continuing their breakthrough in pharmacies.

In South Korea, the situation is gradually improving, as the country returns to growth.

Furthermore, growth rates in Indonesia and Thailand were high, particularly in the Consumer Products Division.

In **Eastern Europe** the group's performance over the full year 2006 was excellent at + 22% like-for-like, with a strong contribution from the Russia and the recently created subsidiary in Ukraine. Professional Products turned in an excellent performance, particularly in the Russia. MATRIX continued its breakthrough in the zone as a whole.

In Consumer Products, L'ORÉAL PARIS recorded very good scores in make-up and haircare with Elsève. GARNIER sales grew very strongly in haircare and facial skincare, and growth was also strong in bodycare.

In a rapidly expanding luxury market, the Luxury Products Division achieved very high growth, particularly in the Russia, the Czech Republic, Slovakia and Hungary, driven by the success of the LANCÔME, BIODERM and ARMANI brands.

Active Cosmetics produced another year of strong growth, confirming its leadership in a pharmacy channel whose modernisation is gathering speed.

Like-for-like sales growth in **Latin America** was very rapid at + 16.1%, thanks to the strong sales recorded in Brazil, Mexico and all the other countries in the zone.

The sales of Professional Products grew thanks to the L'ORÉAL PROFESSIONNEL brand, and particularly to the successful launch of MATRIX in Brazil, Chile and Venezuela.

Sales in Consumer Products advanced at similar rates across the various countries in the zone, driven in particular by the success of the major launch Nutri-Gloss from Elsève.

Luxury Products, whose sales grew strongly, took advantage of the good performance of BIOTHERM and the success of RALPH LAUREN and GIORGIO ARMANI fragrances.

Active Cosmetics is continuing its very high growth with VICHY and LA ROCHE-POSAY, which have recorded substantial market share gains in dermocosmetics.

In the **Other Countries**, like-for-like sales growth amounted to + 8.5%. In India (+ 40.3%), our businesses continued to grow very strongly, bolstered by the remarkable success of GARNIER with Skin Naturals, Color Naturals and Fructis. The Middle East again proved extremely dynamic with double-digit growth.

#### **Good year-end for The Body Shop**

Consolidated since July 1<sup>st</sup>, The Body Shop recorded a second half-year of solid growth, with a large increase in sales at the end of the year. Net consolidated sales grew by + 9.7%.

Retail sales<sup>(1)</sup> increased by + 6.5% (+ 2.7% with a comparable store base)<sup>(2)</sup>.

The number of stores increased by 89 in the second half of 2006. At December 31<sup>st</sup>, the total number of stores was 2,265, of which 886 are owned by The Body Shop.

These figures reflect particularly good results in Europe and Asia, with very strong performances in United Kingdom, Norway, and Japan.

Growth was strengthened by the success of launches such as the Aloe Vera skincare range and the Neroli Jasmin fragrance, and by gift sets, which sold very well at the end of the year.

#### **Dermatology**

The sales of the dermatology branch increased by + 8.6% like-for-like. Each of the zones made a positive contribution to this growth figure. The Clobex range for treating psoriasis, together with Metrogel 1% and Loceryl Nail Lacquer, have strongly bolstered the growth of Galderma.

#### **News release of Thursday February 15<sup>th</sup>, 2007**

**Sales: + 8.7%.**

**Further improvement in operating profit: + 12.1%.**

**Strong growth in net earnings per share<sup>(1)</sup>: + 14.7%.**

**Substantial increase in dividend<sup>(2)</sup>: + 18%.**

The Board of Directors of L'Oréal met on Wednesday, February 14<sup>th</sup>, 2007 under the chairmanship of Sir Lindsay Owen-Jones and in the presence of the Statutory Auditors. The Board closed the consolidated financial statements and the financial statements of the L'Oréal parent company for 2006.

Commenting on the annual results, Mr Jean-Paul Agon, Chief Executive Officer of L'Oréal, said: *"In 2006, L'Oréal achieved further strong growth in its results. The success of the product innovations, the strength of our brands and the rapid pace of our geographic expansion have once again enabled us to improve our worldwide positions.*

*Operating profit rose strongly under the combined effect of the product value enhancement strategy and the strict control of all costs. Profitability has thus improved significantly to reach 16.1% of sales.*

*All the divisions and zones across the board contributed to this increase in our profitability.*

*The acquisition of The Body Shop, consolidated since July 1<sup>st</sup>, 2006, made a positive contribution to the growth of both sales and earnings in the second half.*

*All these results and the dynamism they convey inspire confidence for 2007".*

Furthermore, the Board of Directors has decided to propose to the next Annual General Meeting on April 24<sup>th</sup>, 2007 the payment of a dividend of €1.18 per share, which represents a substantial increase on 2005.

Finally, the Board will propose to the Annual General Meeting the renewal of the term of office of Mrs Liliane Bettencourt and the appointment as a new director of Mrs Annette Roux, Vice-Chairman of the Supervisory Board of Bénéteau SA.

(1) Retail sales: total sales to consumers through all channels.

(2) Retail sales with a comparable store base: total sales to consumers by stores which operated continuously from July 1<sup>st</sup> to December 31<sup>st</sup>, 2005, and over the same period in 2006.

(1) Diluted net earnings per share based on net profit excluding non-recurrent items after minority interests.

(2) Dividend to be proposed to the Annual General Meeting of Shareholders on April 24<sup>th</sup>, 2007.

At the end of the board meeting, Sir Lindsay Owen-Jones said: *"In 2006, we succeeded in ensuring the smooth transition to a new group management organisation. Under the dynamic leadership of Mr Jean-Paul Agon, the year ended with a strong increase in all our results. This enables us to propose another substantial increase in dividend to the Annual General Meeting. Finally, I am very happy to welcome to the Board of Directors Mrs Annette Roux, a highly respected personality from the world of industry, who will strengthen its composition, independence and balance."*

### Sales up by +8.7%

Group sales at December 31<sup>st</sup>, 2006 amounted to €15,79 billion, up by +8.7%. Currency fluctuations had a slightly negative impact of -0.2%. Excluding currency fluctuations, the sales growth rate was +8.9% for the full year 2006. The net impact of changes in consolidation amounted to +3.1%, mainly as a result of the acquisition of The Body Shop, consolidated from July 1<sup>st</sup>, 2006 onwards. Like-for-like (i.e. based on a comparable structure and identical exchange rates), the growth in the group's total sales amounted to +5.8% at December 31<sup>st</sup>, 2006 (+5.7% excluding The Body Shop).

€ millions	12.31.2005	As % of sales	12.31.2006 excluding The Body Shop	As % of sales	12.31.2006 with The Body Shop 2 <sup>nd</sup> half	As % of sales	Sales trend
<b>Sales</b>	<b>14,533</b>	<b>100</b>	<b>15,355</b>	<b>100</b>	<b>15,790</b>	<b>100</b>	<b>+ 8.7</b>
Costs of sales	-4,347	29.9	-4,414	28.7	-4,569	28.9	
<b>Gross profit</b>	<b>10,185</b>	<b>70.1</b>	<b>10,941</b>	<b>71.3</b>	<b>11,221</b>	<b>71.1</b>	<b>+ 10.2</b>
Research and development expenses	-496	3.4	-531	3.5	-533	3.4	
Advertising and promotion expenses	-4,367	30.1	-4,718	30.7	-4,783	30.3	
Selling, general and administrative expenses	-3,009	20.7	-3,158	20.5	-3,309	21.0	
Operating profit before foreign exchange gains and losses	2,313	15.9	2,539	16.5	2,596	16.4	+ 12.3
Foreign exchange gains and losses	-47	0.3	-56	0.4	-55	0.3%	
<b>Operating profit</b>	<b>2,266</b>	<b>15.6</b>	<b>2,483</b>	<b>16.2</b>	<b>2,541</b>	<b>16.1%</b>	<b>+ 12.1</b>

### Consolidated profit and loss account without The Body Shop

Gross profit increased very significantly and represents 71.3% of sales, compared with 70.1% in 2005. This improvement mainly reflects an enhanced value of the product mix, and our continuing industrial streamlining programmes.

Research and development expenses represented 3.5% of sales, compared with 3.4% in 2005.

Advertising and promotion expenses increased substantially, and represented 30.7% of sales compared with 30.1% in 2005.

Selling, general and administrative expenses represented 20.5% of sales, compared with 20.7% in 2005. Once again this year, this item is continuing its gradual improvement, reflecting constant efforts in both organisation and productivity.

Operating profit before foreign exchange gains and losses grew strongly by +9.8%. It reached 16.5% of sales, compared with 15.9% in 2005.

The news release of January 25<sup>th</sup>, 2007 sets out in detail the activity of the cosmetics divisions and the geographic zones for 2006. This news release is available on the site [www.loreal-finance.com](http://www.loreal-finance.com) and can be downloaded.

The table of cosmetics sales by division and by geographic zone is provided in page 141.

### Further improvement in operating profit: +12.1% Consolidated profit and loss account from sales to operating profit

The Body Shop, consolidated since July 1<sup>st</sup>, has an operating profile which is quite different from that of the L'Oréal group as a whole. In the interest of visibility and comparability of performance, the table below sets out the operating items of L'Oréal, in 2006, with and without The Body Shop.

Foreign exchange losses amounted to €56 million in 2006, compared with €47 million in 2005.

After foreign exchange gains and losses, operating profit amounted to €2,483 million, up by +9.6% compared with 2005. It represented 16.2% of sales, compared with 15.6% in 2005.

### Consolidated profit and loss account with The Body Shop:

The structure of the profit and loss account of The Body Shop in the second half has a profile which is quite different from that of the L'Oréal group. The consolidation of The Body Shop made a positive contribution to the group's main operating items.

The group's operating items with The Body Shop can be summed up as follows:

Sales reached €15,790 million, up by +8.7%.

Gross profit amounted to €11,221 million, up by 10.2%.



Operating profit before foreign exchange gains and losses increased by +12.3% to €2,596 million.

After foreign exchange gains and losses, operating profit grew by 12.1% to €2,541 million that is 16.1% of sales.

### Operating profit by branch and division

Each and every division and branch improved its profitability in 2006 compared with 2005.

	2005		2006	
	€ millions	% of sales	€ millions	% of sales
<b>By operational division</b>				
Professional Products	406	19.7	443	20.8
Consumer Products	1,291	17.2	1,421	18.0
Luxury Products	723	20.2	776	20.6
Active Cosmetics	187	19.0	221	19.6
<b>Cosmetics divisions total</b>	<b>2,609</b>	<b>18.4</b>	<b>2,860</b>	<b>19.1</b>
Non-allocated <sup>(1)</sup>	-396	-2.8	-437	-2.9
<b>Cosmetics branch</b>	<b>2,212</b>	<b>15.6</b>	<b>2,423</b>	<b>16.1</b>
<b>The Body Shop 2<sup>nd</sup> half</b>	<b>-</b>	<b>-</b>	<b>58</b>	<b>13.4</b>
<b>Dermatology branch<sup>(2)</sup></b>	<b>54</b>	<b>16.9</b>	<b>59</b>	<b>17.3</b>
<b>Group</b>	<b>2,266</b>	<b>15.6</b>	<b>2,541</b>	<b>16.1</b>

(1) Non-allocated = Central group expenses, fundamental research expenses, stock option expenses and miscellaneous items. As % of total sales.

(2) Group Share: i.e. 50%.

Because of the strong seasonality of its sales, the 13.4% profitability in the second half is not representative of The Body Shop's profitability over the full year.

### Cosmetics branch: operating profit of geographic zones

Profitability increased in all zones in 2006.

	2005		2006	
	€ millions	% of sales	€ millions	% of sales
Western Europe	1,415	21.0	1,527	21.8
North America	708	18.3	744	18.8
Rest of the World	486	13.5	589	14.5
<b>Cosmetics zones total</b>	<b>2,609</b>	<b>18.4</b>	<b>2,860</b>	<b>19.1</b>

### Strong growth in net earnings per share: +14.7%

### Consolidated profit and loss account from operating profit to net profit excluding non-recurrent items

€ millions	12.31.2005	12.31.2006 with The Body Shop 2 <sup>nd</sup> half	Growth
<b>Operating profit</b>	<b>2,266</b>	<b>2,541</b>	<b>12.1%</b>
Finance costs	-64	-116	
Other financial income (expenses)	-3	-4	
Sanofi-Aventis dividends	172	218	
Share in net profit of equity affiliates	-1	-1	
<b>Profit before tax excluding non-recurrent items</b>	<b>2,370</b>	<b>2,638</b>	<b>11.3%</b>
Income tax excluding non-recurrent items	-730	-803	
Minority interests	-1	-1	
<b>Net profit excluding non-recurrent items after minority interests<sup>(1)</sup></b>	<b>1,639</b>	<b>1,833</b>	<b>11.9%</b>
<b>EPS<sup>(2)</sup> (in euros)</b>	<b>2.6</b>	<b>2.98</b>	<b>14.7%</b>
<b>Diluted average number of shares</b>	<b>630,892,470</b>	<b>615,723,220</b>	

(1) 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.

(2) Diluted net earnings per share excluding non-recurrent items, after minority interests.

Finance costs amounted to €116 million, higher than last year because of rising interest rates, the acquisition of The Body Shop and the continuation of the share buyback programme.

The dividends received from Sanofi-Aventis for 2005 amounted to €217.5 million, an increase of +26.7%.

Profit before tax excluding non-recurrent items amounted to €2,638 million, up by +11.3%. Tax on profit excluding non-recurrent items amounted to €803 million, representing an increase of +9.9%. The tax rate was down from 30.8% in 2005 to 30.4% in 2006.

Net profit excluding non-recurrent items after minority interests amounted to €1,833 million, up by +11.9%. After allowing for the positive impact of share buybacks, net earnings per share amounted to €2.98 per share, up by +14.7% compared with 2005.

### Consolidated profit and loss account from net profit excluding non-recurrent items to net profit

€ millions	12.31.2005	12.31.2006	Growth
<b>Net profit excluding non-recurrent items after minority interests</b>	<b>1,639</b>	<b>1,833</b>	<b>11.9%</b>
Non-recurrent items	334	228	
<b>Net profit after minority interests</b>	<b>1,972</b>	<b>2,061</b>	<b>4.5%</b>
Diluted earnings per share (€)	3.13	3.35	7.1%

Non-recurrent items had a positive impact of €228 million, compared with €334 million in 2005. They consist mainly of additional amortization expenses of intangible assets, and the restatement of deferred tax linked to maintaining the stake in Sanofi-Aventis.

After allowing for these non-recurrent items, net profit after minority interests amounted to €2,061 million, up by +4.5% compared with 2005.

### Strong growth in cash flow: +13.2%

Cash flow at December 31<sup>st</sup>, 2006 amounted to €2,410 million, up by +13.2%. Working capital requirement was substantially lower in 2006. Capital expenditure remained stable at 4.7% of sales.

The group's net debt at December 31<sup>st</sup>, 2006 totalled €3,329 million, or 22.8% of shareholders' equity, an increase compared with the end of 2005, when it stood at €2,217 million, or 15.1% of shareholders' equity.

### Substantial increase in proposed dividend: +18%

The Board of Directors has decided to propose that the Annual General Meeting of Shareholders of April 24<sup>th</sup>, 2007 should approve a dividend of €1.18 per share, representing an increase of +18% compared with 2005.

### News release of Thursday February 15<sup>th</sup>, 2007

#### Proposed appointment of Mrs Annette Roux as a director

The Board of Directors of L'Oréal met on Wednesday, February 14<sup>th</sup>, 2007 under the chairmanship of Sir Lindsay Owen-Jones and decided on the resolutions to be submitted to the Combined Shareholders' Meeting on April 24<sup>th</sup>, 2007.

The Board will propose to the Shareholders' Meeting on April 24<sup>th</sup>, 2007 the appointment as a director of Mrs Annette Roux, Vice-Chairman of the Supervisory Board of Beneteau SA.

Mrs Annette Roux took over the helm of Beneteau, a family business then in 1964 and has succeeded in building an international group, which is the world leader in its market sector.

This extraordinary success owes a lot to the personal qualities of Mrs Annette Roux, a woman of conviction, who is open-minded and extremely dynamic and has used her talents to bolster the development of her company, listed on the Paris stock exchange since 1984.

Commenting on this proposal, Sir Lindsay Owen-Jones said: *"We are very pleased to welcome Mrs Roux as a member of the Board of Directors of L'Oréal. Mrs Roux embodies one of the most outstanding success stories in French industry. Her competence, her experience and her independence will help to strengthen and enrich our Board"*.

Furthermore, and pursuant to the authorisations granted by the Annual General Meetings of May 22<sup>nd</sup> 2003 and April 25<sup>th</sup>, 2006, the Board has decided to cancel 13,490,750 shares.

The details of the resolutions to be submitted to the shareholders for their approval and the meeting notices and other documents required for the Shareholders' Meeting on April 24<sup>th</sup> will be published or sent to the shareholders in accordance with the applicable regulations.

## AUDITORS

2004, 2005 and 2006	Date first appointed	Term of office	Expiry date
<b>Auditors</b>			
<b>PricewaterhouseCoopers Audit</b> 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29 <sup>th</sup> , 2004	6 years	
<b>Deloitte &amp; Associés</b> 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine	April 29 <sup>th</sup> , 2004	6 years	AGM reviewing the financial statements
<b>Substitute auditors</b>			
<b>Mr Yves Nicolas</b> 63 rue de Villiers 92200 Neuilly-sur-Seine	April 29 <sup>th</sup> , 2004	6 years	for 2009 to be held in 2010
<b>Mr Jean-Paul Picard</b> 7/9 villa Houssay 92200 Neuilly-sur-Seine	May 29 <sup>th</sup> , 2001 <sup>(1)</sup>	6 years	

(1) Renewed on April 29<sup>th</sup>, 2004.

## Fees of Auditors and members of their networks charged to the group

€ thousands	PricewaterhouseCoopers				Deloitte & Associés				Other			
	Amount		%		Amount		%		Amount		%	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Auditing	5,350	5,882	81.7	88.0	4,652	4,175	80.8	80.6	71	138	4.0	7.8
Other associated assignments	891	441	13.6	6.6	925	660	16.1	12.7	0	0		
<b>Sub-total</b>	<b>6,241</b>	<b>6,323</b>	<b>95.3</b>	<b>94.6</b>	<b>5,577</b>	<b>4,835</b>	<b>96.9</b>	<b>93.3</b>	<b>71</b>	<b>138</b>	<b>4.0</b>	<b>7.8</b>
Other services (legal/tax/employee-related)	306	360	4.7	5.4	179	344	3.1	6.7	1,693	1,620	96.0	92.2
<b>Total</b>	<b>6,547</b>	<b>6,683</b>	<b>100.0</b>	<b>100.0</b>	<b>5,756</b>	<b>5,179</b>	<b>100.0</b>	<b>100.0</b>	<b>1,764</b>	<b>1,758</b>	<b>100.0</b>	<b>100.0</b>

## HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European Regulation EC No. 809-2004 of April 29<sup>th</sup>, 2004, this Reference Document contains the following information by reference:

- the consolidated financial statements for the year ended December 31<sup>st</sup>, 2005, prepared in accordance with IFRS and the related Statutory Auditors' report presented on pages 7 to 50 of Volume 2 of the 2005 Reference Document filed with the *Autorité des Marchés Financiers* on April 6<sup>th</sup>, 2006 under the number D 06-0226, and also information extracted from the 2005 Management Report presented on pages 53 to 56 of Volume 2 of the Reference Document,
- the consolidated financial statements for the year ended December 31<sup>st</sup>, 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 Marchés Financiers* on April 7<sup>th</sup>, 2005 under number D 05-0361, as well as the information extracted from the 2004 Management Report presented on pages 4 to 7 of Volume 3 of the same Reference Document.

# Reports and declaration

## STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

**(Year ended December 31<sup>st</sup>, 2006)**

*This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report on the financial statements includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and 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 31<sup>st</sup>, 2006 on:

- the audit of the accompanying financial statements of L'Oréal,
- the justification of our assessments,
- the specific verifications and disclosures 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 presentation of the financial statements. 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 31<sup>st</sup>, 2006 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.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is 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,
- the fair presentation of the information provided in the Management Report of the Board of Directors in respect of remuneration and benefits granted to certain company officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in function.

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, February 15<sup>th</sup>, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Etienne Boris

Deloitte & Associés

Etienne Jacquemin

## STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

**(Year ended December 31<sup>st</sup>, 2006)**

*This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French 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 such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and 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.*

Following our appointment as Statutory Auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of L'Oréal for the year ended December 31<sup>st</sup>, 2006.

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.

### 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 presentation of the financial statements. 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 31<sup>st</sup>, 2006, 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 lives 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 1.15<sup>(1)</sup> to the consolidated financial statements. We have reviewed the terms and conditions for implementing this impairment test,
- 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 1.23<sup>(1)</sup> and 20 to the consolidated financial statements. We have reviewed and analyzed the assessment methods of these obligations and the data used and the assumptions applied.

We also assessed whether the estimates used were reasonable.

These assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the opinion we formed which is 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's Management Report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 15<sup>th</sup>, 2007

The Statutory Auditors

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Etienne Jacquemin

(1) Those footnotes refer respectively to the note 1.o-1 on page 17 and the note 1.v on page 19 of the notes to the consolidated financial statements.

**STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH THE LAST PARAGRAPH OF ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF L'ORÉAL, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND TREATMENT OF FINANCIAL AND ACCOUNTING INFORMATION**

**(Year ended December 31<sup>st</sup>, 2006)**

*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 report to you 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 31<sup>st</sup>, 2006.

In his report, the Chairman reports, in particular, on the conditions for the preparation and organization of the Board of Directors' work and the internal control procedures implemented by the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's Report on the internal control procedures relating to the preparation and treatment of financial and accounting information.

We performed our procedures in accordance with professional 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 notably consisted of:

- obtaining an understanding of the objectives and general organization 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.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Neuilly-sur-Seine, February 15<sup>th</sup>, 2007

The Statutory Auditors

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## STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

(Year ended December 31<sup>st</sup>, 2006)

*This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and the report does not apply to those related party agreements described in IAS 24 or other equivalent accounting standards.*

In our capacity as Statutory Auditors of your company, we hereby present our report on regulated agreements and commitments with third parties.

### Regulated agreements and commitments with third parties relating to the year ended

In accordance with Article L. 225-40 of the French Commercial Code (*Code de commerce*), we have been advised of the following agreements and commitments which were authorized by the Board of Directors.

Our responsibility does not include identifying any undisclosed agreements or commitments. We are required to report to shareholders, based on the information provided, on the main terms and conditions of the agreements and commitments that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article 92 of the March 23<sup>rd</sup>, 1967 Decree, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We carried out our work in accordance with the professional standards applicable in France. These standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

### Board of Directors meeting of April 25<sup>th</sup>, 2006

Agreement/commitment with Mr Jean-Paul Agon (Managing Director) concerning pension and employee benefits.

#### Nature and purpose

Mr Jean-Paul Agon's employment contract was suspended following his appointment as Managing Director, therefore depriving him of the corresponding pension and employee benefits.

In its meeting of April 25<sup>th</sup>, 2006, the Board of Directors decided to give Mr Jean-Paul Agon the same status as a Senior Executive during his term of office, for the purpose of pension and employee benefits, so that he can continue to enjoy the same benefits as those received before his appointment.

#### Terms and conditions

This scheme provides entitlement to the payment of a Life Annuity, a Spouse Pension, and under certain conditions, an Orphan Pension, calculated based on the following items:

- 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 career at L'Oréal,
- the Retirement Guarantee may not exceed 40% of the calculation basis for the Retirement Guarantee plus 0.5% per year for the first 20 years, then 1% per year for the following 20 years, nor exceed the average of the fixed part of the salaries of the three years used for the calculation basis.

In addition, the Employee Benefits scheme guarantees in the event of:

- temporary disability: 90% of his gross income limited to eight times the French Social Security ceiling,
- definitive disability: a fraction, depending on the extent of disability, ranging up to 90% of his gross income though limited to eight times the French Social Security ceiling,
- death: the payment of a Spouse Pension to the surviving spouse and the payment of an Education Annuity to each dependent child. There is a ceiling applied to the total amount of the Lump Sum Equivalent for these guarantees.

Neuilly-sur-Seine, February 15<sup>th</sup>, 2007

The Statutory Auditors

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**STATUTORY AUDITORS' SPECIAL REPORT ON THE GRANTING OF SHARE SUBSCRIPTION AND/OR PURCHASE OPTIONS TO EMPLOYEES OR CORPORATE OFFICERS****Ordinary and Extraordinary Shareholders' Meeting of April 24<sup>th</sup>, 2007  
(Ninth resolution)**

*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.*

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 23<sup>rd</sup>, 1967, we hereby present our report on the granting of share subscription and/or purchase options to employees or corporate officers of L'Oréal, and companies and economic interest groups 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 granting share subscription and/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 and/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, February 15<sup>th</sup>, 2007

The Statutory Auditors

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**STATUTORY AUDITORS' SPECIAL REPORT ON THE ALLOCATION, FOR NO CONSIDERATION, OF EXISTING SHARES OR SHARES TO BE ISSUED, TO EMPLOYEES OF THE COMPANY**

**Ordinary and Extraordinary Shareholders Meeting of April 24<sup>th</sup>, 2007  
(Tenth resolution)**

*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.*

As Statutory Auditors of your company and in accordance with Article L. 225-197-1 of the French Commercial Code (*Code de commerce*), we have prepared this report on the proposed allocation, for no consideration, of existing shares or shares to issued, to employees of L'Oréal or affiliated companies as defined by Article L. 225-197-2 of the French Commercial Code, or to certain categories of employee.

Shareholders are requested to authorize the Board of Directors, for a period of twenty-six months as from this General Meeting, to allocate existing shares or shares to be issued for no consideration. It is the role of the Board of Directors to prepare a report on the transaction which it wishes to perform. It is our role, where necessary, to comment on the information given to you on the proposed transaction.

In the absence of any professional standards applicable to this transaction, performed pursuant to legislative provisions of December 30<sup>th</sup>, 2004 and December 30<sup>th</sup>, 2006, we performed the procedures we considered necessary. Those procedures consisted in verifying that the proposed terms and conditions presented in the Board of Directors' report comply with the provisions provided for by law.

We have no comment to make on the information given in the Board of Directors' report relating to the proposed transaction.

Neuilly-sur-Seine, February 15<sup>th</sup>, 2007

The Statutory Auditors

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Etienne Jacquemin

## STATUTORY AUDITORS' SPECIAL REPORT ON THE SHARE CAPITAL INCREASE RESERVED FOR EMPLOYEES OF THE COMPANY

### Ordinary and Extraordinary Shareholders' Meeting of April 24<sup>th</sup>, 2007 (Eleventh resolution)

*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.*

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 and ask you to approve our report on the proposal to delegate to the Board of Directors the authority 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.

This proposed share capital increase is submitted to you for approval pursuant to Article L. 225-129-6 of the French Commercial Code and Article L. 443-5 of the French Labor Code (*Code du travail*).

The total number of shares likely to be issued, on one or several occasions, pursuant to this delegation, cannot exceed 1% of the company's share capital as of the date of this Ordinary and Extraordinary Shareholders' Meeting.

On the basis of its report, the Board of Directors asks you to delegate, for a period of twenty-six months, the authority to decide one or several share capital increases and to waive your preferential subscription rights to the shares issued. Where appropriate, the Board of Directors shall set the final terms and conditions of the share capital increases.

It is the role of the Board of Directors to prepare a report in accordance with Articles 154 and 155 of the Decree of March 23<sup>rd</sup>, 1967. It is our role to comment on the fair presentation of financial data taken from the accounts, on the proposed cancellation of preferential subscription rights and on certain other information concerning the issue presented in this report.

We have performed our procedures in accordance with professional standards applicable in France. Those standards require that we perform procedures to verify the content of the Board of Directors' report in respect of this operation and 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 delegation, 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, or several 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 operation submitted to you for approval.

In accordance with Article 155-2 of the Decree of March 23<sup>rd</sup>, 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 delegation which has been submitted to you.

Neuilly-sur-Seine, February 15<sup>th</sup>, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

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Etienne Boris

Etienne Jacquemin

## PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Mr Christian Mulliez, Executive Vice-President, Administration and Finance, on the authority of L'Oréal's Chief Executive Officer, Mr Jean-Paul Agon.

## DECLARATION BY THE PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT AND THE ANNUAL FINANCIAL REPORT

"I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Reference Document is, to the best of my knowledge, in accordance with the facts and that there is no omission likely to affect the fairness of the presentation.

I have obtained a letter of completion of audit from the Statutory Auditors in which they state that they have verified the information relating to the financial position and the financial statements set out in this Reference Document and have read the Reference Document in its entirety.

I certify that, to my knowledge, the financial statements have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets and liabilities, financial position and profit or loss of the company and all the other companies included in the scope of consolidation, and that the management report includes a fair review of the development and performance of the business and the position of the company and all the other companies included in the scope of consolidation, together with a description of the principal risks and uncertainties that they face."

Clichy, March 28<sup>th</sup>, 2007

On the authority of the Chief Executive Officer,

Christian Mulliez  
Executive Vice-President, Administration and Finance.



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 March 29<sup>th</sup>, 2007. 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*

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# L'ORÉAL

Incorporated in France as a "Société Anonyme"  
with registered capital of €125,225,382  
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