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The Body Shop International Plc
Annual report and financial statements
for the period from 26 February 2006 to 30 December 2006

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The Body Shop International Plc

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The Body Shop International Plc

Company information

Directors

Adnan D P Bellamy (Chairman)
Peter Saunders (Chief Executive Officer)
Dame Anita Roddick
Jean-Paul Agon (Vice-Chairman) (appointed 12 June 2006)
Richard Cymberg (appointed 12 June 2006)
Lady Sylvia Jay (appointed 12 June 2006)
Christian Mulliez (appointed 12 June 2006)
Geoff Skingsley (appointed 12 June 2006)
Tom Vyner (appointed 12 June 2006)

Secretary

J A Kett

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom

Registered office

Watersmead
Littlehampton
West Sussex, BN17 6LS

Registered number

1284170

Solicitors

Baker & McKenzie
100 New Bridge Street
London, EC4V 6JA

Principal bankers

Barclays Bank Plc
Deutsche Bank

The Body Shop International Plc

The Directors Report

For the Period from 26 February 2006 to 30 December 2006

The Directors submit their annual report and the audited financial statements for the 44 week period ended 30 December 2006

Change of year end

The offer for the entire share capital of the Company by L'Oreal SA was declared wholly unconditional on 9 June 2006 and as a consequence the Company changed its year end to be co-terminous with its new holding company. Comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are therefore not entirely comparable

Business Review and Principal Activities

The Company is the holding company and main trading company of a group that develops and sells skin and hair care products and related items through its own shops, franchised outlets, home sales, mail order catalogues and the internet

Following the acquisition of the Company by L'Oreal SA, its shares were de-listed from the London Stock Exchange on 12 July 2006

The Company recorded a period of solid growth. Turnover for the year was £257.1m, and the company recorded a post tax profit of £3.2m. There were 312 stores in the UK at 30 December 2006, of which 216 were company owned

These figures reflect particularly good results from sales to head franchisees 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

Two new markets were opened, Pakistan and India, bringing the total number of markets in which the The Body Shop operates to 56. Also during the period, E-commerce selling began in the UK

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 in 2007 another year of growth can be confidently expected

Further information on the Company is set out in the Annual Report of L'Oreal SA for 2006

Principal Risks and Uncertainties

The Company is subject to a number of risks and uncertainties which are monitored by management. The major risks during the period were

- Seasonality of business
- Transaction decline
- Channel conflict
- Brand reputation (values)
- Political and cultural instability
- Reliance on central functions
- Head franchisee relationship and succession management
- Terrorism
- Americas region stability

The Directors Report

The Body Shop International Plc

The Directors Report

For the Period from 26 February 2006 to 30 December 2006

(Continued)

Principal Risks and Uncertainties (Continued)

Foreign exchange / currency fluctuation (impact on the Company and its franchisees)

Changing nature of gifting

Staff retention and recruitment

Avian flu

Results and Dividends

As the Company is now wholly owned by L'Oreal SA, incorporated in France, it is no longer required to prepare consolidated accounts. These financial statements therefore present information about the Company as an individual undertaking, and not about its Group.

The results for the 44 weeks are shown in the income statement and the notes relating to it. A second interim dividend for the 52 weeks ended 25 February 2006 of 4.4 pence per share was paid on 3 July 2006 to shareholders who were on the register on 24 March 2006. A second interim dividend of £14.0 million for the 44 weeks ended 30 December 2006 was paid on 25 May 2007.

Directors

The Directors of the Company during the period were

Adrian D P Bellamy (Chairman)
Peter Saunders (Chief Executive Officer)
Dame Anita Roddick
Jean-Paul Agon (Vice-Chairman) (appointed 12 June 2006)
Richard Cymburg (appointed 12 June 2006)
Lady Sylvia Jay (appointed 12 June 2006)
Christian Mulliez (appointed 12 June 2006)
Geoff Skingsley (appointed 12 June 2006)
Tom Vyner (appointed 12 June 2006)
Peggy Bruzelius (resigned 13 June 2006)
Howard Mann (resigned 13 June 2006)
Jack Keenan (resigned 13 June 2006)
Irene Miller (resigned 13 June 2006)
Gordon Roddick (resigned 13 June 2006)

Holdings in the Company

At 30 December 2006 or the date of their resignation, if earlier, the Directors no longer had an interest in the shares of the Company.

At 26 February 2006 the Directors in office on that date held the following beneficial interests in the shares of the Company:

Adrian D P Bellamy	7,425,000
Peter Saunders	111,046
Dame Anita Roddick	20,210,836
Peggy Bruzelius	-
Howard Mann	-
Jack Keenan	70,000
Irene Miller	200,000
Gordon Roddick	18,960,836

The Body Shop International Plc

The Directors Report

For the Period from 26 February 2006 to 30 December 2006

(Continued)

Holdings in the Company (Continued)

In addition to the holdings shown above, at 26 February 2006 Dame Anita and Gordon Roddick, together with another individual, were trustees of a non-beneficial holding of 3,439,552 shares. The beneficial holders of these shares were the Roddick children. For the purposes of the Companies Act 1985, Dame Anita and Gordon Roddick are deemed to be interested in each others holdings.

At 26 February 2006 the Directors held options /share awards over the following number of shares

Adnan D P Bellamy	800,000
Peter Saunders	4,142,631

The interests of the Directors in the holding company are not required to be disclosed.

Board Committees

On 12 July 2006 the Remuneration, Audit and Nomination committees of the board were disbanded.

Fixed Assets

The Directors consider that the fair value of the Company's interest in land and buildings approximates to net book value.

Supplier Payments Policy

The Company agrees payment terms with its suppliers and in the absence of any dispute, payments are then made as expeditiously as possible within such terms. Terms will vary according to the country of supply and type of goods and services provided.

The average trade creditor days were 33 (February 2006 29 days).

Financial Instruments

The information required by section 5A, Schedule 7, Companies Act 1985 in relation to Financial Instruments is set out in note 21 to the Accounts.

Share Capital

Movements in share capital during the year are set out in Note 14 to the Accounts.

The Body Shop International Plc

The Directors Report

For the Period from 26 February 2006 to 30 December 2006

(Continued)

Employees

Details of the number of employees and related costs are set out in Note 3 to the Accounts

The Company is dedicated to engaging and inspiring customers to buy naturally inspired personal care products. To do this, the Company focuses on attracting and retaining employees with great skills, knowledge and creative talent. In return, the Company offers a unique opportunity for employees to be part of a globally recognised brand and to play an active role in promoting social and environmental change through the Company's campaigning, volunteering and community-giving programmes.

The Company has a long-established policy of promoting diversity throughout the global business. Internal and external recruitment processes are monitored to ensure there is no deliberate bias. Human resource policies reflect the Company's commitment to a fair and equal organisation where everyone is encouraged to succeed regardless of sex, race, sexual orientation, age or disability.

In the event of an employee becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged.

The Company aims to ensure that employees' pay and benefits are competitive in the marketplace. A flexible benefits programme is offered, in which employees can opt to trade certain benefits, such as additional holidays. The majority of employees are eligible for one of the Company's bonus schemes.

The Company prides itself in ensuring all employees are aware of its financial and retail performance. A mix of communication methods is used to engage and inform employees, including face-to-face communication sessions, an intranet and written publications such as 'Body News'.

The Company formally consults employees via Consultation and Representation Committees, comprising employee-elected representatives.

Values

The Company continues to operate in accordance with its five core values which are

- Against animal testing
- Support community trade
- Activate self-esteem
- Defend human rights
- Protect our planet

The Company publishes more information on these values and the way it implements them on its website. An updated Values Report was published on the Company's website on 13 July 2007.

The Body Shop International Plc

The Directors Report

For the Period from 26 February 2006 to 30 December 2006

(Continued)

Donations and Community Involvement

The Company donated £0.9 million (February 2006: £1.0 million) to charitable organisations last year, of which £0.6 million (February 2006: £0.7 million) was donated to The Body Shop Foundation and the remaining £0.3 million (February 2006: £0.3 million) to other organisations. No political donations were made by the Company.

The Company seeks to make a positive impact on the local communities in which it operates. In both Company owned and franchised markets throughout the world, staff are actively engaged in supporting many different community-based programmes.

The Company has strengthened its commitment to community trade, a programme through which it purchases natural ingredients and accessories from disadvantaged communities around the world, and its Stop Violence in the Home campaign. In the period the Company spent £6m on community trade and launched a successful Stop Violence in the Home campaign with UNICEF.

Research and Development

The direct cost of research and development expenditure was £4.0m (February 2006: £5.1m).

Directors' Responsibility Statement

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- (a) select suitable accounting policies and then apply them consistently,
- (b) make judgements and estimates that are reasonable and prudent,
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- (d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Body Shop International Plc

The Directors Report

For the Period from 26 February 2006 to 30 December 2006

(Continued)

Audit and Auditors

Each of the persons who is a director of the Company at the date of this report confirms that

- i) so far as the Director is aware, there is no relevant audit information (as defined by the Companies Act 1985) of which the Company's auditors are unaware, and
- ii) each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any information (as defined by the Companies Act 1985) and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

BDO Stoy Hayward LLP resigned as auditors on 12 July 2006. Deloitte & Touche LLP were appointed to fill the casual vacancy and were subsequently re-appointed at the annual general meeting.

On behalf of the Board



Peter Saunders
Chief Executive Officer
26 July 2007

The Body Shop International Plc

Independent Auditor's Report

To The Shareholders of The Body Shop International PLC

We have audited the financial statements of The Body Shop International PLC for the period ended 30 December 2006 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in equity, and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The Body Shop International Plc

Independent Auditor's Report To the Shareholders of The Body Shop International PLC (Continued)

Opinion

In our opinion

the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 30 December 2006 and of its profit for the period then ended,

the financial statements have been properly prepared in accordance with the Companies Act 1985, and

the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Southampton, United Kingdom

Date

27 July 2007

The Body Shop International Plc

INCOME STATEMENT

For the Period from 26 February 2006 to 30 December 2006

		Total	Restated (Note 27) Total
	Note	44 Weeks to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Revenue		257 1	263 6
Cost of sales		<u>(102 3)</u>	<u>(117 0)</u>
Gross profit		154 8	146 6
Operating expenses	2	<u>(138 6)</u>	<u>(132 9)</u>
Operating profit		16 2	13 7
Finance income	5	1 3	1 4
Finance costs	5	<u>(4 3)</u>	<u>(5 4)</u>
Profit on ordinary activities before taxation		13 2	9 7
Taxation	6	<u>(10 0)</u>	<u>(6 0)</u>
Profit for the financial period		<u><u>3 2</u></u>	<u><u>3 7</u></u>

The notes on pages 14 to 32 form part of these financial statements

The Body Shop International Plc

BALANCE SHEET

At 30 December 2006

		30 Dec 2006 £m	As restated (note 27) 25 Feb 2006 £m
	Note		
Assets			
Non-current assets			
Property, plant and equipment	7	66.9	55.6
Intangible assets	8	5.6	8.4
Goodwill	8	2.7	1.5
Investments	10	162.0	149.0
Deferred tax assets	19	-	5.2
Non-current receivables	12	-	3.4
Total non-current assets		<u>237.2</u>	<u>223.1</u>
Current assets			
Inventories	11	40.3	28.4
Trade and other receivables	12	58.0	68.7
Derivatives		-	0.1
Cash and cash equivalents	13	11.9	21.7
Total current assets		<u>110.2</u>	<u>118.9</u>
Total assets		<u>347.4</u>	<u>342.0</u>
Liabilities			
Current liabilities			
Trade and other payables	20	(80.0)	(56.9)
Interest-bearing loans and borrowings	17	(31.6)	(50.8)
Obligations under finance leases	17	(2.2)	(2.3)
Tax payable		(2.0)	(3.1)
Provisions	18	(0.6)	(0.8)
Total current liabilities		<u>(116.4)</u>	<u>(113.9)</u>
Non-current liabilities			
Obligations under finance leases	17	(12.3)	(12.9)
Deferred tax liabilities	19	(1.6)	-
Provisions	18	(0.8)	(0.5)
Total non-current liabilities		<u>(14.7)</u>	<u>(13.4)</u>
Total liabilities		<u>(131.1)</u>	<u>(127.3)</u>
Net assets		<u>216.3</u>	<u>214.7</u>
Equity			
Called up share capital	14	11.3	10.9
Share premium account	14	74.7	65.9
Other reserves	15	9.3	11.1
Retained earnings	14	121.0	126.8
Total equity		<u>216.3</u>	<u>214.7</u>

These financial statements were approved and authorised for issue by the Board on 26 July 2007 and signed on its behalf by



Peter Saunders
Chief Executive Officer

The notes on pages 14 to 32 form part of these financial statements

The Body Shop International Plc

CASH FLOW STATEMENT

For the Period from 26 February 2006 to 30 December 2006

		Period from 26 Feb to 30 Dec 2006 £m	As restated (note 27) 52 Weeks to 25 Feb 2006 £m
	Note		
Cash flows from operating activities			
Operating profit		16 2	13 7
Adjustments			
Depreciation	7	7 5	6 8
Loss on disposal of property, plant and equipment		0 4	0 6
Loss on disposal of intangible assets		0 1	0 1
Amortisation	8	1 1	1 5
Impairment of assets		0 6	-
Share option (credit) / charge		(1 8)	1 6
Exchange movement		1 1	(6 1)
Changes in working capital (excluding the effects of acquisitions)			
(Increase) / decrease in inventories		(11 6)	10 2
Decrease / (increase) in trade and other receivables		14 7	(15 4)
(Decrease) / increase in trade and other payables		(2 4)	2 6
Increase in provisions		0 1	15 0
Cash generated from operations		<u>26 0</u>	<u>30 6</u>
Interest received	5	1 3	1 4
Interest paid	5	(4 3)	(5 4)
Income tax paid		(4 5)	(5 1)
Net cash from operating activities		<u>18 5</u>	<u>21 5</u>
Cash flows from investing activities			
Acquisitions of subsidiaries		(2 4)	(2 9)
Purchase of property, plant and equipment		(26 1)	(15 7)
Purchase of intangible assets		(5 4)	(2 1)
Dividends received from subsidiaries	16	0 3	-
Net cash used in investing activities		<u>(33 6)</u>	<u>(20 7)</u>
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	14	9 2	3 8
Proceeds from Employee Share Trust		6 1	-
Proceeds from borrowings		-	2 2
Capital element of finance lease rental payments		(0 7)	(0 3)
Dividends paid to Company's shareholders		(9 3)	(12 6)
Net cash used in / from financing activities		<u>5 3</u>	<u>(6 9)</u>
Net decrease in cash and cash equivalents		<u>(9 8)</u>	<u>(6 1)</u>
Cash and cash equivalents at the beginning of the period	13	21 7	27 8
Cash and cash equivalents at the end of the period	13	<u>11 9</u>	<u>21 7</u>

The notes on pages 14 to 32 form part of these financial statements

The Body Shop International Plc
Statement of Changes in Equity

	Attributable to equity holders of the company				
	Share capital £m	Share premium £m	Other reserves £m	As restated (note 27) Retained earnings £m	Total equity £m
Balance at 27 February 2005	<u>10.7</u>	<u>62.3</u>	<u>6.5</u>	<u>145.2</u>	<u>224.7</u>
Changes in equity for 2005/2006					
Employee share option scheme	-	-	4.3	-	4.3
Shares issued	0.2	3.6	-	-	3.8
Dividends (note 16)	-	-	-	(12.6)	(12.6)
Hedging	-	-	0.3	-	0.3
Net income recognised directly in equity	<u>0.2</u>	<u>3.6</u>	<u>4.6</u>	<u>(12.6)</u>	<u>(4.2)</u>
Profit for the period	-	-	-	(6.8)	(6.8)
Total recognised income and expense for the period as previously stated	<u>0.2</u>	<u>3.6</u>	<u>4.6</u>	<u>(19.4)</u>	<u>(11.0)</u>
Prior period adjustment (note 27)					
Amounts previously recognised directly in equity	-	-	-	3.0	3.0
Amounts now taken through the income statement	-	-	-	(2.0)	(2.0)
Balance at 25 February 2006 as restated	<u>10.9</u>	<u>65.9</u>	<u>11.1</u>	<u>126.8</u>	<u>214.7</u>
Balance at 26 February 2006	<u>10.9</u>	<u>65.9</u>	<u>11.1</u>	<u>126.8</u>	<u>214.7</u>
Changes in equity for 2006					
Employee share option scheme	-	-	(1.8)	-	(1.8)
Shares issued	0.4	8.8	-	-	9.2
Dividends	-	-	-	(9.0)	(9.0)
Net income recognised directly in equity	<u>0.4</u>	<u>8.8</u>	<u>(1.8)</u>	<u>(9.0)</u>	<u>(1.6)</u>
Profit for the period	-	-	-	3.2	3.2
Total recognised income and expense for the period	<u>0.4</u>	<u>8.8</u>	<u>(1.8)</u>	<u>(5.8)</u>	<u>1.6</u>
Balance at 30 December 2006	<u>11.3</u>	<u>74.7</u>	<u>9.3</u>	<u>121.0</u>	<u>216.3</u>

The notes on pages 14 to 32 form part of these financial statements

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS

For the Period from 26 February 2006 to 30 December 2006

1a General information

The Body Shop International Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given within the "Company Information" at the front of these Accounts. The nature of the group's operations and its principal activities are set out on page 2 of the Directors' Report.

The directors anticipate that at the date of authorisation of these financial statements, the Standards and Interpretations which were in issue but not yet effective, would have no material impact on the financial statements, either as at the 30 December 2006, or in future periods, except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2008.

1b Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB as adopted by the EU) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

Consolidated financial statements have not been prepared as the company has taken advantage of the exemption granted by section 228 of the Companies Act 1985, since the company itself is a wholly-owned subsidiary. Its immediate parent undertaking is L'Oreal SA, a company incorporated in France, and therefore established under the law of a member state of the European Community. As a result, these accounts present information relating to the company as an individual undertaking only and not as a group.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and judgements that affect the application of accounting policies and the reported values of assets, liabilities, incomes and expenses. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates are adjusted as appropriate and the impact reflected in either just the current, or current and future periods, depending on the time frame to which the estimate relates.

Estimates and judgements in relation to specific accounting policies are detailed under the relevant headings.

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Accounting policies (continued)

Revenue

Revenue represents the fair value receivable in the ordinary course of business for goods sold and services provided. It excludes discounts given, VAT and other sales taxes.

Revenue is recognised as follows:

Sale of goods – wholesale

Revenue is recognised when the company has transferred to the customer the significant risks and rewards of the ownership of the goods, and retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods.

Sale of goods – retail

Revenue is recognised when the product is sold to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction.

Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant royalty agreements.

Sale of gift vouchers

Revenue from the sale of gift vouchers is initially recognised as a liability to the customer. This is released to revenue as the vouchers are redeemed.

Sale of loyalty cards

Loyalty cards entitle the holder to discounted purchases and gifts for a limited period of time, in exchange for an initial fee payment. Revenues are deferred and amortised over the expected period of usage of the loyalty card, related to the initial fee payment. In addition, when a loyalty card is sold, an appropriate accrual is made for the Company's liability to the customer for gifts of product due under the terms of the card.

Goodwill

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the write off of the remaining carrying amount of goodwill relating to the entity sold.

Other intangible assets

Other intangible assets relate to software development. They are measured initially at cost and are then amortised on a straight-line basis over the useful economic life.

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is calculated as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Accounting policies (continued)

Property, plant and equipment

All property, plant and equipment is shown at cost less depreciation and provision for impairments, with the exception of freehold land which is shown at cost less any provision for impairment

Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, of all tangible fixed assets, except freehold land, over their expected useful lives. Depreciation is calculated using the following rates

- o Freehold property – over 50 years,
- o Short term leasehold property – over the period of the respective leases,
- o Plant and equipment – over 3 to 10 years

Inventory

Inventories are stated at the lower of cost and net realisable value

Cost is calculated as the cost of purchasing the finished goods together with any additional costs to bring the inventories to their present location and condition, net of any provision for obsolete and slow moving items

Net realisable value is based on estimated selling price less further costs to completion and disposal

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment

A provision for impairment of trade and other receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, together with short-term deposits with an initial maturity date of 3 months or less

Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are measured using expected future cash flows discounted at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Body Shop International Employee Share Trust

The company is deemed to have control of the assets, liabilities, income and costs of The Body Shop International Employee Share Trust ("the EST"). These have therefore been included in the financial statements of the company.

The ordinary shares of the company held in the EST are included within the reserve for own shares and are deducted from equity.

To facilitate the acquisition and holding of shares, loans are made on an interest-free basis by the company to the EST. Shares held by the EST do not rank for dividend.

All shares held by the EST were used to settle employee share options during the period to 30 December 2006.

Foreign currency translation

Transactions in foreign currencies are recorded at the rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates.

All foreign currency exchange differences are recognised in the income statement. This represents a change in accounting policy (see note 27).

Research and development

Expenditure on internally developed products is capitalised if it can be demonstrated that

- o it is technically feasible to develop the product for it to be sold,
- o adequate resources are available to complete the development,
- o there is an intention to complete and sell the product,
- o the group is able to sell the product,
- o sale of the product will generate future economic benefits, and
- o expenditure on the project can be measured reliably.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Accounting policies (continued)

Income taxes

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled.

Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Leased assets

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding leasing commitments, net of finance charges, are included in liabilities.

Leasing payments are analysed between capital and interest components so that the interest element is charged to the income statement over the period of the lease at a constant periodic rate of interest on the remaining balance of the liability outstanding.

Depreciation on assets held under finance leases is charged to the income statement on a straight line basis.

All other leases are treated as operating leases with annual rentals charged to the income statement on a straight-line basis over the term of the lease.

Pension costs

Contributions to the company's defined contribution scheme are charged to the income statement in the year in which they become payable.

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Accounting policies (continued)

Share-based payments

The group has applied the requirement of IFRS 2, Share-based Payments, to all grants of share options or share awards that were unvested as of 29 February 2004 or have been granted since that date

The group issued equity settled share-based payments to employees in the form of share options or performance share awards. The fair value of the employee services received in exchange for the grant of options or share awards was determined at the date of grant by reference to the fair value of the options or share awards at the grant date. The fair value was expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that would eventually vest, which is revised at each balance sheet date.

The fair value was measured by use of the Black-Scholes pricing model. The inputs used in the model and further details of the share-based payment plans are set out in note 16 to the accounts.

Financial assets

The company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the group's accounting policy for each category is as follows:

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Held-to-maturity investments

These assets are non-derivative financial assets with fixed maturities that the company's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost, with changes through the income statement.

Financial liabilities

The company classifies its financial liabilities into trade payables and other monetary liabilities, which are recognised at amortised cost.

The Body Shop International Plc

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Accounting policies (continued)

Derivative Financial Instruments

The company uses derivative (such as forward foreign currency contracts) and non-derivative financial instruments (such as foreign currency loans) to provide commercial hedges of its net investments in foreign subsidiaries and against forecast cash flows designated in currencies other than the company's functional currency

Derivative financial instruments are initially accounted for at cost and subsequently re-measured to fair value at each reporting date. The gains or losses on re-measurement are taken to the income statement, except where the derivative is designated as a cash flow hedge and the hedge is effective in which case the gains or losses are taken to equity until such time that the hedged transactions are recognised in the income statement, at which time the accumulated gains and losses recognised in equity will also be recognised in the income statement. The duration of the derivatives is determined as appropriate for the settlement flow and exchange rate derivatives are negotiated by the L'Oreal SA group bank.

For financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedging

In accordance with IAS 39, the company designates certain risks being hedged into a cash flow hedge.

The gain or loss arising from hedges of the exposure to variability in future cash flows relating to firm commitments or highly probable forecasted transactions are deferred in equity. Deferred gains or losses are released when the forecasted transactions occur.

Any ineffective portion of the hedge is always recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Operating expenses

	Period from 26 Feb to 30 Dec 2006 £m	Restated (Note 27) 52 Weeks to 25 Feb 2006 £m
Operating costs relating to company-owned shops, The Body Shop At Home and the internet	64.4	60.5
Selling and distribution costs	8.9	9.9
Administrative expenses	65.3	50.5
	<u>138.6</u>	<u>120.9</u>
Operating expenses includes:		
	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Research and development	4.0	5.1
Impairment of property, plant and equipment	0.3	-
Amortisation of intangible assets	1.3	1.5
Depreciation	7.5	6.6
Loss on disposal of property, plant and equipment	0.3	0.6
Loss on disposal of intangible assets		0.1
Auditors' remuneration:		
Fees payable to the company's auditors for the audit of the company's annual accounts, Deloitte		0.2
Fees payable to the company's auditors for the audit of the company's annual accounts, BDO		0.2
Fees payable to the company's auditors and their associates for other services to the Company, Deloitte	0.1	-
Total audit fees	<u>0.3</u>	<u>0.2</u>
Taxation services BDO Stoy Hayward	0.6	0.7
Other advisory services BDO Stoy Hayward	0.2	0.2
Total non-audit fees	<u>1.0</u>	<u>0.9</u>

Unrecognised Intangible assets

During the period the company expensed £4.0m (February 2006 £5.1m) relating to research and development.

3 Staff costs and numbers

Costs during the year including directors' emoluments which are disclosed in note 4, were as follows:

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Wages	44.8	50.0
Social security	3.7	4.6
Pension	2.4	2.8
Share based payments	(0.2)	1.1
	<u>50.7</u>	<u>58.5</u>

All share based payments are equity settled

The company operates a number of defined contribution pension schemes for its employees, the assets of which are held in independently administered funds. The pension charge represents contributions payable to the funds and amounted to £2.4 million (February 2006 £2.6 million). Other creditors includes an accrual of £nil (February 2006 £0.2 million) in respect of accrued pension contributions.

The total number of employees at the period end was 2,966 (February 2006 2,969).

The average number of employees during the period was as follows:

	Period from 26 Feb to 30 Dec 2006 No	52 Weeks to 25 Feb 2006 No
Administration	666	666
Distribution / manufacturing	179	257
Shops	<u>2,130</u>	<u>2,044</u>
	<u>2,964</u>	<u>2,967</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Directors' remuneration

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
The total amounts for directors' remuneration were as follows:		
Emoluments	1.8	1.1
Gains on exercise of share options	9.0	
Amounts receivable under long-term incentive schemes	0.2	
Money purchase pension contributions	0.1	0.1
	<u>11.1</u>	<u>1.2</u>

There was 1 director in the group's defined contribution pension scheme (February 2005: 1 director).

The emoluments of the highest paid director were £1.1m (February 2006: £0.6m).

The gains on exercise of options of the highest paid director were £9.0m (February 2006: £nil).

5 Finance income and expense

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Finance income		
Interest income	<u>1.3</u>	<u>1.4</u>
	1.3	1.4
Finance expense		
Interest expense		
Bank borrowings	<u>(4.3)</u>	<u>(5.4)</u>
	<u>(3.0)</u>	<u>(4.0)</u>

6 Tax

Analysis of change in period

	Period from 26 Feb to 30 Dec 2006 £m	Restated (Note 27) 52 Weeks to 25 Feb 2006 £m
Current tax		
Prior period credit		(3.3)
Current period charge	<u>4.7</u>	<u>6.6</u>
	<u>4.7</u>	<u>3.3</u>
Deferred tax		
Prior period charge		1.9
Current period charge	<u>5.3</u>	<u>0.8</u>
	<u>5.3</u>	<u>2.7</u>
Total tax charge	<u>10.0</u>	<u>6.0</u>

Tax on items charged to equity

	Period from 26 Feb to 30 Dec 2006 £m	Restated (Note 27) 52 Weeks to 25 Feb 2006 £m
Deferred tax on share based payments	<u>1.5</u>	<u>(2.8)</u>
	<u>1.5</u>	<u>(2.8)</u>

The effective company tax rate for the period is 78% (February 2006: 62%) greater than the standard rate of UK corporation tax (30%).

The differences are explained below:

	Period from 26 Feb to 30 Dec 2006 £m	Restated (Note 27) 52 Weeks to 25 Feb 2006 £m
Profit on ordinary activities before tax	<u>13.2</u>	<u>9.7</u>
Profit on ordinary activities multiplied by the rate of UK corporation tax of 30% (February 2006: 30%)	4.0	2.9
Effects of		
Expenses not deductible for tax purposes	4.5	3.2
Prior year adjustments		(1.4)
Other	<u>1.5</u>	<u>1.3</u>
Total taxation	<u>10.0</u>	<u>6.0</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 Property, plant and equipment

	Freehold property £m	Short term leasehold property £m	Plant and equipment £m	Total £m
Cost				
At 26 February 2005		53.8	42.4	96.2
Additions	0.3	0.2	15.2	15.7
Disposals		(0.4)	(7.9)	(8.3)
Exchange difference on overseas assets			0.2	0.2
At 25 February 2006	0.3	53.6	49.9	103.8
Additions		14.3	11.9	26.2
Disposals		(0.1)	(3.4)	(3.5)
Asset reclassification (note 8)		(0.5)	2.9	2.4
At 30 December 2006	0.3	67.3	61.3	128.9
Accumulated depreciation				
At 26 February 2005		22.2	26.8	49.0
Charge for the year		1.5	5.3	6.8
Disposals		(0.3)	(7.4)	(7.7)
Exchange difference on overseas assets			0.1	0.1
At 25 February 2006		23.4	24.8	48.2
Charge for the year		1.7	5.8	7.5
Impairment loss		0.3		0.3
Disposals		(0.1)	(2.9)	(3.0)
Asset reclassification		(0.3)	0.3	-
At 30 December 2006		34.0	28.0	62.0
Carrying amount carried forward				
Net book value at 30 December 2006	0.3	33.3	33.3	66.9
Net book value at 25 February 2006	0.3	30.2	25.1	55.6

No assets are pledged as security for the company's liabilities nor is title to the assets restricted.

The company's carrying amount of the short term leasehold properties that are held under finance leases is £22.1 million.

Depreciation of £4.4 million (February 2006: £5.4 million) is included in selling and distribution costs and £3.1 million (February 2006: £1.4 million) in administrative expenses.

8 Intangible assets

	Goodwill £m	Software and websites development £m	Total £m
Cost			
At 26 February 2005	1.0	10.2	11.2
Additions	0.5	1.6	2.1
Disposals		(0.1)	(0.1)
At 25 February 2006	1.5	11.7	13.2
Additions	1.2	0.8	2.0
Disposals		(0.1)	(0.1)
Asset reclassification (note 7)		(2.4)	(2.4)
At 30 December 2006	2.7	10.0	12.7
Accumulated impairment and amortisation			
At 26 February 2005		1.8	1.8
Amortisation		1.5	1.5
At 25 February 2006		3.3	3.3
Amortisation		1.1	1.1
At 30 December 2006		4.4	4.4
Carrying amount carried forward			
At 30 December 2006	2.7	5.6	8.3
At 25 February 2006	1.5	8.4	9.9

Impairment tests for cash-generating units containing goodwill

Goodwill with an indefinite useful life is allocated to the company's cash-generating units.

The recoverable amounts of the company's cash-generating units is determined based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and on five-year financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using between 2% and 6% (February 2006: between 2% and 6%) growth rate. The growth rate does not exceed the long-term average growth rate for the cosmetics and beauty products retail business in which the cash-generating unit operates. A pre-tax discount rate of 8.2% (February 2006: 9.6%) has been used in discounting the projected cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 Acquisitions

During the year the following businesses were acquired by the company

	Period from 26 Feb to 30 Dec 2006 Cost £m	52 Weeks to 25 Feb 2006 Cost £m
Franchisee businesses	1.6	1.1
	<u>1.6</u>	<u>1.1</u>

Fair value of consideration for acquisitions comprised

Fair value of net assets acquired are as follows

	Period from 26 Feb to 30 Dec 2006 franchisees £m	52 Weeks to 25 Feb 2006 franchisees £m
Non-current assets		
Property plant and equipment	0.1	0.1
Current assets		
Inventories	<u>0.3</u>	<u>0.4</u>
	0.4	0.5
Goodwill acquired	<u>1.2</u>	<u>0.6</u>
Cost of acquisitions: cash and cash equivalents	<u>1.6</u>	<u>1.1</u>
Post acquisition results		
Turnover	3.3	0.7
Profit	<u>0.9</u>	<u>0.1</u>

Acquisitions shown above reflect the purchase of the trade and assets of UK franchisees throughout the period from 26 February 2006 to 30 December 2006

If all the above businesses had been purchased on 26th February 2006 their revenue and profit for the period would have been £5.3m and £1.7m respectively

10 Fixed asset investments

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Cost of investment in subsidiaries (less provisions)		
At 26 February 2006	149.0	152.6
Decrease / (increase) in provision against subsidiary undertakings	7.6	(6.5)
Additions	5.4	2.9
At 30 December 2006	<u>162.0</u>	<u>149.0</u>

The additions to investments consists of recapitalisation of

	£m
Soapworks Limited on 23 November 2006	4.6
The Body Shop Worldwide Limited on 15 September 2006	<u>0.8</u>
	<u>5.4</u>

The Company's principal subsidiaries at 30 December 2006 were

	% Holding of ordinary shares	Country of incorporation and operation	Aggregate amount of share capital and reserves as at 30 December 2006 £m	Retained profit or (loss) for the period ended 30 December 2006 £m
Soapworks Limited	100	Great Britain	2.7	0.8
The Body Shop Canada Limited	100	Canada	10.3	3.0
Skin & Hair Care Preparations Inc	100	USA	71.4	Nil
Bath-Na-Bodhage Inc	100	USA	35.2	(3.2)
The Body Shop (Singapore) Pte Limited	100	Singapore	12.0	1.7
The Body Shop International (Asia Pacific) Pte Limited	100	Singapore	2.4	0.2
The Body Shop Hong Kong Limited	100	Hong Kong	14.5	2.9
Mighty Ocean Company Limited	100	Hong Kong	4.1	(1.4)
The Body Shop (France) SARL	100	France	4.0	(0.1)
The Body Shop Beteiligungs-GmbH	100	Germany	4.8	1.0
The Body Shop Benelux B V	100	Netherlands	(0.0)	0.4
The Body Shop GmbH	100	Austria	(0.1)	0.1
B. S. Danmark A/S	100	Denmark	<u>1.5</u>	<u>0.1</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Fixed asset investments (continued)

Soapworks Limited

This company's principal activity is the manufacture of soap and related products

The Body Shop Canada Limited

This company trades in The Body Shop products in Canada

Skin & Hair Care Preparations Inc

This company acts as the holding company in the USA and does not otherwise trade

Buth-Ne-Bodhaige Inc

This company trades in The Body Shop products in the USA through retail outlets through a home selling programme and through the internet

The Body Shop (Singapore) Pte Limited

This company operates The Body Shop retail outlets in Singapore

The Body Shop International (Asia Pacific) Pte Limited

This company operates the Asia Pacific region on behalf of The Body Shop International PLC

The Body Shop Hong Kong Limited

This company acts as the holding company in Hong Kong as does not otherwise trade

Mighty Ocean Company Limited

This company trades in The Body Shop products in Hong Kong

The Body Shop (France) SARL

This company trades in The Body Shop products in France

The Body Shop Beteiligungsgesellschaft GmbH

This company trades in The Body Shop products in Germany through its wholly owned subsidiary The Body Shop Germany GmbH

The Body Shop Benelux B V

This company and its wholly owned subsidiaries trade in The Body Shop products in the Netherlands Belgium and Luxembourg

The Body Shop GmbH

This company trades in The Body Shop products in Austria

B S Danmark A/S

This company trades in The Body Shop products in Denmark

11 Inventories

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Finished goods	40.3	28.4

Inventories are stated at lower of cost and net realisable value

12 Trade and other receivables

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Current assets		
Trade receivables	25.7	24.6
Less provision for impairment of receivables	(1.5)	(2.6)
Trade receivables net	24.2	22.0
Amounts owed by subsidiary undertakings	22.2	33.7
Prepayments	9.9	5.2
Other receivables	1.7	7.8
	<u>58.0</u>	<u>68.7</u>
Non-current assets		
Loans to related parties (Note 24)		0.3
Other receivables		3.1
		<u>3.4</u>

All non-current receivables were due within five years from the balance sheet date

The fair values of trade and other receivables are as follows

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Trade receivables	24.2	22.0
Amounts owed by subsidiary undertakings	22.2	33.7
Loans to related parties (Note 24)		0.3
Prepayments	9.9	5.2
Other receivables	1.7	10.9
	<u>58.0</u>	<u>72.1</u>

There is no concentration of credit risk with respect to trade receivables as the company has a large number of customers which are internationally dispersed

The company recognised a loss of £1.5m (February 2006: £2.6m) for the impairment of its trade receivables during the period. The company also recognised a loss of £2.6m (February 2006: nil) for the impairment of other receivables. The losses have been included in selling and distribution costs in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Cash and cash equivalents

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Cash at bank and in hand	11.9	21.7

Cash and cash equivalents comprise the same as above for the purposes of the cash flow statement.

14 Share capital and reserves

	Number of shares (thousands)	Ordinary shares £m	Share premium £m	Other reserves (note 15) £m	As restated (note 27) Retained earnings £m	Total £m
At 26 February 2005	213,730	10.7	62.3	6.5	145.2	224.7
Employee share scheme						
Cost of employee share scheme				4.3		4.3
Proceeds from shares issued	3,523	0.2	3.6			3.8
Cash flow hedge				0.3		0.3
Retained profits for the year					(19.4)	(19.4)
At 25 February 2006 as previously stated	217,253	10.9	65.9	11.1	125.8	213.7
Prior year adjustment (note 27)					1.0	1.0
At 25 February 2006 as restated		10.9	65.9	11.1	126.8	214.7
Employee share scheme						
Cost of employee share scheme				(1.8)		(1.8)
Proceeds from shares issued	9,457	0.4	8.8			9.2
Settlement of EST						
Retained profits for the year					3.2	3.2
Dividends					(9.0)	(9.0)
At 30 December 2006	226,710	11.3	74.7	9.3	121.0	216.3

The total authorised number of ordinary shares is 300 million shares with a par value of 5p per share. All issued shares are fully paid.

Share premium

This consists of amounts subscribed for share capital in excess of nominal value.

EST Reserve for own shares

The reserve for own shares in the company related solely to The Body Shop International Employee Share Trust, which was established in April 1997 to encourage and facilitate the acquisition and holding of shares by and for the benefit of the employees. Under the scheme the trustee Barclays Private Bank & Trust (a subsidiary of Bank of America) Limited purchased the company's ordinary shares on the open market using loans made by the company or other loans guaranteed by the company. During the period the trustee allocated all the shares to employees to satisfy share options exercised by employees under the share option schemes.

Retained earnings

This comprises of cumulative trading net gains and losses recognised in the income statement.

15 Other reserves

	Share based payments £m	Hedging £m	Total £m
At 26 February 2005	6.8	(0.3)	6.5
Cost of employee share scheme	4.3		4.3
Translation of net investment			
Cash flow hedge		0.3	0.3
At 25 February 2006	11.1		11.1
Cost of employee share scheme	(1.8)		(1.8)
Exchange differences on translation			
At 30 December 2006	9.3		9.3

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share-based payments reserve

The employee share scheme reserve comprises the cumulative expense recognised in connection with the company's share-based payment obligations and includes the recognised element of deferred tax on these payments.

The company has a number of share schemes which entitle executive directors, senior management and employees to acquire shares in the company. These schemes had been in existence for many years and a new performance share scheme was adopted at the Annual General Meeting in June 2005. The recognition and measurement principles in IFRS 2 have been applied to all share awards not vested at 29 February 2004 or those granted since that date.

During the period ended 30 December 2006 the company had the following share-based payment arrangements with employees of the company. They are all equity settled. Following the acquisition of the company by L'Oréal SA an offer was made to holders of all options that had vested and any unvested or unexercised options lapsed on 25 July 2008. The details of the arrangements were as follows:

Share option schemes

The company had a number of share option schemes ("Share Option Schemes") which have been used to grant options to executive directors, senior management and employees. Since 1995 the schemes have been subject to performance conditions and subject to those conditions being met and the employee not leaving the company (unless the board of the company exercises its discretion to allow the options to be retained) the term of the options was 10 years.

Performance share awards

In June 2005 a new performance share award scheme was adopted whereby executive directors, senior management and employees were awarded free shares which vested after three years subject to performance conditions. The performance conditions for awards to executive directors and members of the executive committee were scaled and could give rise to variable levels of vesting.

Share save option schemes

The company invited employees to enter into savings contracts which enabled them to buy shares at a 20% discount to the market price at the date of the invitation. Options granted under such arrangements vested after either 3, 5 or 7 years. There are no performance conditions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 Other reserves (continued)

	Share option schemes		Share save option schemes		Performance share awards		Total	
	Number (m)	Average price £	Number (m)	Average price £	Number (m)	Average price £	Number (m)	Average price £
At 25 February 2005	20.0	1.11	1.3	1.00	-	-	21.3	1.10
Granted during the year	0.7	2.32	0.5	1.53	2.1	-	3.3	0.78
Exercised during the year	(3.0)	1.10	(0.5)	0.87	-	-	(3.5)	1.07
Expired during the year	(1.2)	1.29	-	-	-	-	(1.2)	1.29
Lapsed during the year	(1.4)	1.29	(0.2)	1.20	(0.2)	-	(1.8)	1.16
At 25 February 2006	15.1	1.14	1.1	1.27	1.9	-	18.1	1.03
Exercised during the period	(13.5)	1.08	(0.5)	1.17	-	-	(14.0)	1.08
Lapsed during the period	(1.6)	1.67	(0.6)	1.34	(1.0)	-	(4.1)	0.85
At 30 December 2006	-	-	-	-	-	-	-	-
Exercisable at 25 February 2006	7.7	0.99	-	-	-	-	7.7	0.99
Exercisable at 30 December 2006	-	-	-	-	-	-	-	-

	Share option schemes	Share save option schemes	Performance share awards
At 25 February 2006			
Option prices	£0.89 to £2.35	£0.86 to £1.53	
Weighted average contractual life remaining (Years)	6.7	3.2	2.4
Weighted average price at date of exercise of options exercised in the year £	2.41	2.27	

The following information applies to all options outstanding at 25 February 2006

Exercise price	Average exercise price	Number outstanding	Average life
Nil	£0.00	1.9m	2.4 years
Up to £1.15	£0.94	10.5m	6.3 years
Over £1.15	£1.53	5.7m	7.7 years

At 30 December 2006
No options were outstanding at the end of the period

	Share option schemes	Share save option schemes
Weighted average price at date of exercise of options exercised in the period £	2.99	2.99

No options were granted during the period. In respect of options/performance shares granted during the previous year the fair value was measured by using the Black Scholes Model. The weighted average results and inputs were as follows

Arrangement	Share option schemes	Share save option schemes	Performance share awards	Phantom option scheme
Year of grant	FY06	FY06	FY06	FY06
Fair value of the options at date of grant	£0.59	£0.63	£2.15	£2.24
Number of options/shares granted (millions)	0.7	0.5	2.0	0.1
Exercise price	£2.32	£1.53	£0.00	£0.00
Weighted average share price	£2.32	£1.91	£2.31	£2.32
Contractual term (years)	10 years	3 to 7 years	3 years	3 years
Performance condition	Increase in normalised compound EPS greater than 7.5% per annum	None	Increase in normalised compound EPS greater than 7.5% per annum	Increase in normalised compound EPS greater than 7.5% per annum
Settlement	Shares	Shares	Shares	Cash
Expected volatility	33.0%	34.0%	N/A	N/A
Expected life of option at grant (years)	4.0	4.1	3.0	3.0
Risk free interest rate	4.0%	4.4%	N/A	N/A
Expected dividend yield	2.5%	3.0%	2.5%	2.5%

The expected volatility was determined by calculating the historical volatility of the group's share price over the four years preceding the date of grant. The expected life of the options at grant has been based on exercise behaviour from the last year.

Awards to directors and executive members vest at variable levels depending on the achievement of variable compound growth rates in EPS between 7.5% and over 12.5%.

As a result of the application of IFRS2, the credit recognised is £(0.2)m (February 2006 charge £1.4m).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 Dividends
Paid

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Final dividend paid of 3.8p per share for 26 February 2006		7.9
Interim dividend paid of 2.2p per share for 25 February 2006		4.7
Second interim dividend paid of 4.4p per share for 25 February 2006	9.3	
	<u>9.3</u>	<u>12.6</u>

Received

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
From subsidiaries	0.3	
	<u>0.3</u>	

17 Borrowings

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Non-current		
Obligations under finance leases	12.3	12.9
	<u>12.3</u>	<u>12.9</u>
Current		
Bank borrowings		50.8
Obligations under finance leases	2.2	2.3
Related party borrowings	31.6	
	<u>33.8</u>	<u>53.1</u>
Total borrowings	<u>46.1</u>	<u>66.0</u>

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Other borrowings are unsecured.

The maturity of non-current borrowings is as follows:

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
After one and not more than two years	2.2	2.2
After two and not more than five years	8.5	8.8
Over five years	3.6	3.9
	<u>12.3</u>	<u>12.9</u>

The carrying amounts of the non-current borrowings equal their fair value.

The fair values are based on cash flows discounted using an appropriate rate.

The carrying amounts of current borrowings approximate their fair value.

The carrying amounts of borrowings are denominated in the following currencies:

	Period from 26 Feb to 30 Dec 2006		52 Weeks to 25 Feb 2006	
	£m	Local currency	£m	Local currency
Sterling	30.0	30.0		
US Dollar		-	22.9	40.0
Euro			8.2	12.0
HK Dollar	1.6	23.7	9.2	125.0
Singapore Dollar			10.5	30.0
	<u>31.6</u>		<u>50.8</u>	

Obligations under finance leases

The present value of minimum lease payments is as follows:

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Not later than one year	2.2	2.3
After one and not more than five years	8.7	8.4
Over five years	3.6	4.5
	<u>14.5</u>	<u>15.2</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 Borrowings (continued)

Interest rate profile

The effective interest rates at the balance sheet date were as follows.

	Period from 26 Feb to 30 Dec 2006				Hong Kong Dollar
	£	US\$	€	Singapore Dollar	
Obligations under finance leases	15.0%				
Related party borrowings	5.4%				4.8%

	52 Weeks to 25 Feb 2006				Hong Kong Dollar
	£	US\$	€	Singapore Dollar	
Bank borrowings	-	3.3%	2.8%	2.7%	2.2%
Obligations under finance leases	15.0%				
Related party borrowings	5.7%				

18 Provisions for liabilities and charges

Onerous contracts

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Balance at 26 February 2006	1.3	2.1
Provisions used during the period		(1.0)
Unwinding of discount	0.1	0.2
At 30 December 2006	<u>1.4</u>	<u>1.3</u>
Current	0.8	0.8
Non-current	<u>0.8</u>	<u>0.5</u>
	<u>1.4</u>	<u>1.3</u>

The onerous contracts relate to buildings which the company no longer occupies. The affected lease agreements expire within two to 26 years. Where possible, the company sublets the properties. The amounts due net of rents receivable under subleases are discounted at the effective interest rate of 5.7%.

19 Deferred tax assets and liabilities

Deferred tax is calculated in full on all temporary differences using the tax rate applicable to the jurisdiction where the asset or liability arises.

As at 30 December 2006, the company had the following deferred tax position:

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Opening balance	5.2	5.2
Prior period charge		(1.9)
Current period charge		
Income statement	(5.3)	(0.8)
Equity	(1.5)	2.7
At 30 December 2006	<u>(1.6)</u>	<u>5.2</u>

The movement on each type of temporary difference or unused tax loss is shown below.

This disclosure is prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities

	Accelerated capital allowances £m	Total £m
At 26 February 2006	(1.7)	(1.7)
Current period charge		
Income statement	(0.4)	(0.4)
At 30 December 2006	<u>(2.1)</u>	<u>(2.1)</u>

Deferred tax assets

	Share-based payments £m	Other temporary differences £m	Total £m
At 26 February 2006	6.8	0.1	6.9
Current period charge			
Income statement	(5.3)	0.4	(5.0)
Equity	(1.5)		(1.5)
At 30 December 2006	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>

Deferred tax assets are recognised in respect of deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. Under current tax legislation, deductible temporary differences may be carried forward for relief against future tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 Trade and other payables

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Trade payables	11.7	11.7
Social security and other taxes	1.1	2.3
Other payables	8.3	6.8
Accrued expenses	20.1	7.4
Deferred income	1.6	0.6
Amounts due to subsidiary undertakings	37.2	28.1
	<u>80.0</u>	<u>56.9</u>

The fair value of trade and other payables does not differ significantly from their carrying value

21 Financial risk management

Risk exposures

Exposure to currency and interest rate risks arising in the course of its normal operations, the company uses derivatives negotiated with L'Oréal SA Group (the parent company) bank. Regefi. In addition, the board approves treasury policies as set by the parent company with members of the senior management team directly controlling day-to-day operations. In accordance with the parent company's rules, the currency and interest rate derivatives are set up exclusively for hedging purposes and no transactions of a speculative nature are undertaken.

Debt market prices

The company has no significant risk to debt market prices.

Hedging of currency risk

The company is exposed to currency risk from commercial transactions recorded in the balance sheet and from future transactions considered to be highly probable. The company's policy on exposure to currency risk from its future commercial transactions is to hedge at least 80% of the currency risk by derivatives. Future currency flows are analysed in detail forecasts for the coming year. Currency risks that emerge are hedged by forward contracts to reduce as far as possible the currency position of each subsidiary. The duration of the derivatives is determined as appropriate for the company's settlement flows. All exchange rate derivatives are negotiated by Regefi (the parent company's banker). As the company must borrow and invest the cash in its local currency, the exchange rate risks generated are almost non-existent. The company has no significant currency positions that are not hedged in the balance sheet.

Hedging of interest rate risk

The company uses interest rate derivatives to reduce net exposure to interest rate risk. Such derivatives are never held for speculative reasons and are mainly swaps and interest rate options, which are freely negotiated. The fair value of the interest rate derivatives is their market value, which is calculated by the discounting of future flows at the interest rate ruling at the balance sheet date.

The company has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The company has policies that limit the amount of credit exposure to any one financial institution.

Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The company hedges the effects of changes in exchange rates either on balances payable to its subsidiaries that is not expected to be settled in the foreseeable future or on balances receivable from its subsidiaries that may or may not be capitalised in the foreseeable future. In addition, to manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the company manages the position in each foreign currency by using external forward currency contracts, which are designated as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The company's currency risk management policy is to hedge on a monthly basis to cover receipts and payments expected to occur in the next calendar year. By September of N there should be a coverage of 80% of the risk associated to N+1. The remaining 20% will be covered between October and December of N. The values used for the risk coverage for N+1 are based on budgets submitted by the regions. Each hedging instrument is designated as such and is documented in accordance with the requirements of IAS 39/86. The hedging instruments do not hedge all gross receipts.

The fair value of hedging contracts held to hedge foreign exchange risk at the balance sheet date is £0.1m (February 2006: £0.1m).

The company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Fair value estimation

The following summarises the methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

Forward exchange contracts are generally valued by deducting the current spot rate from the contractual forward price. Where significant, the discounted contractual forward price is used based on market discount rates for a similar instrument at the balance sheet date.

Interest bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for similar lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables / payables

For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect their fair value. All other receivables and payables are discounted to determine the fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Property, plant and equipment	0.5	
Intangible assets		0.7
	<u>0.5</u>	<u>0.7</u>

Operating lease commitments

The company leases various retail outlets, warehouses and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The company also leases items of plant and equipment on short- and medium-term leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Not later than 1 year	19.4	21.3
Later than 1 year and not later than 5 years	84.5	87.1
Later than 5 years	82.6	57.6
	<u>146.5</u>	<u>146.0</u>

The majority of leases are subject to rent reviews. Of the above £5.6m (February 2006: £12.7m) relates to total commitments under leases where the company has granted sub-leases at the same rental to franchisees and other entities. Income from sublet property amounted to £1.7m (February 2006: £1.6m) for the period.

23 Contingent liabilities

There were no material contingent liabilities at 30 December 2006 (February 2006: nil).

24 Related-party transactions

Identity of related parties

The company has related party relationships with its parent undertaking, its fellow subsidiaries and its own subsidiaries (see note 10) and with its directors and executive officers ("key management personnel").

Transactions with key management personnel

In addition to key management personnel's salaries, the company also provides non-cash benefits to key management personnel and contributes to money purchase pension schemes on their behalf.

Key management personnel also participated in the company's share option programme (see note 15) and the replacement cash based on long term incentive scheme.

The key management personnel compensations included in staff costs and numbers (see note 3) are as follows.

	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
Short term employee benefits	5.8	3.9
Post-employment benefits	0.3	0.5
Termination benefits		0.5
Share-based payments	(0.2)	0.7
Other long term benefits	0.8	
	<u>6.7</u>	<u>5.6</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 Related-party transactions (continued)

Loans with officers other than directors

At 30 December 2006 the aggregate amount of outstanding loans with officers other than directors was £nil (February 2006: £343,829). The balance at February 2006 related to 2 officers.

Trading transactions

During the period the company entered into the following transactions with its subsidiaries:

	Sales of goods including services		Purchases of goods including services		Amounts owed by related parties net of impairment		Amounts owed to related parties net of impairment	
	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m	Period from 26 Feb to 30 Dec 2006 £m	52 Weeks to 25 Feb 2006 £m
TBS (France) SARL	17	20	-	-	54	24	-	-
BS Danmark A/S	0.9	0.8	-	-	0.5	0.6	-	-
TBS Germany GmbH	5.0	5.3	-	-	-	0.3	1.8	-
TBS (Singapore) Pte	4.2	3.9	-	-	-	-	8.4	6.8
TBS Int'l (Asia Pacific) Pte	0.0	0.2	-	-	-	-	5.3	4.7
TBS Hong Kong Limited	0.0	1.0	-	-	2.0	0.3	-	-
Mighty Ocean Company Ltd	-	-	-	-	1.6	1.1	-	-
TBS Canada Ltd	-	-	-	-	-	-	8.6	3.1
TBS GmbH(Austria)	17	1.6	-	-	-	-	-	-
TBS Benelux B V	2.6	3.0	-	-	-	3.0	-	-
BSI USA Inc	38.7	37.0	-	-	12.5	5.2	-	-
Soapworks Ltd	-	-	10.0	9.7	-	5.9	5.6	-
TBS Worldwide Ltd	-	-	-	-	-	0.7	0.8	-
Small subsidiaries	16.7	16.1	-	-	-	-	10.2	3.7
Dormant companies	-	-	-	-	1.7	3.7	-	0.8

All transactions with related parties are on the Company's standard payment terms of 30 days from the date of invoice. There are no security or guarantees given on the related party transactions.

25 Ultimate parent undertaking

The company's immediate and ultimate parent undertaking is L'Oréal SA, a company incorporated in France and listed on the French stock exchange.

L'Oréal SA is the holding company respectively of the smallest and largest group of which the company is a member and for which group accounts are prepared. Copies of the group accounts may be obtained from its registered office: 31 Rue Martre, 92117 Clichy, France.

27 Prior period adjustment

The prior period adjustment represents a change in the company's accounting policy for foreign exchange. In the years preceding 25 February 2006 foreign exchange differences on bank loans and quasi equity were taken directly to reserves. In the period to 30 December 2006 these exchange differences are being taken through the income statement in accordance with IAS21, which management consider to be the appropriate treatment for such items. As such the prior period's comparative figures have been restated. The prior period adjustment has the effect of increasing shareholders' funds at 25 February 2006 by £1m. The comparative figures for the year ended 25 February 2006 result in a decrease in the retained profit for the year of £2m. Had the new policy not been adopted in the current period, the retained profit would have been increased by £1.0m.

28 Post balance sheet events

The UK government has indicated in its 2007 budget announcement that the effective rate of corporation tax for large companies will reduce from 30% to 28% with effect from April 2008. This will therefore impact the Company's deferred tax for the year ended December 2007 and the Company's current tax for the year ended December 2008.

All other things being equal, this will result in a 2% reduction in the Company's tax charge.

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**THESE ACCOUNTS
FORM PART OF THE
GROUP ACCOUNTS
OF COMPANY
No. 01284170**

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 24th 2007

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2006 Consolidated financial statements

COMPARED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

€ millions

	2006	2005	2004 pro forma ⁽¹⁾	2004
Net sales (note 3)	15,790 1	14,532 5	13,641 3	13,641 3
Cost of sales	-4,569 1	-4,347 3	-4,101 1	-4,101 1
Gross profit	11,221 0	10,185 2	9,540 2	9,540 2
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
Operating profit before foreign exchange gains and losses	2,596 1	2,312 5	2,052 4	2,052 4
Foreign exchange gains and losses	-55 2	-46 5	36 5	36 5
Operating profit	2,540 9	2,266 0	2,088 9	2,088 9
Other income and expenses (note 6)	-60 8	9 3	-126 2	2,728 3
Operational profit	2,480 1	2,275 3	1,962 7	4,817 2
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
Profit before tax and minority interests	2,576 8	2,379 1	2,060 4	5,062 5
Income tax (note 8)	-514 7	-405 9	-618 6	-1,089 7
Net profit	2,062 1	1,973 2	1,441 8	3,972 8
Attributable to:				
- 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 1st, 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
Assets			
Non-current assets	19,155 4	18,686 0	15,734 0
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
Current assets	5,627 6	5,200 1	4,651 2
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
TOTAL ASSETS	24,783.0	23,886 1	20,385.2

€ millions

	12 31 2006	12 31 2005	12 31 2004
Liabilities			
Shareholders' equity (note 19)	14,624.2	14,657.2	11,825.4
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
Shareholders' equity excluding minority interests	14,622.1	14,655.7	11,824.2
Minority interests	2.1	1.5	1.2
Non-current liabilities	3,396.9	2,460.5	3,218.8
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
Current liabilities	6,761.9	6,768.4	5,341.0
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
TOTAL LIABILITIES	24,783.0	23,886.1	20,385.2

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
At 12 31 2003	649,575,760	135.2	953.4	6,773.6	73.7	-1,792.6		6,143.3	8.3	6 151.6
Pro forma restatements ⁽¹⁾				2,531.0	2,800.1			5,331.1		5,331.1
At 12.31.2003	649,575,760	135.2	953.4	9,304.6	2,873.8	-1,792.6		11 474.4	8.3	11,482.7
Dividends paid (not paid in treasury stock)				-513.8				-513.8	-6.0	-519.8
Cumulative translation adjustments							-139.9	-139.9	-0.3	-140.2
Financial assets available for sale					174.0			174.0		174.0
Cash flows hedging					-16.8			-16.8	-0.3	-17.1
Items directly recognised in equity					157.2		-139.9	17.3	-0.6	16.7
Consolidated net income of the period				1,438.7				1,438.7	3.1	1,441.8
Total income and expenses				1,438.7	157.2		-139.9	1,456.0	2.5	1,458.5
Deferred share-based payment				20.4				20.4		20.4
Net changes in treasury stock	-11,301,400					-658.3		-658.3		-658.3
Other movements ⁽²⁾			0.1	45.4				45.5	-3.7	41.8
At 12 31 2004	638,274,360	135.2	953.5	10,295.3	3,031.0	-2,450.9	-139.9	11,824.2	1.2	11 825.4
Capital increase	7,500	0.0	0.4					0.4		0.4
Cancellation of treasury stock		-3.5		-980.9		984.4				
Dividends paid (not paid in treasury stock)				-518.8				-518.8	-0.6	-519.4
Cumulative translation adjustments							353.9	353.9	0.2	354.1
Financial assets available for sale					2,255.8			2,255.8		2,255.8
Cash flows hedging					-89.6			-89.6	-0.1	-89.7
Items directly recognised in equity					2,166.2		353.9	2,520.1	0.1	2,520.2
Consolidated net income of the period				1,972.3				1,972.3	0.9	1,973.2
Total income and expenses				1,972.3	2,166.2		353.9	4,492.4	1.0	4,493.4
Deferred share-based payment				29.9				29.9		29.9
Net changes in treasury stock	-18,308,250			-0.9		-1,171.7		-1,172.6		-1,172.6
Other movements				0.2				0.2	-0.1	0.1
At 12.31.2005	619,973,610	131.7	953.9	10,797.1	5,197.2	-2,638.2	214.0	14,655.7	1.5	14,657.2

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

(2) Other movements mainly relate for 2004 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 (PRO FORMA 2004)
(continued)

€ m '000s

	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
At 12 31 2005	619,973,610	131 7	953 9	10,797 1	5,197 2	-2,638.2	214 0	14,655 7	1 5	14,657.2
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
Total income and expenses				2,061 0	-130 3		-284 3	1,646 4	1 3	1,647 7
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
At 12.31.2006	605,722,110	127 9	958.5	11,035 4	5,066.9	-2,496.3	-70.3	14,622 1	2 1	14,624.2

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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	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
At 12 31 2003	649,575,760	135.2	953.4	6,773.6	73.7	-1,792.6		6,143.3	8.3	6,151.6
Dividends paid (not paid 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
Total income and expenses				3,969.7	2,957.3		-139.9	6,787.1	2.5	6,789.6
Deferred share-based payment				20.4				20.4		20.4
Net changes in treasury stock	-11,301.400					-658.3		-658.3		-658.3
Other movements ⁽¹⁾			0.1	45.4				45.5	-3.7	41.8
At 12 31 2004	638,274.360	135.2	953.5	10,295.3	3,031.0	-2,450.9	-139.9	11,824.2	1.2	11,825.4
Capital increase	7,500	0.0	0.4					0.4		0.4
Cancellation of treasury stock		-3.5		-980.9		984.4				
Dividends paid (not paid 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
Total income and expenses				1,972.3	2,166.2		353.9	4,492.4	1.0	4,493.4
Deferred share-based payment				29.9				29.9		29.9
Net changes in treasury stock	-18,308,250			-0.9		-1,171.7		-1,172.6		-1,172.6
Other movements				0.2				0.2	-0.1	0.1
At 12 31 2005	619,973,610	131.7	953.9	10,797.1	5,197.2	-2,638.2	214.0	14,655.7	1.5	14,657.2

(1) 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)

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	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
At 12 31 2005	619,973,610	131 7	953 9	10,797 1	5,197 2	-2,638.2	214.0	14,655 7	1 5	14,657 2
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
Total income and expenses				2,061 0	-130 3		-284 3	1,646 4	1 3	1,647 7
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
At 12 31 2006	605,722,110	127.9	958.5	11,035 4	5,066.9	-2,496 3	-70 3	14,622 1	2 1	14,624.2

COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions

	2006	2005	2004 pro forma ⁽¹⁾	2004
Cash flows from operating activities				
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
Gross cash flow	2,410.3	2,129 6	1,922 8	1,922 8
Cash used for working capital	65 6	-35 7	-76 4	-76 4
Net cash provided by operating activities (A)	2,475 9	2,093 9	1,846 4	1,846 4
Cash flows from investing activities				
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
Net cash used by investing activities (B)	-1,785 9	-869 8	-1,121 9	-1,121 9
Cash flows from financing activities				
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
Net cash used by financing activities (C)	-552 4	-1,159 8	-858 9	-858 9
Net effect of exchange rate changes and fair value changes (D))	-19 6	22 7	-8 8	-8 8
Change in cash and cash equivalents (A+B+C+D)	118 0	87 0	-143.2	-143 2
Cash and cash equivalents at beginning of the year (E)	663.2	576 2	719 4	719 4
Cash and cash equivalents at end of the year (A+B+C+D+E)	781.2	663 2	576 2	576 2

(1) For comparison purpose, pro forma statements of cash flows are restated in order to reflect the deconsolidation of Sanofi Synthelabo at January 1st 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 31st, 2006

On February 14th 2007 the Board of Directors closed the consolidated financial statements at December 31st, 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 24th, 2007

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

The IFRS standards have been applied retroactively at January 1st, 2004, except for certain exemptions stipulated in the IFRS 1 standard for the first application of IFRS standards

- no restatement of business combinations prior to January 1st, 2004,
- actual gains and losses on pension obligations fully recognised against opening equity at January 1st, 2004,
- cumulative translation adjustments at January 1st, 2004 merged with consolidated reserves,
- no revaluation of tangible assets at January 1st, 2004,
- no recognition of share purchase or subscription options plans prior to November 7th, 2002

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

No retrospective application of accounting standards or amendments to existing standards at December 31st, 2006 whose effective application date is subsequent to January 1st, 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 31st or close their accounts on that date

All companies directly or indirectly controlled by the parent company L'Oréal have been consolidated by the full consolidation method

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

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

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 1st, 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.

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

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

v - Provisions for employee retirement obligation and related benefits

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

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

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

The charges recorded in the profit and loss account during the year include:

- service cost, i.e. additional rights acquired by employees during the accounting period,
- interest cost, i.e. change in the value of the discounted rights due to the fact that one year has gone,
- expected return on assets, i.e. income from external assets calculated on the basis of a standard return on long-term investments,

- the impact of any change to existing schemes on previous years or of any new schemes,
- amortisation of unrecognised gains and losses

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

The cumulative effects of unrecognised gains and losses are depreciated over the average residual period of activity of active employees, unless such gains and losses do not exceed 10% of the greater of the discounted benefit obligation or the fair value of plan assets ("corridor" principle). The depreciation is included in the annual actuarial charge of the following financial year.

Gains and losses in relation to other benefits, such as jubilees and medals, are immediately charged to the profit and loss account without the application of the "corridor" principle.

The liability corresponding to the company's net commitment for personnel is entered on the balance sheet, on the *Provisions for employee retirement obligation and related benefits* line.

w - Provisions for liabilities and charges

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

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

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

x - Borrowings and debts

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

In accordance with the principle of recording fair value hedges, fixed rate borrowings and debts swapped at a variable rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance cost and are offset by changes in the value of the attached interest rate swaps. The fair value of fixed rate debts is determined by the discounted cash flow method at the closing date, allowing for the spread corresponding to the group's risk class. The book value of the variable rate debts is a reasonable approximation of their fair value.

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

y - Financial derivatives

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

With regard to exchange rate risk, the applicable accounting principles are set out in detail in note 1-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 17th, 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 25th, 2006. The Body Shop has acquired a strong reputation as a naturally-oriented brand with expertise in retail and deeply-rooted values.

On June 9th, 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 30th, 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 ⁽¹⁾	814.4
Current assets	268.3
Non-current liabilities	-228.2
Current liabilities	-222.9
Total net equity acquired	631.6

(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 1st, 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 1st, 2005 onwards.

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

At the end of August 2005, the L'Oréal group acquired the sun protection brand Delia, one of the leading brands in this business in Europe. The sales of Delia 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 MINNURSE. MINNURSE's activities have been fully consolidated (100%) since this date. In 2003, MINNURSE's sales came to around €40 million.

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

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

The group bought out the minority interests of Lavicosmetica Cosmetique 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 12th, 2004 confirmed the success of the operation, leading to the acquisition of 95.47% of Aventis' capital. Further to this operation, L'Oréal held 10.41% of the capital and 17.23% of the voting rights of the new Sanofi-Aventis group. As a result, L'Oréal deconsolidated its stake in Sanofi-Synthelabo on August 12th, 2004, generating a €2.9 billion gross.

capital gain on dilution. The shareholders' agreement concluded between L'Oréal and the Total group concerning their respective interests in Sanofi-Synthelabo ended on December 2nd, 2004.

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

NOTE 3 - SEGMENT INFORMATION

a - Segment information

The Cosmetics branch is organised into four sectors, each one operating with specific distribution channels:

- Professional Products Division: products used and sold in hair salons,
- Consumer Products Division: products sold in mass-market retail channels,
- Luxury Products Division: products sold in selective retail outlets, i.e. department stores, perfumeries, travel retail and the group's own boutiques,
- Active Cosmetics Department: dermocosmetic skincare products sold in pharmacies and specialist sections of drugstores.

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

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

The "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 ⁽¹⁾	Operational liabilities ⁽²⁾	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
Cosmetics divisions total	15 011 4	2 880 2	10 517 7	4 092 4	630 4	566 5
Non-allocated		-437 0	333 1	506 6	59 7	46 6
Cosmetics branch	15 011 4	2 423 2	10 850 8	4 599 0	690 0	613 0
The Body Shop branch ⁽³⁾	435 0	58 3	1 371 0	65 2	47 3	28 5
Dermatology branch	343 7	59 4	342 5	74 5	19 7	24 5
Group	15 790 1	2 540 9	12 564 3	4 738 7	757 1	666 0

€ millions	Sales	Operating profit	Operational assets ⁽¹⁾	Operational liabilities ⁽²⁾	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
Cosmetics divisions total	14 214 7	2 608 6	10 580 0	3 954 8	601 2	552 3
Non-allocated		-396 4	326 3	549 4	57 3	46 2
Cosmetics branch	14 214 7	2 212 2	10 906 3	4 504 2	658 4	598 5
Dermatology branch	317 8	53 8	359 1	73 6	15 5	26 7
Group	14 532 5	2 266 0	11 265 5	4 577 8	673 9	625 3

€ millions	Sales	Operating profit	Operational assets ⁽¹⁾	Operational liabilities ⁽²⁾	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
Cosmetics divisions total	13 347 9	2 406 3	9 433 7	3 685 7	567 1	477 4
Non-allocated		-368 0	298 5	588 7	74 4	48 2
Cosmetics branch	13 347 9	2 038 3	9 732 2	4 274 3	641 4	525 6
Dermatology branch	293 4	50 6	333 6	66 4	31 5	19 9
Group	13 641 3	2 088 9	10 065 8	4 340 7	672 9	545 6

(1) Operational assets include goodwill, intangible and tangible assets, trade accounts receivable, inventories, samples and point-of sales advertising recorded in advance.
(2) Operational liabilities include provisions for liabilities and charges (excluding provisions for tax and restructuring), provisions for employee retirement obligation, trade accounts payable, social accounts payable and creditors.
(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
Operational assets	12 564 3	11 265 5	10 065 8	Operational liabilities	4 738 7	4 577 8	4 340 7
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
Non-allocated assets	12 218 7	12 620 6	10 319 4	Non-allocated liabilities	20 044 3	19 308 4	16 044 5
Total Assets	24 783 0	23 886 1	20 385 2	Total Liabilities	24 783 0	23 886 1	20 385 2

b - Information by geographic zone - Group

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

1 Consolidated sales by geographic zone

	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
Group	15,790.1	100.0	8.7	8.9	14,532.5	100.0	13 641.3	100.0

2 Consolidated sales by geographic zone by destination

The breakdown of sales for each geographic zone by destination for 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
Cosmetics branch	15,011.4	100.0	5.6	5.9	14,214.7	100.0	13 347.9	100.0

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
Cosmetics divisions total	2,860.2	2,608.6	2,406.3
Non allocated	- 437.0	- 396.4	- 368.0
Cosmetics branch	2,423.2	2,212.2	2,038.3

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
Group	12,564.3	757.1	11,265.5	673.9	10 065.9	672.9

NOTE 4 - PERSONNEL COSTS AND NUMBER OF EMPLOYEES**a - Number of employees⁽¹⁾**

	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
Total⁽²⁾	60,851	52,403	52,081

(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
Personnel costs			
(including welfare contributions)	3,034.9	2,851.7	2,719.0

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

c - Compensation of directors and management

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

€ millions	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 ⁽¹⁾	-69.4	-	-24.0
Restructuring costs	0.1	-2.2	-39.5
Total	-60.8	9.3	-126.2

(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
Finance costs	-115.9	-63.8	-43.1

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
Income tax	514 7	405 9	618 6

b - Analysis of tax charge

The income tax charge may be analysed as follows

En millions d'euros	2006	2005	2004
Pre-tax income of consolidated companies	2,576 8	2,379 1	5,062 5
Theoretical tax rate	31 74%	32 29%	34 67%
Expected tax charge	817 9	768 2	1,755 2
Impact of permanent differences	59 7	37 0	117 5
Impact of tax rate differences ⁽¹⁾	-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 ⁽²⁾	-	-	-564 8
Other ⁽³⁾	8 5	-13 6	-31 9
Group tax charge	514 7	405 9	1,089 7

(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	
Balance of deferred tax assets at December 31st, 2003	439 6
Balance of deferred tax liabilities at December 31st, 2003	-287 6
Profit and loss effect	-452 9
Translation differences	-0 3
Sanofi-Aventis restatement	-555 0
Other effects	-38 0
Balance of deferred tax assets at December 31st, 2004	427 9
Balance of deferred tax liabilities at December 31st, 2004	-1 322 2
Profit and loss effect	290 1
Translation differences	-0 8
Other effects	115 1
Balance of deferred tax assets at December 31st, 2005	424 8
Balance of deferred tax liabilities at December 31st, 2005	-914 7
Profit and loss effect	273 3
Translation differences	-1 5
Other effects	135 4
Balance of deferred tax assets at December 31st, 2006	429 8
Balance of deferred tax liabilities at December 31st, 2006	-512 5

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	
Deferred tax total	429.8	512.5	424.8	914.7	427.9	1,322.2

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 31st, 2004

The maintenance of L'Oréal's stake in Sanofi-Aventis at December 31st, 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 31st, 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 31st, 2006 compared with €81.3 million at December 31st 2005 and with €61.6 million at December 31st, 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
Net profit attributable to the group	2,061.0	1 972.3	1,438.7
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
Deferred tax total	1,833.4	1 638.5	1,485.9

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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	
Diluted net profit per share	2,061 0	615 723,220	3 35
2005			
Net profit per share	1 972 3	629,508,822	3 13
Stock options plan		1 383 648	
Diluted net profit per share	1,972 3	630 892,470	3 13
2004 pro forma			
Net profit per share	1 438 7	647 677 982	2 22
Stock options plan		1 920,422	
Diluted net profit per share	1,438 7	649,598,404	2.21

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	
Diluted net profit before non-recurrent items per share	1,833 4	615,723,220	2 98
2005			
Net profit before non recurrent items per share	1,638 5	629 508 822	2 60
Stock options plan		1 383 648	
Diluted net profit before non-recurrent items per share	1,638 5	630,892,470	2 60
2004 pro forma			
Net profit before non-recurrent items per share	1 485 9	647 677 982	2 29
Stock options plan		1 920 422	
Diluted net profit before non-recurrent items per share	1,485 9	649,598,404	2.29

NOTE 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 2006	12 31 2005	Acquisitions Disposals	Other movements	12 31 2006
L'OREAL PROFESSIONNEL/KERASTASE	316.6		-12.3	304.3
MATRIX	195.7		-15.0	180.6
REDKEN	101.4		0.0	101.4
Professional Products Total	613.7		-27.4	586.3
L'OREAL 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
Consumer Products Total	1,986.6		-152.6	1,834.0
LANCÔME	567.3		-4.9	562.4
SHU UEMURA	124.0		-14.6	109.4
Other	195.7		-2.7	193.0
Luxury Products Total	887.0		-22.2	864.8
VICHY/DERMABLEND	204.8		-1.6	203.2
Other	142.9	38.7	-9.1	172.5
Active Cosmetics Total	347.7	38.7	-10.7	375.7
Other cosmetics	2.1	5.3	-0.1	7.3
The Body Shop		379.0	6.9	385.8
Group Total	3,837.1	423.0	-206.2	4,053.9

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 31st, 2006.

€ millions 2005	12 31 2004	Acquisitions Disposals	Other movements	12 31 2005
L'OREAL PROFESSIONNEL/KERASTASE	300.2	-	16.5	316.6
MATRIX	175.8	-	19.9	195.7
REDKEN	107.2	-	-5.8	101.4
Professional Products Total	583.2	-	30.5	613.7
L'OREAL PARIS	735.3	0.1	13.5	749.0
MAYBELLINE/GARNIER	952.6	29.5	111.3	1,093.4
SOFTSHEEN CARSON	127.9	-	16.3	144.3
Consumer Products Total	1,815.8	29.7	141.1	1,986.6
LANCÔME	559.0	0.1	8.2	567.3
SHU UEMURA	120.3	-	3.8	124.0
Other	190.8	-	4.9	195.7
Luxury Products Total	870.0	0.1	16.9	887.0
VICHY/DERMABLEND	201.9	-	2.9	204.8
Other	42.3	97.4	3.3	142.9
Active Cosmetics Total	244.2	97.4	6.2	347.7
Other cosmetics	0.6	1.5	-	2.1
Group Total	3,513.8	128.7	194.7	3,837.1

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

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€ millions 2004	12 31 2003	Acquisitions Disposals	Other movements	12 31 2004
L'ORÉAL PROFESSIONNEL/KERASTASE	308 0	-	-7 9	300 2
MATRIX	184 7	-	-8 9	175 8
REDKEN	107 2	-	-	107 2
Professional Products Total	600 0	-	-16 8	583 2
L'ORÉAL PARIS	663 3	72 6	-0 6	735 3
MAYBELLINE/GARNIER	863 8	140 4	-51 7	952 6
SOFTSHEEN CARSON	157 5	-	-29 6	127 9
Consumer Products Total	1,684 6	213 0	-81 8	1,815 8
LANCÔME	497 6	77 6	-16 3	559 0
SHU UEMURA	85 6	54 0	-19 3	120 3
Other	158 3	33 0	-0 5	190 8
Luxury Products Total	741 5	164 7	-36 1	870 0
VICHY/DERMALEND	191 1	12 2	-1 4	201 9
Other	41 5	1 0	-0 2	42 3
Active Cosmetics Total	232 6	13 2	-1 7	244 2
Other cosmetics	0 6	-	-	0 6
Group Total	3,259 3	390 9	-136 4	3,513 8

The acquisitions in 2004 mainly concerned MINIMURSE, 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 2006	12 31 2005	Acquisitions Amortization	Disposals Takeovers	Changes in the scope of consolidation ⁽¹⁾	Other movements	12 31 2006
Brands with an indefinite life span ⁽²⁾	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
Gross value	1,489 0	56 2	-17 0	681 2	-51 9	2,157 5
Brands with an indefinite life span ⁽²⁾	-	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
Amortisation and provisions	288 0	80 4	-16 8	13 4	-0 3	364 8
Other intangible assets - net	1,201 0	-24 3	-0 2	667 8	-51 6	1,792 8

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

(2) At December 31st, 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 ⁽¹⁾	Other movements	12 31 2005
2005						
Brands with an indefinite life span ⁽²⁾	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
Gross value	1,284 6	73 5	-9 9	60 4	80 4	1,489 0
Brands with an indefinite life span	-	-	-	-	-	-
Depreciable brands and product ranges ⁽³⁾	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
Amortisation and provisions	219 7	70 9	-9 4	0 2	6 6	288 0
Other intangible assets - net	1,064 9	2 6	-0 5	60 2	73 8	1 201 0

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

(2) At December 31st, 2005, the brands with an indefinite life span consist mainly of the brands MATRIX (€302 2 million), KIEHL'S (€134 0 million) and SHU UEMURA (€101 8 million).

(3) An exceptional amortisation of €9 2 million has been recorded for the MANURSE 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 ⁽¹⁾	Other movements	12 31 2004
2004						
Brands with an indefinite life span ⁽²⁾	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
Gross value	1,218 4	54 8	-74 6	118 2	-32 3	1,284 6
Brands with an indefinite life span	-	-	-	-	-	-
Depreciable brands and product ranges ⁽³⁾	0 2	1 1	-	-	0 5	1 8
Licences and patents	91 7	25 6	-9 2	-	-0 6	107 4
Other	90 1	31 3	-13 1	-	2 1	110 5
Amortisation and provisions	182 0	58 0	-22 3	-	2 0	219 7
Other intangible assets - net	1,036 4	-3 2	-52 3	118 2	-34 3	1,064 9

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

(2) At December 31st, 2004, the brands with an indefinite life span consist mainly of the brands MATRIX (€270 6 million), KIEHL'S (€121 4 million) and SHU UEMURA (€101 4 million).

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
2006 Test			
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
2005 Test			
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
2004 Test			
LANCÔME	559 0	8 15	8 15
L'ORÉAL PARIS	735 3	8 15	8 15
MAYBELLINE/GARNIER	952 6	8 15	8 15

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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 2006	12 31 2005	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements ⁽¹⁾	12 31 2006
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
Gross value	5,298 8	687 3	-338 0	-222 6	229 8	5,655 3
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
Depreciation and provisions	2,832 8	524 8	-326 1	-108 2	103 6	3,026 9
Tangible assets - net	2,466 0	162 5	-11 9	-114 4	126 2	2,628 4

(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 2005	12 31 2004	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements ⁽¹⁾	12 31 2005
Land and buildings	1 296 2	23 5	-17 4	55 2	21 5	1,379 0
Machinery and equipment	1 880 9	155 3	-89 7	115 6	78 4	2 140 5
POS, stands and displays	635 6	168 0	-147 2	57 4	9 1	722 9
Other tangible assets and work in progress	921 9	253 6	-67 4	78 2	-129 9	1 056 4
Gross value	4,734 6	600 4	-321 7	306 4	-20 9	5,298 8
Land and buildings	581 6	62 6	-14 3	16 8	-2 9	643 8
Machinery and equipment	1 110 8	167 9	-88 2	62 7	-22 1	1 231 1
POS, stands and displays	401 6	161 3	-146 9	34 9	-4 1	446 8
Other tangible assets and work in progress	455 5	78 9	-65 0	35 3	6 4	511 1
Depreciation and provisions	2,549 6	470 7	-314 4	149 7	-22 7	2,832 9
Tangible assets - net	2,185 0	129 7	-7 3	156 7	1 8	2,466 0

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

€ millions 2004	12 31 2003	Acquisitions Amortisation	Disposals Takeovers	Translation difference	Other movements ⁽¹⁾	12 31 2004
Land and buildings	1 228 8	57 3	-34 6	-12 8	57 5	1 296 2
Machinery and equipment	1,755 4	145 1	-52 4	-40 5	73 4	1 880 9
POS, stands and displays	536 1	194 0	-83 3	-17 0	5 6	635 6
Other tangible assets and work-in-progress	877 3	237 7	-43 0	-26 0	-124 2	921 9
Gross value	4 397 6	634 1	-213 3	-96 2	12 4	4,734 6
Land and buildings	547 8	55 5	-21 8	-4 7	4 8	581 6
Machinery and equipment	1 034 9	146 6	-45 2	-23 6	-1 9	1 110 8
POS, stands and displays	336 1	140 8	-85 0	-9 7	19 4	401 6
Other tangible assets and work-in-progress	429 9	72 0	-38 8	-11 9	4 4	455 5
Depreciation and provisions	2,348 7	414 9	-190 8	-49 8	26 7	2,549 6
Tangible assets - net	2,048 9	219 2	-22 4	-46 4	-14 3	2,185 0

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

Tangible assets include capital lease contracts for the following amounts

€ millions	12 31 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
Gross value	129 8	195 3	189 2
Depreciation	43 1	98 0	92 9
Net value	86 7	97 3	96 3

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 ⁽¹⁾	10 005 8	4 880 1	10 585 0	4 880 1	8,410 8	4,880 1
• Unlisted securities ⁽²⁾	4 2	4 2	4 4	4 4	4 0	4 0
Non-current loans and receivables ⁽³⁾	158 5	158 5	167 7	167 7	127 6	127 5
Total	10,168 5	5,042 8	10 757 1	5,052 2	8,542 4	5,011 6

(1) Sanofi-Aventis was deconsolidated on August 12th 2004 (see note 2-c). The balance sheet value at December 31st, 2004, December 31st, 2005 and December 31st, 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 31st, 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 and semi-finished products	307 7	289 9	290 8
Gross value	1,564 7	1,437 2	1,296 7
Valuation allowance	160 3	175 4	173 3
Inventories - net	1,404 4	1,261 8	1,123 4

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
Net value	2,558 5	2,379 7	2,063 4

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
Total	851 8	829 0	831 0

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
Total	781 2	772 4	663 2	657 1	576 2	566 7

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

Unrealised gains recorded over the period amount to €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 31st, 2006 following the decision made by the Board of Directors on April 25th, 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 31st, 2005 following the decision made by the Board of Directors on April 26th, 2005 to cancel 17,300,000 shares and the exercise of subscription options for 7,500 shares

It consisted of 676,062,160 shares with a par value of €0.20 at December 31st, 2004

b - Treasury stock

A L'Oréal share buyback programme was authorised by the Annual General Meetings of Shareholders on May 29th, 2002, May 22nd, 2003, April 29th, 2004, April 26th, 2005 and April 25th, 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 31st, 2004

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

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 31st, 2006 for €1,033.8 million, of which 1,794,000 shares are allocated to the share option plan of November 30th, 2005

Furthermore, the L'Oréal shares acquired as part of employee share purchase option plans, which are now deducted from consolidated shareholders' equity, amounted to 25,447,800 shares at December 31st, 2004 for an acquisition price of €1,759.1 million. At December 31st, 2005 these shares amounted to 23,756,050 for an acquisition price of €1,706.2 million. At December 31st, 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 7th, 2002 and in force at December 31st, 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
Financial assets available for sale			
Reserve at opening date	5 711 0	3,540 2	12 0
Changes in fair value over period	-571 1	2,176 8	3 633 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
Reserve at closing date	5,134 4	5,711 0	3,540 2
€ millions	12 31 2006	12 31 2005	12 31 2004
Cash flows hedge - exchange			
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
Reserve at closing date	33 3	-47 6	68 8
€ millions	12 31 2006	12 31 2005	12 31 2004
Cash flows hedge - interest rates			
Reserve at opening date	-	-2 2	-4 1
Changes in fair value over period	2 0	+2 8	-1 4
Changes in fair value recorded in profit and loss account	-1 6	-0 6	+3 3
Reserve at closing date	0 4	-	-2 2
€ millions	12 31 2006	12 31 2005	12 31 2004
Total items directly recognised in equity			
Gross reserve	5 168 1	5 663 4	3 606 8
Associated tax effect	-101 2	-466 2	-575 8
Reserve net of tax	5 066 9	5,197 2	3,031 0

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
			2011			2011			final
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
Balance at December 31st 2003	1,993.3	883.7		-20.4	1,130.0
Service cost	94.8				94.8
Interest cost	98.1				98.1
Expected return on assets		57.2			-57.2
Reversal of provisions (1)	-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
Balance at December 31st 2004	2,177.7	1,035.5	173.1	-26.5	995.6
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
Balance at December 31st 2005	2,542.6	1,302.0	298.4	-18.4	960.6
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
Balance at December 31st 2006	2,523.5	1,440.7	263.9	-18.9	837.9

(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.

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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
Total	115.8	134.2	100.1

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 ⁽¹⁾	38.6	40.7	41.4
Bonds	47.6	45.3	46.1
Property assets ⁽²⁾	7.2	7.0	5.9
Monetary instruments	1.6	4.7	4.9
Others	4.9	2.3	1.7
Total	100%	100%	100%

(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
(Funded) unfunded status	1,082.8	1,240.6	1,142.2
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
Other non-current provisions for liabilities and charges	154 1	157 0	188 0
Provisions for restructuring	1 4	2 8	3 7
Other non-current provisions ⁽¹⁾	152 7	154 2	184 3
Current provisions for liabilities and charges	272 0	289 3	286 6
Provisions for restructuring	18 9	32 2	44 0
Other current provisions ⁽¹⁾	253 1	257 1	242 6
Total	426 1	446 3	474 6

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

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

€ millions	12 31 2004	12 31 2005	Charges ⁽²⁾	Reversals (used) ⁽²⁾	Reversals (not used) ⁽²⁾	Impact of change in scope/ exchange rate/ Other ⁽¹⁾	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
Total	474 6	446 3	220 6	-152 6	-67 6	-20 6	426 1

(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 ⁽²⁾	Reversals (used) ⁽²⁾	Reversals (not used) ⁽²⁾	Impact of change in scope/ exchange rate/ Other ⁽¹⁾	12 31 2005
Other provisions for liabilities and charges	426 9	109 8	-95 1	-60 2	29 9	411 3
Provisions for restructuring	47 7	5 3	-15 2	-3 5	0 7	35 0
Total	474 6	115 1	-110 3	-63 7	30 6	446 3

(1) Mainly resulting from translation differences

(2) These figures may be analysed as follows

€ millions	Charges	Reversals (used)	Reversals (not used)
• Other income and expenses	5 3	-15 2	-3 5
• Operating profit	106 0	-87 2	-41 4
• Income tax	3 8	-7 9	-18 8

NOTE 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
Total	1,892 4	2,218 0	428 2	2,452 1	713 0	1,431 2

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
Total	4,110 4	2,880 3	2,144 2

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
Total	4,110 4	2,880 3	2,144 2

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

€ millions	12 31 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
Total	4,110 4	2,880 3	2,144 2

e - Effective interest rates

The effective debt interest rates after allowing for hedging instruments, were 2 40% in 2004, 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 31st, 2006, the fair value of the debt amounts to €4,113.2 million. At December 31st, 2005, it amounted to €2,884.9 million. At December 31st, 2004, it amounted to €2,151.1 million.

h - Debts covered by collateral

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

i - Confirmed credit lines

At December 31st, 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 31st, 2005 and at December 31st, 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 Régefi (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 Régefi.

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.

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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
Currency futures						
Purchase EURO/currency	1,278.3	1,565.4	1,097.6	19.4	-71.4	38.8
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
Purchase USD/currency	101.0	174.9	261.8	-0.6	0.8	-10.4
USD/Latin American currencies	55.0	56.2	88.3	-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
Sale USD/CHF	108.5	59.6	92.3	1.8	-1.2	1.6
Other currency pairs	103.3	89.7	67.0	-0.7	-0.4	-0.3
Currency futures total	1,591.1	1,888.5	1,518.7	20.0	-72.2	29.8
Currency options						
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
Currency options total	591.2	526.9	850.8	22.9	12.2	60.0
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
Total	2,182.3	2,415.5	2,369.5	42.9	-60.0	89.8

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

The market values by type of hedging are as follows

€ 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
Total	42.9	-60.0	89.8

The fair value of the derivatives is their market value

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

b - Hedging of interest rate risk

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

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

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

The interest rate derivatives are as follows

€ millions	Notional			Market value		
Interest rate derivatives	12.31 2006	12.31 2005	12.31 2004	12.31 2006	12.31 2005	12.31 2004
Cash flow hedges						
Borrowing fixed interest-rate swaps						
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
Purchases caps						
EUR Euribor	-	-	300.0	-	-	-
Fair value hedges						
Borrowing floating interest-rate swaps						
EUR Euribor/fixed rate	128.8	309.6	325.5	3.6	13.3	22.0
Non-designated derivatives						
Floating/floating interest-rate swaps						
EUR Euribor/Euribor	7.1	210.2	286.2	-	0.1	0.6
Total	346.1	752.8	1,122.3	3.9	13.4	20.1

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

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

€ millions	Nominal by maturity											
	12.31 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
Cash flow hedges												
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
Fair value hedges												
Borrowing floating interest rate swaps	7.0	121.8	-	128.8	174.0	135.5	-	309.5	16.0	309.5	-	325.5
Non-designated derivatives												
Floating/floating interest-rate swaps	7.1	-	-	7.1	196.4	13.8	-	210.2	76.0	210.2	-	286.2
Total	204.9	127.9	13.3	346.1	371.2	367.3	14.3	752.8	581.6	525.4	15.3	1,122.3

c - Sensitivity to changes in interest rates

An increase in interest rates of 100 basis points would have a direct impact on the group's financial charge of €30.7 million at December 31st, 2006 compared with €19.4 million at December 31st, 2005, after allowing for cash, cash equivalents and derivatives, and assuming that total net debt remains stable and that the fixed rate debts at maturity date are replaced by floating rate debt.

The impact of a 100 basis point rise in interest rates on the fair value of the group's fixed rate financial assets and liabilities, after allowing for derivatives, can be estimated at €3.2 million at December 31st, 2006 compared with €5.7 million at December 31st, 2005.

d - Third party risk

The group has financial relations with international banks with the best credit ratings. The group thus considers that its exposure to third party risk is low. Furthermore, the financial instruments used in exchange rate and interest rate risk management are issued by leading international banking counterparties.

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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 31st, 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 31st, 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
Total	1,613.9	1,523.2	1,310.9

NOTE 25 - OFF-BALANCE SHEET COMMITMENTS

a - Operating lease commitments

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

- €318.1 million is due in under one year at December 31st, 2006 compared with €248.6 million at December 31st, 2005 and €226.9 million at December 31st, 2004
- €922.2 million is due in 1 to 5 years at December 31st, 2006 compared with €584.9 million at December 31st, 2005 and €668.8 million at December 31st, 2004
- €582.9 million is due in over 5 years at December 31st, 2006 compared with €529.3 million at December 31st, 2005 and €430.3 million at December 31st, 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 ⁽¹⁾	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
Total	65.6	-35.7	-76.4

NOTE 27 - IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION

For 2006, this item mainly relates to THE BODY SHOP, Beauty Alliance International and Sanofi-Santé acquisitions

In 2005, this item mainly related to the SKINCEUTICALS and Delia acquisitions

In 2004, this item mainly related to the MINURSE 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 31ST, 2006a - Companies consolidated by the full consolidation method ⁽¹⁾

Companies	Head Office	% Interest	% Control ⁽²⁾
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	
Canbel 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	
Colanaf	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
Cosmetique Active Belgilux	Belgium	100 00	
Cosmetique Active Deutschland GmbH	Germany	100 00	
Cosmétique Active España	Spain	100 00	
Cosmétique Active France	France	100 00	
Cosmétique Active Hellas	Greece	100 00	
Cosmetique Active International	France	100 00	
Cosmetique Active Ireland	Ireland	100 00	
Cosmetique Active Italia	Italy	100 00	
Cosmétique Active Nederland	Netherlands	100 00	
Cosmétique Active Österreich GmbH	Austria	100 00	
Cosmétique Active Production	France	100 00	
Cosmetique 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	
Fabel 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	
Holdal	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

Companies	Head Office	% Interest	% Control ⁽²⁾
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	
Lancome Parfums & Beaute & 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 Adna	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 Bulgana	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

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Companies	Head Office	% Interest	% Control ⁽²⁾
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 Türkiye	Turkey	100 00	
L'Oréal UK Ltd	United Kingdom	100 00	
L'Oréal Ukraine	Ukraine	100 00	
L'Oréal Uruguay S A	Uruguay	100 00	
L'Oréal USA Inc	United States	100 00	
L'Oréal Venezuela CA	Venezuela	100 00	
Mangny 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 Flonda 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	
Regofil	France	100 00	
Scental	Hong Kong	100 00	
Shu Uemura Cosmetics Inc	Japan	93 57	
Sicos 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 ⁽²⁾
Socex de Expansao Mercantil em Cosméticos	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	
Soprocos	France	100.00	
Soproréal	France	100.00	
Spartys	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 Shenzhen 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 ⁽²⁾
Beauté Créateurs	France	50.00 ⁽¹⁾	
Club des Créateurs de Beauté KK	Japan	50.00 ⁽¹⁾	
Cosimar Japon KK	Japan	50.00 ⁽¹⁾	
Galderma Argentina S.A.	Argentina	50.00 ⁽²⁾	
Galderma Australia Pty Ltd	Australia	50.00 ⁽²⁾	
Galderma Belgilux N.V.	Belgium	50.00 ⁽²⁾	
Galderma Brasil Limitada	Brazil	50.00 ⁽²⁾	
Galderma Canada Inc.	Canada	50.00 ⁽²⁾	
Galderma Colombia S.A.	Colombia	50.00 ⁽²⁾	
Galderma Hellas	Greece	50.00 ⁽²⁾	
Galderma Hong-Kong	Hong Kong	50.00 ⁽²⁾	
Galderma India Private Ltd	India	50.00 ⁽²⁾	
Galderma International	France	50.00 ⁽²⁾	
Galderma Italia S.P.A.	Italy	50.00 ⁽²⁾	
Galderma Korea Ltd	South Korea	50.00 ⁽²⁾	
Galderma KK	Japan	50.00 ⁽²⁾	
Galderma Laboratorios Inc.	United States	50.00 ⁽²⁾	
Galderma Laboratorium GmbH	Germany	50.00 ⁽²⁾	
Galderma Laboratories South Africa Pty Ltd	South Africa	50.00 ⁽²⁾	
Galderma Mexico S.A. de CV	Mexico	50.00 ⁽²⁾	
Galderma Nordic AB	Sweden	50.00 ⁽²⁾	
Galderma Peru Laboratorios	Peru	50.00 ⁽²⁾	
Galderma Pharma S.A.	Switzerland	50.00 ⁽²⁾	
Galderma Philippines Inc.	Philippines	50.00 ⁽²⁾	
Galderma Polska	Poland	50.00 ⁽²⁾	
Galderma Production Canada Inc.	Canada	50.00 ⁽²⁾	
Galderma Research & Development	France	50.00 ⁽²⁾	
Galderma Research and Development Inc.	United States	50.00 ⁽²⁾	
Galderma S.A.	Switzerland	50.00 ⁽²⁾	
Galderma Singapore	Singapore	50.00 ⁽²⁾	
Galderma UK Ltd	United Kingdom	50.00 ⁽²⁾	
Galderma Uruguay	Uruguay	50.00 ⁽²⁾	
Inneov Belgique	Belgium	50.00 ⁽²⁾	

(1) Companies jointly owned with Les Trois Suisses.

(2) Companies jointly owned with Nestlé

(3) Equivalent to the interest percentage except if specified

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Companies	Head Office	% Interest	% Control ⁽²⁾
Inneov Brasil Nutricosméticos Ltda	Brazil	50 00 ⁽²⁾	
Innéov CZ s r o	Czech Republic	50 00 ⁽²⁾	
Innéov Deutschland GmbH	Germany	50 00 ⁽²⁾	
Innéov España S A	Spain	50 00 ⁽²⁾	
Inneov France	France	50 00 ⁽²⁾	
Inneov Hellas AE	Greece	50 00 ⁽²⁾	
Innéov Italia Spa	Italy	50 00 ⁽²⁾	
Innéov Nutnkozmetik	Turkey	50 00 ⁽²⁾	
Innéov Österreich GmbH	Austria	50 00 ⁽²⁾	
Inneov Polska Sp z o o	Poland	50 00 ⁽²⁾	
Inneov SK s r o	Slovakia	50 00 ⁽²⁾	
Inneov Suisse	Switzerland	50 00 ⁽²⁾	
Laboratoires Galderma	France	50 00 ⁽²⁾	
Laboratoires Innéov	France	50 00 ⁽²⁾	
Laboratórios Innéov Unipessoal Portugal Ltda	Portugal	50 00 ⁽²⁾	
Laboratórios Galderma S A	Spain	50 00 ⁽²⁾	
Laboratórios Galderma Chile Limitada	Chile	50 00 ⁽²⁾	
Laboratórios Galderma Venezuela S A	Venezuela	50 00 ⁽²⁾	
Le Club des Createurs de Beauté	Belgium	50 00 ⁽¹⁾	
Le Club des Createurs de Beauté Taiwan	Taiwan	50 00 ⁽¹⁾	
Le Club des Créateurs Cosmetic Versand Verwaltungs GmbH	Germany	50 00 ⁽¹⁾	
Le Club des Créateurs Cosmetic Versand GmbH and Co Kg	Germany	50 00 ⁽¹⁾	
O O O Inneov	Russia	50 00 ⁽²⁾	
Yi Mei Ja Shanghai Trading	China	50 00 ⁽¹⁾	

(1) Companies jointly owned with Les Trois Suisses

(2) Companies jointly owned with Nestlé

(3) Equivalent to the interest percentage except if specified

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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 14th, 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 31st, 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 1st, 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 31st, 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 1st, 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 th quarter 2006		
	€ millions	Growth		€ millions	Growth	
		Like-for-like	Reported		Like-for-like	Reported
By operational division						
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%
Cosmetics total	15,011	+5.6%	+5.6%	3,781	+6.1%	+2.5%
By geographic zone						
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%
Cosmetics total	15,011	+5.6%	+5.6%	3,781	+6.1%	+2.5%
The Body Shop	435	+9.7%		263	+10.3%	
Dermatology ⁽¹⁾	344	+8.6%	+8.1%	105	+9.2%	+4.5%
Group total	15,790	+5.8%	+8.7%	4,148	+6.5%	+9.5%

(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 Sene 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 Elseve Nutri-Gloss. Europe and the emerging countries are benefiting from the success of these launches. The hair colourant Casting Creme 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 Absolué 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 Tolerane 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 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 Absolué Premium Beta X at the end of the year, and excellent momentum for ARMANI and BIODERM, 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 Absolué 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 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 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 Elseve. 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, 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 Elseve. Luxury Products, whose sales grew strongly, took advantage of the good performance of BIODERM 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 1st, 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 1st and December 31st, 2005 and the same period in 2006). The number of stores increased by 89 in the second half of 2006. At December 31st, 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 1st, 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 nd half	As % of sales	Sales trend
Sales	14,533	100	15,355	100	15,790	100	+ 8.7
Cost of sales	-4,347	29.9	-4,414	28.7	-4,569	28.9	
Gross Profit	10,185	70.1	10,941	71.3	11,221	71.1	+ 10.2
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	
Operating profit	2,266	15.6	2,483	16.2	2,541	16.1	+ 12.1

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
By operational division				
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
Cosmetics divisions total	2,609	18.4	2,860	19.1
Non-allocated ⁽¹⁾	-396	-2.8	-437	-2.9
Cosmetics branch total	2,212	15.6	2,423	16.1
The Body Shop 2 nd half	-	-	58	13.4
Dermatology branch ⁽²⁾	54	16.9	59	17.3
Group	2,266	15.6	2,541	16.1

(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
Cosmetics zones total	2,609	18.4	2,860	19.1

Consolidated profit and loss account (from operating profit to net profit excluding non-recurrent items)

€ m. 2005	12 31 2005	12 31 2006 with The Body Shop 2 nd half	Growth %
Operating profit	2,266	2,541	+12.1
Finance costs	-64	-116	
Other financial income (expenses)	-3	-4	
Sanofi Aventis dividends	172	218	
Share in net profit of equity affiliates	-1	-1	
Profit before tax excluding non-recurrent items	2,370	2,638	+11.3
Income tax excluding non-recurrent items	-730	-803	
Minority interests	-1	-1	
Net profit excluding non-recurrent items after minority interests ⁽¹⁾	1,639	1,833	+11.9
EPS ⁽²⁾ (in euros)	2.60	2.98	+14.7
Diluted average number of shares	630,892,470	615,723,220	

(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 31st, 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 31st, 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 24th, 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 ₂ (tonnes)	5 687
SO ₂ (tonnes)	1.3
Water consumption (m ³)	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 website.

SIGNIFICANT EVENTS THAT HAVE OCCURRED SINCE THE START OF 2007

No major event has occurred between January 1st, 2007 and the date of preparation of this report, i.e. February 14th, 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 14th, 2007, in the presence of the Statutory Auditors.

Net sales

€ millions	2006	2005	Change as a %
Net sales			
1 st quarter	515.3	472.0	9.17
2 nd quarter	526.8	486.1	8.37
3 rd quarter	467.1	421.9	10.71
4 th quarter	494.2	476.6	3.69
Total	2,003.4	1,856.6	7.91

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 31st, 2006, total assets amounted to €11,348.5 million, compared with €10,086.4 million at December 31st, 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 29th, 1999 and approved by the ministerial order of June 22nd, 1999.

At December 31st, 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 31st, 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 21st, 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 31st, 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 31st, 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 28th, 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 1st, 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 31st, 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 12th, 2004. Balance sheet value at December 31st, 2005 and December 31st, 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 31st, 2005 and December 31st, 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 31st, 2006. It is divided into 639,616,410 shares with a par value of €0.20 each, all of the same class and ranking *par 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 via the capitalisation of share premiums, reserves, profits or other amounts	April 26 th , 2005 (12 th 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 th , 2006 (13 th 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 25th, 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 ⁽¹⁾
April 25 th , 2006	2,000,000	From April 26 th , 2011 to April 25 th , 2016
December 1 st , 2006	5,500,000	From December 2 nd , 2011 to December 1 st , 2016
Total	7,500,000	

(1) Except exercise by beneficiaries prior to the appointed date in the event of non-voluntary departure from the group, in accordance with the 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 31st, 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

Date	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 31st, 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 ⁽²⁾	Number of shares	% of capital	% of voting rights ⁽²⁾	Number of shares	% of capital	% of voting rights ⁽²⁾
Bettencourt family ⁽¹⁾	185 661 879	27.46	29.09	185 661 879	28.18	29.95	185 661 879	29.03	30.65
Nestlé SA ⁽¹⁾	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	
Total	676,062,160	100.00	100.00	658,769,660	100.00	100.00	639 616,410	100.00	100.00

(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 31st, 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 31st, 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 31st, 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 th , 2006	May 5 th , 2006	Société Générale group	1 and 2% of the capital	Upwards	Not mentioned
	May 5 th , 2006	Société Générale	1% of the capital	Upwards	Not mentioned
	May 12 th , 2006	Société Générale group	2% of the capital	Downwards	1 454% of the capital and 1 552% of the voting rights
	May 12 th , 2006	Société Générale	1% of the capital	Downwards	0 719% of the capital and 0 768% of the voting rights
June 2 nd , 2006	May 19 th , 2006	Société Générale group	1% of the capital	Downwards	0 746% of the capital and 0 796% of the voting rights
September 21 st , 2006	September 19 th /20 th , 2006	Crédit Agricole Asset Management (on behalf of its investment funds)	1% of the capital	Downwards	0 99% of the capital
December 20 th , 2006	December 19 th , 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 3rd, 2004 between Mrs Liliane Bettencourt and her family, and Nestlé, providing for the merger and absorption of Gesparal by L'Oréal. It contains the following clauses:

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 29th, 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 29th, 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 29th, 2004, and in all cases until a period of six months has elapsed after the death of Mrs Bettencourt

Concerted action between the parties

The parties have declared that they will act in concert for a period of five years from April 29th, 2004 onwards

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 25th, 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 31st 2006

L'Oréal had a total of 5,802 employees at December 31st, 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
Total	2,245	3,557	5 802

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 30th, 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
Total	4 09

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 30th, 2006 for "L'Oréal Intéressement" and €75 15 on February 28th, 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

€ the isands	2002	2003	2004	2005
Company savings plan and frozen current account	305 614	359 256	352 692	438 550

At December 31st, 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 ⁽¹⁾

(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

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 5th, 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 31st, 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
Accommodation	
Payment to the "1% housing fund"	1 293
Transport	
Shuttle services	157
Catering	
Company restaurant facilities	6 566
Miscellaneous	
Special social events for personnel	1,173
Total	9,189

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 31st, 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 25th, 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 31st, 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⁽¹⁾

The situation of the stock option plans to purchase or subscribe for shares that existed at L'Oréal as at December 31st, 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
Of which to Management Committee members ⁽²⁾	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
Of which by Management Committee Members ⁽²⁾	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 ⁽³⁾	03 24 2004	12 01 2004	06 29 2005	11 30 2005 ⁽⁴⁾	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
Of which to Management Committee Members ⁽²⁾	-	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
Of which by Management Committee Members ⁽²⁾	-	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)
										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 3rd 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 30th, 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 €82 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⁽¹⁾

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 months

(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 30th, 2006 for "L'Oréal Intéressement" and €75.15 on February 28th, 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 2nd, 2003, and amended them on December 1st, 2004 and again on August 30th, 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 31st, 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 25th, 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 25th, 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 31st, 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 31st, 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 25th, 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 13th, March 15th, April 12th, June 27th and November 30th, 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 1st to April 30th, 2006, namely €1,250,000

The variable remuneration of the Chairman and Chief Executive Officer for this period was adopted on April 25th, 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 (1)
Items of remuneration				
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 25th, 2006, the Board of Directors took note of the decision by Sir Lindsay Owen-Jones to apply for his pension as from May 1st, 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 1st, 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")⁽²⁾

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 1st, 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 26th, 1984, the date when Sir Lindsay Owen-Jones was first appointed as Chief Executive Officer, and April 25th, 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 ⁽³⁾	€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 25th, 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 25th, 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 1st, 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 25th, 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 1st, 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 25th, 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 26th, 2011 and April 25th, 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 25th, 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 st 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 1st, 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 2nd, 2011 and December 1st, 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 19th, 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 17th, 1997, which consisted of 500,000 stock options to purchase shares, at a price of €34.01. He also exercised, on December 19th, 2006, 100,000 stock options out of the total number of stock options granted by the Board of Directors on October 15th, 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 25th, 2006.

Summary of trading by the corporate officers in L'Oréal shares in 2006

In €	Purchaser	Price per share	Gross amount purchase
Date of purchase			
February 17 th 2006	Groupe	70.39	503,288.50
February 20 th 2006	Marc de Lacharrière	71.275	498,925.00
April 28 th , 2006	(FIMALAC) ⁽¹⁾	73.40	225,631.60
May 2 nd 2006		73.62	2,282,220.00
May 3 rd 2006		73.61	1,177,760.00
May 5 th , 2006		74.09	1,333,620.00
May 8 th , 2006		74.57	745,700.00
May 9 th 2006		73.97	601,645.95
May 10 th , 2006		72.73	509,110.00
May 11 th 2006		72.20	1,444,000.00
May 12 th , 2006		70.84	1,416,800.00
May 15 th 2006		69.56	1,112,960.00
May 16 th , 2006		69.33	485,310.00
May 17 th , 2006		68.94	1,378,800.00
May 18 th , 2006		67.11	268,440.00
May 22 nd 2006		67.30	336,500.00
June 8 th 2006		65.95	461,650.00
December 19 th 2006	Sir Lindsay Owen-Jones,	34.01	8,502,500.00
December 19 th , 2006	Chairman of the Board of Directors ⁽²⁾	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 1st, 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 1st and February 14th, 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 1st, 2006 and February 14th, 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 1st to February 14th, 2007, to trading fees of €123,161.40, namely, for the entire period from January 1st, 2006 – February 14th, 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 th , 2005 (11 th resolution)	April 25 th , 2006 (12 th resolution)
Expiry date of the authorisation	April 25 th , 2006	October 24 th , 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 th , 2005	April 25 th , 2006 June 28 th , 2006
Purpose of buybacks	Cancellation	Cancellation Cancellation
Period of buybacks made	January 1 st - April 25 th , 2006	April 26 th - June 26 th , 2006 June 30 th , 2006 - February 14 th , 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 ⁽¹⁾ Other: none	Cancellation: 3,708,000 ⁽²⁾ Cancellation: 9,372,000 ⁽²⁾ Other: none Other: none

(1) 4,420,000 shares cancelled by the Board of Directors at its meeting of April 25th, 2006 and 180,000 shares cancelled by the Board of Directors at its meeting on February 14th, 2007.
(2) Board of Directors' meeting of February 14th, 2007.

Transactions carried out by L'Oréal with respect to its shares between March 11th, 2006 (the day following the date on which the report on the previous programme was prepared) and February 14th, 2007

Percentage of share capital held by the company directly and indirectly at February 14 th 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 ⁽¹⁾
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 14th, 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 14th, 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 15th, 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**

Sir Lindsay Owen-Jones	Expiry date of term of office
Chairman of the Board	2010
Chairman of the "Strategy and Implementation" Committee	
Professional address: L'Oréal – 41 rue Martre – 92117 Clichy cedex – France	
Holds 2,529,005 L'Oréal shares	

Other corporate offices and directorships held**French companies**

Alba Plus SASU	Chairman (since July 4 th 2006)
L'Air Liquide SA	Vice-Chairman of the Board
Sanofi-Aventis SA	Director

Foreign companies

Ferran Spa (Italie)	Director (Amministratore)
L'Oreal 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 (merged into L'Oréal)	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 25th, 2006****2010****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 (since May 1 st , 2006)
L'Oreal USA Inc. (United States)	Director
The Body Shop International PLC (United Kingdom)	Vice-Chairman and Director (since June 12 th , 2006)

Main corporate offices and directorships⁽¹⁾ 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

Jean-Pierre Meyers		Expiry date of term of office
Director		2009
Vice-Chairman of the Board		
Member of the Audit Committee		
Member of the "Strategy and Implementation" Committee		
Professional address. Tethys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France		
Holds 15,332 L'Oreal shares		
Other corporate offices and directorships held		
French companies		
Gesparal SA	Director	
Tethys SAS	Chief Executive Officer	
	Member of the Supervisory Board	
Foreign company		
Nestle SA	Director	
Other		
Fondation Bettencourt Schueller	Vice-Chairman of the Board	
Fondation Ophtalmologique 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

Peter Brabeck-Letmathe	Expiry date of term of office
Director	2009
Vice-Chairman of the Board	
Member of the "Management and Remuneration" Committee	
Member of the "Strategy and Implementation" Committee	
Holds 1,000 L'Oréal shares	

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 1 st 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
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Foreign companies

Alcon, Inc (Switzerland)	Vice-Chairman of the Board	May 2005
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 2003
Winterthur Insurance Company (Switzerland)	Vice-Chairman of the Board	April 2005
Winterthur Life (Switzerland)	Vice-Chairman of the Board	April 2005

Other

Fondation Avenir Suisse (Switzerland)	Board Member	December 2004
Fondation pour la Fédération Internationale des sociétés de la Croix-Rouge et du Croissant-Rouge (Switzerland)	Board Member	November 2005
Prince of Wales International Business Leaders Forum (United Kingdom)	Deputy Chairman	March 2005

Liliane Bettencourt	Expiry date of term of office
Director	2007

Chairwoman of the "Management and Remuneration" Committee

Member of the "Strategy and Implementation" Committee

Professional address Tethys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France

5,633 L'Oreal shares held in absolute ownership and 185,654,833 L'Oréal shares held in absolute ownership or beneficial ownership by Tethys, a company of which Mrs Bettencourt is the Chairwoman

Other corporate offices and directorships held

French companies

Clymene SAS	Chairwoman
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Eugène Schueller SARL	Managing Director
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Gespral SA	Chairwoman of the Board of Directors
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Tethys SAS	Chairwoman
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	Chairwoman of the Strategy Committee
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	Member of the Supervisory Board
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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 (dis solved)	Director	June 2005
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Gesparal SA (merged into L'Oreal)	Director	April 2004
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Françoise Bettencourt Meyers

Expiry date of term of office

Director

2009

Professional address Tethys – 27-29 rue des Poissonniers – 92200 Neuilly-sur-Seine – France

Holds 283 L'Oreal 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
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Societe Immobilière Sebor SAS	Chairwoman
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Tethys SAS	Member of the Supervisory Board
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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'Oreal)	Director	April 2004
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Werner J. Bauer Expiry date of term of office
Director 2009
Holds 1,000 L'Oréal shares

Main corporate office held outside L'Oréal
 Nestlé SA (Switzerland) Executive Vice-President
Professional address Avenue Nestlé, 55 – CH 1800 Vevey – Switzerland

Other corporate offices and directorships held

Foreign companies

Alcon, Inc. (Switzerland)	Director
Hans Rychiger AG (Switzerland)	Director and Chairman of the Board
Life Ventures SA (Switzerland)	Director and Vice-Chairman of the Board
Nestlé Deutschland AG (Germany)	Member of the Supervisory Board (since January 1 st , 2006)
Nutrition-Wellness Venture AG (Switzerland)	Director
Sofinol SA (Switzerland)	Director and Chairman (since June 29 th , 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 Laboratoires (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
Director 2010

Member of the Audit Committee

Member of the "Strategy and Implementation" Committee

Holds 1,500 L'Oréal shares

Main corporate office held outside L'Oréal
 Nestlé SA (Switzerland) Chief Executive Officer
Professional address 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 nd , 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 Laboratoires, 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 th , 2006
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Other corporate offices and directorships held ⁽¹⁾**French companies**

Berfa SC	Managing Director
Emile Hermes SARL	Managing Director
Gaulme SA	Honorary Chairman of the Supervisory Board
Hermes Sellier SAS	Member of the Management Board
SCI du Faubourg Saint Honore "SIFAH"	Managing Director

Corporate offices and directorships over the last five years that have expired ⁽¹⁾**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
Hermes International SCA	Active Partner	March 2006
Hermes Sellier SA	Director, Artistic Director	March 2006
Peugeot SA	Member of the Supervisory Board	June 2005
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 Hermes International, Director	April 2002
Tissages Verel SA	Permanent representative of Hermès International, Director	April 2002

Foreign companies

Financière Saint-Elor (Luxembourg)	Permanent representative of Hermès International, Director	
Leica Camera (Germany)	Member of the Supervisory Board	October 2003

(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'Oreal shares

Expiry date of term of office
2010

Main corporate office held outside L'Oreal

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**

Credit 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 st , 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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Bernard Kasriel	Expiry date of term of office
Director	2008
Member of the "Management and Remuneration" Committee	
Member of the "Strategy and Implementation" Committee	
Holds 1,290 L'Oréal shares	

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 1st 2006)

Lafarge SA Director

Foreign companiesNucor (United States) Director (since January 1st, 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)

Aufsichtsratsvorsitzender
(Member of the Supervisory Board)

July 2006

Sabelfi (Belgium)

Director May 2006

Ybitas Lafarge (Turkey)

Director March 2004

Marc Ladreit de Lacharrière	Expiry date of term of office
Director	2010
Holds 40,040 L'Oréal shares	

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 Euns SAS	Member and Chairman of the Supervisory Board
Groupe Marc de Lacharrière	Chairman of the Management Board (since December 18 th 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 th 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 st 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
Euns	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-Clal (Switzerland)	Director	2002
Renault-Nissan (Switzerland)	Member of the International Advisory Board	2002
SEMP SA (Spain)	Director	2002

Other

Conseil Stratégique pour l'Attractivité de la France	Member	March 2005
Fondation Agir Contre l'Exclusion	Vice-Chairman	2002
IERSE	Chairman	January 2004
Musée du Louvre	Member	March 2005
Le Siècle	Member	June 2005

Franck Riboud	Expiry date of term of office
Director	2010
Holds 1,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Groupe Danone

Professional address 17 boulevard Haussmann – 75009 Paris – FranceChairman & Chief Executive Officer and
Chairman of the Executive Committee**Other corporate offices and directorships held****French companies**

Accor SA	Member of the Supervisory Board
Lacoste France SA	Director (since June 22 nd 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 th 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

Louis Schweitzer	Expiry date of term of office
Director	2009
Holds 2,000 L'Oréal shares	

Main corporate office held outside L'Oréal

Renault

Chairman of the Board

Professional address 860 quai de Stalingrad – 92513 Boulogne-Billancourt – France**Other corporate offices and directorships held****French companies**

BNP Paribas Director

Electricité de France Director

Renault SAS Director

Veolia Environnement Director

Foreign companies

AB Volvo (Sweden) Director

Allianz AG (Germany) Member of the Consultative Council

AstraZeneca (United Kingdom) Director

Chairman of the Board

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 Credit 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

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 3rd, 2004 ("the Agreement") on the one hand by Mrs Liliane Bettencourt and her family, and on the other hand by Nestlé, published on February 5th, 2004 (see details in the "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 (declarationdingeants@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	
Headings	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Chimex	5,955 3	100 00			14,000 0	100 00			19 955 3	100 00
Club Createurs de Beauté Korea	890 0	50 00					890 0	50 00 ⁽²⁾	0 0	0 00
Cosmetique Active Product (ex Lidy)	5,015 0	100 00			34 4	97 73 ⁽³⁾			5 049 4	80 14
Crea Mundi			45,422 2	100 00					45 422 2	100 00
Episkun	1 5	99 00			6 660 0	100 00			6,661 5	100 00
Geral Inc	302 4	100 00					302 4	100 00 ⁽²⁾	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 ⁽¹⁾	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 ⁽³⁾	0 0	0 00
Total	2,719,922.2		1,037,866.8		214,565.9		4,085.3		3 968,269.6	

(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
I Financial position at financial year-end					
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 ⁽¹⁾
Number of convertible bonds	0	0	0	0	0
II Overall results of operations					
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 ⁽²⁾
III Results of operations per share or per investment certificate					
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 ⁽²⁾
IV Personnel					
Number of employees ⁽³⁾	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
Assets (net amounts)			
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
Fixed assets	9,062 1	7,817 4	7,395 0
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
Current assets	2,257 2	2,239 7	2,125 4
Prepaid expenses	23 2	24 7	19 2
Unrealised exchange losses (note 11)	6 0	4 6	3 8
TOTAL ASSETS	11,348 5	10,086 4	9,543 4

€ millions

	12 31 2006	12 31 2005	12 31 2004
Liabilities and shareholders' equity			
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
Shareholders' equity	7 093 3	7,263 1	7,174 1
Provisions for liabilities and charges (note 8)	123 1	147 6	185 0
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
Other liabilities	4,128 1	2,672 9	2,179 5
Unrealised exchange gains (note 11)	4 0	2 8	4 8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	11,348 5	10,086 4	9,543 4

COMPARED PROFIT AND LOSS ACCOUNTS

€ millions

	12 31 2006	12 31 2005	12 31 2004
Revenue	2,108.3	1,956 6	1,902 1
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
Expenses	-1,990.3	-1,809 7	-1,764.1
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
Operating profit	118 0	146 9	138 0
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
Net financial income (note 18)	1,518 0	1,382 1	1,034 8
Profit before tax and exceptional items	1,636 0	1,529 0	1,172 8
Exceptional items (note 19)	17.2	16 6	54 5
Employee profit-sharing	-17 4	-14 8	-18 0
Income tax (note 20)	54 5	58 8	20 8
Net profit	1,690 3	1,589 6	1,230 1

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
Balance at December 31st, 2004 before allocation of net profit	135.2	953.5	46.0	4,761.2	1,230.1	48.2	7,174.2
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
Balance at December 31st, 2005 before allocation of net profit	131.8	953.9	46.0	4,491.5	1,589.6	50.3	7,263.1
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
Balance at December 31st, 2006 before allocation of net profit	127.9	958.5	46.0	4,217.7	1,690.3	52.9	7,093.3

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 31st, 2006, compared with €27 million at December 31st, 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 31st, 2006 amounted to €33.1 million, compared with €23.3 million at December 31st, 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
Operating activities			
Net profit	1,690.3	1,589.6	1,230.1
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
Gross cash flow	1,531.9	1,447.0	1,359.2
Changes in working capital (note 22)	81.3	-58.5	-83.7
Net cash provided by operating activities	1,613.2	1,388.5	1,275.5
Investing activities			
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
Net cash used by investing activities	-2,352.6	-1,389.2	-970.0
Financing activities			
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
Net cash provided (used) by financing activities	807.6	-24.3	-170.0
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
Cash and cash equivalents at end of year (note 24)	360.7	292.5	317.5

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 1st 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
Gross value	517.3	30.2	15.2	532.3
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
Amortisation	97.0	18.1	2.6	112.5
Patents and trademarks		15.8	-	15.8
Other intangible assets		3.5	-	3.5
Provisions for impairment	0	19.3	0	19.3
Net book value	420.3	7.2	12.6	400.5

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
Gross value	638.2	88.3	63.3	663.2
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
Depreciation	405.5	40.2	20.0	425.7
Net book value	232.7	48.1	43.3	237.5

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		
Balance sheet captions	Cost on initial recognition ⁽¹⁾	Depreciation ⁽²⁾		Net book value	Gross value	Net book value
		For year ⁽³⁾	Accumulated		depreciation	
Land and buildings	95.7	3.6	56.8	38.8	515.2	211.8
Industrial machinery and equipment	-	-	-	-	151.5	30.9
Total at 12.31.2006	95.7	3.6	56.8	38.8	666.7	242.7
Total at 12.31.2005	95.7	3.6	53.2	42.5	630.9	230.8

(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						
Balance sheet captions	Lease payments made		Lease payments outstanding at year end				Residual purchase price ⁽¹⁾
	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	-	-	-	-	-	-	-
Total at 12.31.2006	12.8	144.1	4.0	16.0	19.8	39.8	1.4
Total at 12.31.2005	10.6	131.3	10.5	12.8	17.7	41.0	1.4

(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 ⁽¹⁾	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
Gross value	7,382.7	2,878.8	1,601.5	8 660.0
Investments	213.1	30.5	13.2	230.4
Loans and other receivables	-	-	-	-
Treasury stock	-	-	-	-
Other	5.2	0.3	n/s	5.5
Provision for impairment	218.3	30.8	13.2	235.9
Net book value	7,164.4	2,848.0	1,588.3	8 424.1

(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 31st, 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 31st.

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
Gross value	1,470.7	1 709.1
L'Oréal shares	52.3	290.7
Financial instruments	-	-
Premiums paid on options	-	-
Provision for impairment	52.3	290.7
Net book value	1,418.4	1,418.4

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 31st, 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 31st

For 2005, the total market value of treasury stock amounted to €1,478.1 million based on the average price in December and to €1,491.9 million at the closing price on December 31st

Note 7 Maturities of receivables

€ millions	Less than 1 year	More than 1 year	Gross	Provision for impairment	Net
Fixed assets					
Loans and other receivables	21.1	80.6	101.7	0	101.7
Other financial assets	-	8.2	8.2	5.3	2.9
Current assets					
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
Prepaid expenses	23.1	-	23.1	-	23.1

Accrual accounts included in current assets amounted to €11.9 million at December 31st, 2006, compared with €54.7 million at December 31st 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 ⁽¹⁾	94.0	24.1	21.9	39.6	56.6
Total	147.6	66.2	43.2	47.5	123.1

(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
Total	66.2	43.3	47.4

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 31st, 2006, being the same amount as at December 31st, 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 ⁽¹⁾	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
Total	3,581.8	2,159.3

(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
Total	3,581.8	2,159.3

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 31st, 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
Trade accounts payable	298.8
Other current liabilities	247.5
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 31st, 2006, compared with €131.3 million at December 31st, 2005. Accrual accounts included in tax and employee-related payables amount to €92 million at December 31st, 2006, compared with €85.6 million at December 31st, 2005. They are mainly comprised of the provision for employee profit sharing (€17.5 million at December 31st, 2006) and of the provision for incentives (€47.5 million at December 31st, 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 31st 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
Total	6.0	4.6	4.0	2.8

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
Currency forwards, net				
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
Total currency forwards	269.1	504.3	-5.8	-18.8
Currency options				
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
Total currency options	32.2	78.5	6.0	-3.4
Of which: options purchased	27.7	78.5	5.8	-3.4
options sold	4.5	-	0.2	-
Total forward instruments	301.3	582.8	0.2	-22.2

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				
Interest rate swaps – borrower floating rate				
EUR Euribor/fixed rate	128.8	309.5	3.6	13.3
Interest rate swaps – borrower fixed rate				
EUR Euribor/fixed rate	2.5	–	n/s	–
Interest rate swaps floating /floating				
EUR Euribor/Euribor	7.1	210.2	n/s	–
Total	138.4	519.8	3.6	13.3

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 ⁽¹⁾	571.0	575.2
Commitments to buyout minorities	67.4	75.3
Guarantees given ⁽²⁾	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 31st 2006 on behalf of direct and indirect subsidiaries compared with €709.1 million at December 31st 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 ⁽¹⁾	928.4	826.7
Rental	36.7	32.9
Other revenues of ancillary activities	111.5	106.1
Total	2,003.4	1,856.6

(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
Total	5,793	5,759
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
Total	92.5	66.6

Note 18 Net financial income

Net financial income amounts to €1,316.2 million at December 31st, 2006, compared with €1,244.3 million at December 31st 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 31st, 2006, compared with €165.7 million at December 31st, 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
Income tax	-54.5	-58.8

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
Temporary differences						
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
Items deductible						
Tax losses, etc						
Items potentially taxable						
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 31st, 2006, compared with €-58.5 million at December 31st, 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
Total	81.3	-58.5

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 31st, 2006 compared with €292.5 million at December 31st, 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
Total	360.7	292.5

TABLE OF SUBSIDIARIES AND HOLDINGS AT DECEMBER 31ST, 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		
A. Main French subsidiaries - Holdings of over 50%							
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
Cosmetique Active Production	186	15 661	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 NV	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 Beaute & 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)
Soprocoss	8 250	10,210	100	11,904	11,904	1 378	1 421
Soproleal	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. Main French investments - Holdings of less than 50%							
Galdema International	932	72 368	26.67	2	2	-9 050	(1)
Groupeement Plessis Mornay	2 453	1	n/s	1	1	-24	(1)
Inneov 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 Dermatocosmetique	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		
A Main foreign subsidiaries - Holdings of over 50%							
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)
Beautytux 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
Canbel Fragrances Inc. (Puerto Rico)	0	0	100	0	0	0	(1)
Club des Createurs de Beaute 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)
Cosmetica Activa Portugal Ltda	75	15	95	709	709	2 960	1 972
Cosmetique Active Belgilux (Belgium)	3 240	1 323	86.71	3,423	3,423	2 985	2 805
Cosmetique Active Hellas (Greece)	705	322	99.97	14,468	14 468	5,484	4 858
Cosmetique Active Ireland Ltd (Ireland)	82	161	100	732	732	531	(1)
Cosmetique Active Osterreich (Austria)	75	64	100	1 579	1 579	2 628	2 502
Cosmetique 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)
Kosmopol 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 Createurs de Beaute (Belgium)	250	- 545	50	251	0	- 548	(1)
Le Club des Createurs de Beaute (Taiwan)	234	- 19	50	328	32	- 372	(1)
L'Oreal Adna	131	1 331	100	1,503	1,503	299	265
L'Oreal 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'Oreal Balkan (Serbia)	1 241	255	100	1 285	1 285	62	(1)
L'Oreal Baltic (Latvia)	387	3 441	100	529	529	1 850	(1)
L'Oreal Belgilux (Belgium)	10 000	26 519	99.99	35,583	35 583	24 743	22,255
L'Oreal Bulgana	102	0	100	102	102	10	(1)
L'Oreal 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'Oreal Danmark A/S (Denmark)	269	5,195	100	7 382	7 382	6 933	6 525
L'Oreal 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	228 609	228,609	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'Oreal 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'Oreal Israel Ltd	4 119	8,528	92.97	38 497	33 597	3,114	3,328
L'Oreal 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'Oreal 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'Oreal Magyarorszag Kosmetikai Kft (Hungary)	4,249	1 190	100	7 815	7,815	2 205	1 217
L'Oreal Malaysia SDN BHD (Malaysia)	4 749	684	94.34	6,456	6 456	5 421	3 553
L'Oreal 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'Oreal 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	1,816	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 kozmetika 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)
PT L'Oréal Indonesia	1,510	-129	99	2 305	1 906	460	(1)
PT 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
Parnobel Ltd (Cyprus)	572	-3 689	100	34,776	34,776	4,080	7 817
Procosa Produtos 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)
Sotamo (Monaco)	160	2,186	99.97	1 851	1 851	595	956
The Body Shop International PLC ⁽³⁾	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 Main foreign investments - Holdings of less than 50%							
	n/s	n/s	n/s	n/s	n/s	n/s	n/s

(3) The Body Shop International published information as of February 25th, 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 24TH, 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 31st, 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 24th, 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 3rd, 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 25th, 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 14th, 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 26th, 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 30th, 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 23rd, 1967 as amended by the French Decree of December 11th, 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 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 24TH, 2007

Authorisations in force				Authorisations proposed to the AGM of April 24 th , 2007		
AGM (Resolution No)	Length (Expiry date)	Maximum authorised amount	Use made of the authorisation at February 28 th 2007	Resolution	Length	Maximum ceiling
Share capital increases						
Capital increase through the issue of shares with maintenance of preferential subscription rights or via the capitalisation of reserves	2005 AGM (12 th) (June 26 th 2007)	An increase in the share capital to €200,000,000	None	8 th	26 months	An increase in the share capital to €185,000,000
Capital increase reserved for employees	2006 AGM (14 th) (June 25 th 2008)	1% of the share capital at the time of the AGM	None	11 th	28 months	1% of the share capital (6 261 269 shares)
Buyback by the company of its own shares						
Treasury shares held by the company at February 28 th 2007						
Buyback by the company of its own shares (maximum purchase price per share proposed for the 2007 AGM: €120)	2008 AGM (12 th) (May 22 nd 2008)	10% of the share capital at December 31 st , 2005	3.44% of the share capital (21 559 950 shares), 0.12% of which (750,000 shares) are for cancellation	7 th	18 months	10% of the share capital (62 612 691 shares)
Reduction in the share capital via cancellation of shares						
Use made of the authorisation at February 28 th 2007						
Cancellation of shares bought back by the company within the scope of Art. L. 225-209 of the French Commercial Code	2003 AGM (10 th) (May 22 nd 2008)	10% of the share capital on the date of cancellation per 24-month period	48,220 000 shares (7.70% of the share capital)	None		
Cancellation of shares bought back by the company within the scope of Art. L. 225-208 of the French Commercial Code	2008 AGM (15 th) (June 26 th 2008)	1.8 million shares	1,800 000 shares (0.29% of the share capital)	None		
Stock options and free grant of shares						
Stock options allocated at February 28 th 2007						
Allocation of stock options to purchase shares						
(no discount with regard to exercise price)	2006 AGM (13 th) (June 25 th 2008)	12 million shares (i.e., for information purposes, 1.82% of the share capital at the time of the AGM)	7,500,000 stock options to subscribe for shares	9 th	26 months	2% of share capital at the date of the decision made by the Board to allocate stock
Allocation of stock options to subscribe for shares						
(no discount with regard to exercise price)						
Free grant of existing shares or shares to be issued						
		None		10 th	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 24TH, 2007

Ordinary part

1st 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

2nd 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

3rd 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 ⁽¹⁾

The balance that is 951 425 966 94

will be allocated to the "Other reserves" ⁽²⁾ 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 14th, 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 3rd, 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⁽³⁾ 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

4th 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

5th 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 31st, 2010

6th 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 31st, 2010

7th 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 14th, 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 22nd, 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 25th, 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

8th 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

9th 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

10th 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

11th 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 23rd, 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 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)*

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 1st, 1963 and which shall thus expire on December 31st 2061, except in the event of early dissolution or of extension, as provided for in these Articles of Association "

Purpose of the company (extracts from Article 2 of the Articles of Association)

"The company's corporate purpose, both in France and/or at any other location anywhere throughout the entire world, shall be as follows

- the manufacturing and the sale of cosmetics products in general, of all devices intended for the same uses as the products listed above, of all household maintenance products, of all products and articles relating to feminine and child hygiene and to the embellishment of human beings, the demonstration and advertising of such products, the manufacturing of packaging articles,
- the filing and acquisition of all patents, licenses, processes and manufacturing trademarks, their exploitation, their assignment and/or their contribution,
- all diversification transactions and all commercial, financial, movable property and/or real property transactions, made in the company's interest, in any form whatsoever,
- the direct or indirect involvement in all transactions such as those listed above, in particular by means of the creation of companies,

the contribution to pre-existing companies, the merger or the alliance with such companies "

Company registration 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 1st and to end on December 31st of each year "

Distribution of profits (Article 15 of the Articles of Association)

"A - From the distributable profits, the following amounts shall be withheld, in the following order

1 The amount required to pay the "primary dividend" to the shareholders equal to 5% of the amounts paid up on the unredeemed securities in accordance with calls for funds, provided however that (where the profits for a given year do not allow such dividend to be paid) the shareholders shall not be entitled to claim such dividend from out of the profits of subsequent years

2 From the available remainder, the Ordinary General Meeting, upon a proposal by the Board of Directors, shall have the authority to resolve to withhold the amounts that it deems appropriate (and even the entire amount of such available remainder), either to be carried forward to the next fiscal year, or to be paid into a "prudential fund" or into one or more ordinary, extraordinary or special reserve funds

Such reserve fund(s), which shall not bear any interest, may be distributed to the 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 29th, 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 st 2006	€75.90
High	€84.05 at August 31 st 2006
Low	€62.30 at January 3 rd 2006
Annual rise at December 31 st 2006	
• L'Oréal	+20.85%
• CAC 40	+17.53%
• Euronext 100	+18.81%
• DJ Euro Stoxx 50	+22.22%
Market capitalisation at December 31 st 2006	€48.55 billion
At December 31 st , 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	
2004				
January	69 90	62 95	65 42	114 00
February	69 40	63 50	66 15	78 86
March	67 60	60 10	63 63	85 84
April	65 75	61 90	64 18	85 08
May	65 05	61 90	63 68	116 67
June	67 45	62 85	64 87	90 17
July	66 00	58 55	61 43	82 49
August	59 90	54 25	56 52	94 77
September	57 75	52 45	55 28	97 71
October	54 45	51 50	52 83	90 22
November	56 90	53 45	55 38	71 04
December	56 45	53 85	55 06	73 68
2005				
January	58 10	54 50	56 40	89 07
February	60 20	57 30	58 55	84 03
March	62 15	58 75	60 07	84 37
April	62 20	55 10	59 17	98 79
May	59 65	55 60	57 66	87 54
June	61 50	58 35	60 15	79 41
July	65 95	56 20	62 45	109 07
August	65 80	62 15	64 53	77 45
September	67 45	62 75	65 17	106 38
October	65 90	59 40	62 75	83 57
November	62 70	59 40	61 26	74 65
December	64 20	60 95	62 22	79 58
2006				
January	67 05	62 30	64 86	108 90
February	76 45	65 15	69 57	129 66
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
2007				
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'Oreal 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
Total		19 687.23	2,874.49	
Total net investment		16 812.74		

Portfolio value at December 31st, 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 31st, 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		125 77	25
	Reinvestment purchase of 1 share at €525 95	525 95		26
06 30 1988	Dividend €5 64 per share, excluding tax credit		146 66	26
	Reinvestment purchase of 1 share at €509 18	509 18		27
06 30 1989	Dividend €7 62 per share excluding tax credit		205 81	27
	Reinvestment purchase of 1 share at €697 61	697 61		28
06 29 1990	Dividend €9 15 per share excluding tax credit		256 11	28
	Reinvestment purchase of 1 share at €827 80	827 80		29
07 06 1990	Ten-for-one share split			290
06 28 1991	Dividend €1 07 per share excluding tax credit		309 47	290
	Reinvestment purchase of 4 shares at €87 20	348 80		294
06 26 1992	Dividend €1 28 per share, excluding tax credit		376 49	294
	Reinvestment purchase of 3 shares at €140 25	420 76		297
06 25 1993	Dividend €1 46 per share excluding tax credit		434 66	297
	Reinvestment purchase of 3 shares at €167 69	503 07		300
06 28 1994	Dividend €1 65 per share excluding tax credit		493 93	300
	Reinvestment purchase of 3 shares at €167 69	503 07		303
06 28 1995	Dividend €1 86 per share excluding tax credit		563 54	303
	Reinvestment purchase of 4 shares at €185 84	743 36		307
06 28 1996	Dividend €2 03 per share excluding tax credit		622 46	307
	Reinvestment purchase of 3 shares at €260 54	781 62		310
07 01 1996	Issue of bonus shares (1 for 10)			341
07 01 1997	Dividend €2 13 per share, excluding tax credit		727 79	341
	Reinvestment purchase of 2 shares at €393 93	787 86		343
06 12 1998	Dividend €2 44 per share excluding tax credit		836 64	343
	Reinvestment purchase of 2 shares at €473 05	946 10		345
06 15 1999	Dividend €2 82 per share, excluding tax credit		973 01	345
	Reinvestment purchase of 2 shares at €586 50	1 173 00		347
06 15 2000	Dividend €3 40 per share, excluding tax credit		1 179 80	347
	Reinvestment purchase of 2 shares at €825 00	1,650 00		349
07 03 2000	Ten-for-one share split			3,490
06 08 2001	Dividend €0 44 per share excluding tax credit		1 535 60	3,490
	Reinvestment purchase of 20 shares at €78 15	1 563 00		3 510
06 04 2002	Dividend €0 54 per share excluding tax credit		1,895 40	3 510
	Reinvestment purchase of 26 shares at €74 95	1 948 70		3 536
05 27 2003	Dividend €0 64 per share, excluding tax credit		2 263 04	3,536
	Reinvestment purchase of 38 shares at €61 10	2 321 80		3 574
05 14 2004	Dividend €0 73 per share excluding tax credit		2,609 02	3 574
	Reinvestment purchase of 41 shares at €63 65	2,609 65		3 615
05 11 2005	Dividend €0 82 per share		2,964 30	3 615
	Reinvestment purchase of 53 shares at €56 50	2 994 50		3 668
05 10 2006	Dividend €1 00 per share		3 668 00	3 668
	Reinvestment purchase of 51 shares at €72 65	3 705 15		3 719
Total		40,215.23	18,652.60	
Total net investment		21 562 63		

Portfolio value at December 31st, 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 31st, 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 1st, 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 1st, 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 1st, 2001, a defined benefits scheme with conditional entitlements, the Retirement Income Guarantee for former Senior Managers.

Prior to this, on December 31st, 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 1st, 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 31st, 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 1st, 2003, is open in France to all L'Oréal employees with more than one year's service, and whose salary exceeds the French Social Security ceiling, without exceeding 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 1st, 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
Total net contributions	1,808,833	2,768,544	3,916,920

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 ("Conge de fin de carrière" – CFC)

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 1st, 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 65th 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.

€ in billions	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 1st, 2004, and January 1st, 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.

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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 3rd, 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 24th, 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, 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 17th and 18th, 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. Press releases and financial announcements complete the list.

In 1997, L'Oréal created the specialised financial website www.loreal-finance.com for the use of international finance professionals and all its shareholders. This interactive resource, which is constantly updated, contains all the group's financial and stock market information, and indicates the price of the L'Oréal share in real time. Tens of thousands of visits are made to the site each month. A special corner is 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 (*Autonté des Marchés Financiers*). This document lists the information published or made public by L'Oréal from January 1st, 2006 to March 12th, 2007 to meet its legal or regulatory obligations.

Information available on the website www.loreal-finance.com

Press releases

Dates	Press releases
Weekly from January 2 nd 2006 to March 12 th 2007	Disclosure of trading in own shares
Monthly from November 30 th 2006 to February 29 th , 2007	Disclosure of total number of voting rights and number of shares forming the capital
January 13 th 2006	2005 sales
January 16 th 2006	Partnership agreement with Diesel
February 16 th 2006	2005 annual results
February 23 rd 2006	L'Oréal has observed recent trading with regard to The Body Shop International shares
February 27 th , 2006	SkinEthic
February 28 th , 2006	Episkin subsidiary of L'Oréal, acquires SkinEthic
March 16 th , 2006	Annual Shareholders' Meeting
March 17 th 2006	L'Oréal to make an offer for The Body Shop International PLC
March 23 rd 2006	L'Oréal - The Body Shop
April 12 th , 2006	L'Oréal - The Body Shop
April 17 th , 2006	Episkin subsidiary of L'Oréal, announces that it holds 97.19% of the capital of SkinEthic
April 19 th , 2006	First quarter 2006 sales
April 25 th , 2006	New Management Organisation
May 4 th 2006	L'Oréal/The Body Shop - Offer extended
June 1 st 2006	L'Oréal/The Body Shop - Offer declared unconditional as to acceptances
June 9 th 2006	L'Oréal/The Body Shop - L'Oréal offer declared wholly unconditional
June 13 th 2006	L'Oréal/The Body Shop - Posting of compulsory acquisition notices
June 28 th 2006	Renewal of share buyback programme
July 12 th 2006	First half 2006 sales
August 31 st , 2006	First half 2006 results
October 12 th 2006	Sales at September 30 th , 2006
October 24 th , 2006	L'Oréal acquires Sanoflore organic cosmetics brand
January 11 th , 2007	Three new members of the group Management Committee announced
January 25 th 2007	2006 annual sales
February 15 th 2007	2006 annual results
February 15 th , 2007	Proposed appointment of Mrs Annette Roux as director

Reference Document

Date	Type of document
April 6 th 2006	2005 Reference Document D 06 0226 (AMF registration)

"Bulletin des Annonces Légales et Obligatoires"

Date	Issue No	Publication
February 3 rd , 2006	15	2005 sales
March 20 th , 2006	34	Notice of Extraordinary and Ordinary General Meeting of the shareholders
April 5 th 2006	41	2005 consolidated financial statements and parent company financial statements
May 1 st 2006	52	Approval of 2005 financial statements
May 5 th 2006	54	Voting rights
May 15 th 2006	58	1 st quarter 2006 sales
August 2 nd , 2006	92	2 nd quarter 2006 sales
September 20 th 2006	113	Half-year report
October 30 th , 2006	130	3 rd quarter 2006 sales
February 5 th 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 th 2006, no. 49	Capital increase amendment of the Articles of Association
<i>Gazette du Palais</i>	April 7 th -8 th , 2006, page 68	Notice to attend the Extraordinary and Ordinary General Meeting of Shareholders
<i>Les Petites Affiches</i>	May 19 th 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 st 2007, no. 38	Capital increase, capital reduction amendment of the Articles of Association

Information registered with the Paris Commercial Court (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 th , 2006)
03 13 2006, registration no. 24981	Updated Articles of Association at February 15 th 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 th 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 th 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 th , 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 th , 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 th 2005)
05 24 2006 registration no. 44785	Updated Articles of Association at April 25 th , 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 th 2007)
02 22 2007 registration no. 18332	Updated Articles of Association at February 14 th , 2007

RECENT EVENTS AND OUTLOOK

News release of Thursday January 11th, 2007**Three new members of the group Management Committee announced, including the appointment of a 2nd 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 SanoFlores, 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 1st, 2007.

News release of Thursday January 25th, 2007

2006 annual sales target reached

Strong growth in annual sales:

15.8 billion euros, up by +8.7%

Substantial increase in 4th 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 31st, 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 1st, 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 31st, 2006 (+5.7% excluding The Body Shop).

In the 4th 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 st , 2006			4 th quarter 2006		
	€ millions	Growth		€ millions	Growth	
		Like-for-like	Reported		Like-for-like	Reported
By operational division						
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%
Cosmetics total	15,011	+5.6%	+5.6%	3,781	+6.1%	+2.5%
By geographic zone						
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%	+24.5%	247	+23.9%	+25.0%
Other countries	718	+8.5%	+4.5%	180	+11.0%	+1.5%
Cosmetics total	15,011	+5.6%	+5.6%	3,781	+6.1%	+2.5%
The Body Shop	435	+9.7%	-	263	+10.3%	-
Dermatology ⁽¹⁾	344	+8.6%	+8.1%	105	+9.2%	+4.5%
Group total	15,790	+5.8%	+8.7%	4,148	+6.5%	+9.5%

(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 Séne 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 4th 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 skin-care thanks to Age Re-Perfect and Men Expert as well as in make-up and in haircare with the successful launch of Elseve Nutri-Gloss. Europe and the emerging countries are benefiting from the success of these launches. The hair colourant Casting Creme 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 4th 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 Gio 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 & ROUF, 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 Absolu 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 Tolerane 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 Inneov Solare, 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 BIODERMA, 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. MAYBELINE 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 BIODERMA 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 Elseve. 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, BIODERMA 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 Elève

Luxury Products, whose sales grew strongly, took advantage of the good performance of BOTHERM 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 1st, 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 ⁽¹⁾ increased by + 6.5% (+ 2.7% with a comparable store base) ⁽²⁾

The number of stores increased by 89 in the second half of 2006. At December 31st, 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 15th, 2007

Sales: + 8.7%

Further improvement in operating profit: + 12.1%

Strong growth in net earnings per share ⁽¹⁾ + 14.7%

Substantial increase in dividend ⁽²⁾: + 18%

The Board of Directors of L'Oreal met on Wednesday, February 14th, 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'Oreal, said: *"In 2006, L'Oreal 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 1st, 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 24th, 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 Benéteau 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 1st to December 31st, 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 24th, 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 31st, 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 1st, 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 31st, 2006 (+5.7% excluding The Body Shop).

The news release of January 25th, 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 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 1st, 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 nd half	As % of sales	Sales trend
Sales	14,533	100	15,355	100	15,790	100	+ 8.7
Costs of sales	-4,347	29.9	-4,414	28.7	-4,569	28.9	
Gross profit	10,185	70.1	10,941	71.3	11,221	71.1	+ 10.2
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%	
Operating profit	2,266	15.6	2,483	16.2	2,541	16.1%	+ 12.1

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.

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
By operational division				
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
Cosmetics divisions total	2,609	18.4	2,860	19.1
Non-allocated ⁽¹⁾	-396	-2.8	-437	-2.9
Cosmetics branch	2,212	15.6	2,423	16.1
The Body Shop 2nd half	-	-	58	13.4
Dermatology branch ⁽²⁾	54	16.9	59	17.3
Group	2,266	15.6	2,541	16.1

(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
Cosmetics zones total	2,609	18.4	2,860	19.1

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 nd half	Growth
Operating profit	2,266	2,541	12.1%
Finance costs	-64	-116	
Other financial income (expenses)	-3	-4	
Sanofi Aventis dividends	172	218	
Share in net profit of equity affiliates	-1	-1	
Profit before tax excluding non-recurrent items	2,370	2,638	11.3%
Income tax excluding non-recurrent items	-730	-803	
Minority interests	-1	-1	
Net profit excluding non-recurrent items after minority interests ⁽¹⁾	1 639	1,833	11.9%
EPS ⁽²⁾ (in euros)	2.6	2.98	14.7%
Diluted average number of shares	630,892,470	615,723,220	

(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
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 (€)	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 31st, 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 31st, 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 24th, 2007 should approve a dividend of €1.18 per share, representing an increase of +18% compared with 2005

News release of Thursday February 15th, 2007

Proposed appointment of Mrs Annette Roux as a director

The Board of Directors of L'Oréal met on Wednesday, February 14th, 2007 under the chairmanship of Sir Lindsay Owen-Jones and decided on the resolutions to be submitted to the Combined Shareholders' Meeting on April 24th, 2007

The Board will propose to the Shareholders' Meeting on April 24th, 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 22nd 2003 and April 25th, 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 24th 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
Auditors			
PricewaterhouseCoopers Audit 63 rue de Villiers 92200 Neuilly-sur-Seine (France)	April 29 th , 2004	6 years	
Deloitte & Associés 185 avenue Charles de Gaulle 92200 Neuilly-sur-Seine	April 29 th , 2004	6 years	
Substitute auditors			AGM reviewing the financial statements for 2009 to be held in 2010
Mr Yves Nicolas 63 rue de Villiers 92200 Neuilly-sur-Seine	April 29 th , 2004	6 years	
Mr Jean-Paul Picard 7/9 villa Houssay 92200 Neuilly-sur-Seine	May 29 th 2001 ⁽¹⁾	6 years	

(1) Renewed on April 29th, 2004

Fees of Auditors and members of their networks charged to the group

€ thousands	PricewaterhouseCoopers				Deloitte & Associés				Other			
	Amount		%		Amount		%		Amount		%	
	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		
Sub-total	6,241	6,323	95.3	94.6	5,577	4,835	96.9	93.3	71	138	4.0	7.8
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
Total	6,547	6,683	100.0	100.0	5,756	5,179	100.0	100.0	1,764	1,758	100.0	100.0

HISTORICAL FINANCIAL INFORMATION INCLUDED BY REFERENCE

In accordance with Article 28 of European Regulation EC No 809-2004 of April 29th, 2004, this Reference Document contains the following information by reference

- the consolidated financial statements for the year ended December 31st, 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 6th, 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 31st, 2004, prepared in accordance with the French Accounting Standards and the related Statutory Auditors' report presented on pages 3 to 34 of Volume 2 of the 2004 Reference Document filed with the *Autorité des Marchés Financiers* on April 7th, 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 31st, 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 31st, 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 31st, 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 15th, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Etienne Bons

Deloitte & Associés

Etienne Jacquemin

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31st, 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 31st, 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 31st, 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⁽¹⁾ 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⁽¹⁾ 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.

Neully-sur-Seine, February 15th, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Etienne Bons

Etienne Jacquemin

(1) Those footnotes refer respectively to the note 1.0-1 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 31st, 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'Oreal 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 31st, 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*).

Neully-sur-Seine, February 15th, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associates

Etienne Boris

Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

(Year ended December 31st, 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 23rd, 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 25th, 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 25th, 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 15th, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Etienne Boris

Etienne Jacquemin

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 24th, 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 23rd, 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 15th, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Etienne Bons

Etienne Jacquemin

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 24th, 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 be 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 30th, 2004 and December 30th, 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 15th, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associates

Etienne Boris

Etienne Jacquemin

STATUTORY AUDITORS' SPECIAL REPORT ON THE SHARE CAPITAL INCREASE RESERVED FOR EMPLOYEES OF THE COMPANY

**Ordinary and Extraordinary Shareholders' Meeting of April 24th, 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 23rd, 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 23rd, 1967, we will prepare an additional report for each share capital increase that your Board of Directors may decide to perform in connection with the draft delegation which has been submitted to you.

Neuilly-sur-Seine, February 15th, 2007

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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'Oreal'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 28th, 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 29th, 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"
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