



Half-year report at June 30<sup>th</sup>, 2005

L'ORÉAL

## Half-year situation at June 30<sup>th</sup>, 2005

The following figures have been examined by the Board of Directors and certified by the Statutory Auditors

# Contents

<b>4</b>	<b>Compared consolidated profit and loss accounts (IFRS)</b>
<b>5</b>	<b>Compared consolidated balance sheets (IFRS)</b>
<b>7</b>	<b>Consolidated statement of changes in shareholders' equity (IFRS)</b>
<b>8</b>	<b>Consolidated statement of changes in shareholders equity 2004 – Pro forma</b>
<b>9</b>	<b>Consolidated statement of changes in shareholders equity – First half 2004</b>
<b>10</b>	<b>Consolidated statement of changes in shareholders equity – First half 2004 – Pro forma</b>
<b>11</b>	<b>Compared consolidated statements of cash flows</b>
<b>12</b>	<b>Notes to the financial statements</b>
<b>35</b>	<b>Activity report</b>
<b>38</b>	<b>Statutory Auditors' report on the 2005 half-year consolidated financial statement</b>

# Compared consolidated profit and loss accounts (IFRS)

(€ millions)

	Notes	06.30.2005	06.30.2004 pro forma *	06.30.2004	12.30.2004 pro forma *	12.31.2004
<b>Net sales</b>	<b>3</b>	<b>7,163.6</b>	<b>6,921.6</b>	<b>6,921.6</b>	<b>13,641.3</b>	<b>13,641.3</b>
Cost of sales		-2,162.5	-2,055.9	-2,055.9	-4,101.1	-4,101.1
Gross profit		5,001.1	4,865.7	4,865.7	9,540.2	9,540.2
Research and development		-240.8	-222.3	-222.3	-466.6	-466.6
Advertising and promotion		-2,182.6	-2,152.9	-2,152.9	-4,176.9	-4,176.9
Selling, general and administrative expenses		-1,454.9	-1,403.3	-1,403.3	-2,844.3	-2,844.3
<b>Operating profit before foreign exchange gains and losses</b>		<b>1,122.8</b>	<b>1,087.2</b>	<b>1,087.2</b>	<b>2,052.4</b>	<b>2,052.4</b>
Foreign exchange gains and losses		-8.2	28.1	28.1	36.5	36.5
<b>Operating profit</b>		<b>1,114.6</b>	<b>1,115.3</b>	<b>1,115.3</b>	<b>2,088.9</b>	<b>2,088.9</b>
Other income and expenses	4	-2.3	4.5	4.5	-126.2	2,728.3
<b>Operational profit</b>		<b>1,112.3</b>	<b>1,119.8</b>	<b>1,119.8</b>	<b>1,962.7</b>	<b>4,817.2</b>
Finance cost	5	-26.4	-23.1	-23.1	-43.1	-43.1
Other financial income (expense)		-0.5	0.3	0.3	-3.9	-3.9
sanofi-aventis dividends		171.7	145.9	-	145.9	-
Share in net profit of equity affiliates	9	-0.6	-0.5	233.5	-1.2	292.3
<b>Profit before tax and minority interests</b>		<b>1,256.5</b>	<b>1,242.4</b>	<b>1,330.5</b>	<b>2,060.4</b>	<b>5,062.5</b>
Income tax		-364.2	-362.0	-381.0	-618.6	-1,089.7
<b>Net profit before minority interests</b>		<b>892.3</b>	<b>880.4</b>	<b>949.5</b>	<b>1,441.8</b>	<b>3,972.8</b>
Minority interests		-0.6	-2.7	-2.7	-3.1	-3.1
<b>Net profit after minority interests</b>		<b>891.6</b>	<b>877.7</b>	<b>946.8</b>	<b>1,438.7</b>	<b>3,969.7</b>
<b>Net profit after minority interests per share (euros)</b>						
Basic earnings per share		1.41	1.35	1.45	2.22	6.13
Diluted earnings per share		1.40	1.35	1.45	2.21	6.11
<b>Net profit before non-recurrent items after minority interests per share (euros)</b>	<b>15</b>					
Basic earnings per share		1.41	1.35		2.29	
Diluted earnings per share		1.40	1.34		2.29	

\* For comparison purpose, pro-forma profit and loss accounts are restated in order to reflect the deconsolidation of Sanofi-Synthélabo at January 1<sup>st</sup>, 2004:  
– by replacing the share in net income of Sanofi-Synthélabo by the received dividends;  
– and by neutralizing the net of tax dilution capital gain relating to these shares.

# Compared consolidated balance sheets (IFRS)

(€ millions)

	Notes	06.30.2005	06.30.2004 pro forma *	06.30.2004	12.31.2004
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	6	3,670.5	3,690.5	3,690.5	3,513.8
Other intangible assets	6	1,290.2	1,169.5	1,169.5	1,064.9
Tangible assets	7	2,354.6	2,163.1	2,163.1	2,185.0
Financial assets	8	9,853.9	7,581.3	128.8	8,542.4
Investments in equity affiliates	9	–	0.7	1,965.9	–
Deferred tax assets		449.7	489.2	489.2	427.9
<b>Current assets</b>					
Inventories		1,276.0	1,171.4	1,171.4	1,123.4
Trade accounts receivable		2,629.1	2,439.1	2,439.1	2,063.4
Other current assets		844.9	817.0	817.0	831.0
Current tax assets		96.2	83.5	83.5	57.2
Cash and cash equivalents	10	469.8	490.7	490.7	576.2
<b>Total assets</b>		<b>22,934.9</b>	<b>20,096.0</b>	<b>14,608.7</b>	<b>20,385.2</b>

\* For comparison purpose, the pro-forma balance sheet as of June 30, 2004 is restated with sanofi-aventis shares classified as investments and revalued at listed share price at June 30, 2004. The revaluation effect is recorded through equity as well as the associated tax effect.

# Compared consolidated balance sheets (IFRS)

(€ millions)

	Notes	06.30.2005	06.30.2004 pro forma *	06.30.2004	12.31.2004
<b>Liabilities</b>					
<b>Shareholders' equity</b>		<b>12,952.5</b>	<b>11,037.5</b>	<b>6,656.2</b>	<b>11,825.4</b>
Capital stock		131.7	135.2	135.2	135.2
Additional paid-in capital		953.8	953.5	953.5	953.5
Other reserves		8,810.7	8,826.6	6,295.6	6,325.6
Items directly recognised in equity		4,032.9	1,944.9	25.5	3,031.0
Cumulative translation adjustments		128.7	75.1	75.1	139.9
Treasury stock		-1,998.3	-1,779.7	-1,779.7	-2,450.9
Net profit after minority interests		891.6	877.7	946.8	3,969.7
Shareholders' equity excluding minority interests	11	12,951.1	11,033.3	6,652.0	11,824.2
Minority interests		1.4	4.2	4.2	1.2
<b>Non-current liabilities</b>		<b>3,163.4</b>	<b>3,442.2</b>	<b>2,336.2</b>	<b>3,218.8</b>
Provisions for employee retirement obligation and related benefits		958.6	1,030.9	1,030.9	995.6
Provisions for liabilities and charges	12	164.2	202.0	202.0	188.0
Deferred tax liabilities		1,531.8	1,468.6	362.6	1,322.2
Non-current borrowings and debts	13	508.8	740.7	740.7	713.0
<b>Current liabilities</b>		<b>6,819.0</b>	<b>5,616.3</b>	<b>5,616.3</b>	<b>5,341.0</b>
Trade accounts payable		2,047.4	2,039.2	2,039.2	2,108.7
Other current liabilities		1,904.6	1,710.5	1,710.5	1,597.5
Current tax liabilities		256.5	310.3	310.3	203.6
Current borrowings and debts		2,610.5	1,556.3	1,556.3	1,431.2
<b>Total liabilities</b>		<b>22,934.9</b>	<b>20,096.0</b>	<b>14,608.7</b>	<b>20,385.2</b>

\* For comparison purpose, the pro-forma balance sheet as of June 30, 2004 is restated with sanofi-aventis shares classified as investments and revalued at listed share price at June 30, 2004. The revaluation effect is recorded through equity as well as the associated tax effect.

# Consolidated statement of changes

## in shareholders' equity (IFRS)

(€ millions)

	Common shares outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation adjustments	Shareholders' equity excluding minority interests	Minority interests	Shareholders' equity
<b>At 12.31.2003</b>	<b>649,575,760</b>	<b>135.2</b>	<b>953.4</b>	<b>6,773.6</b>	<b>73.7</b>	<b>-1,792.6</b>		<b>6,143.3</b>	<b>8.3</b>	<b>6,151.6</b>
Dividends paid (not paid on treasury stock)				-513.8				-513.8	-6.0	-519.8
• Cumulative translation adjustments							-139.9	-139.9	-0.3	-140.2
• Financial assets available for sale					2,974.1			2,974.1		2,974.1
• Cash flows hedging					-16.8			-16.8	-0.3	-17.1
Net income changes directly recognised in equity					2,957.3		-139.9	2,817.4	-0.6	2,816.8
Consolidated net income of the period				3,969.7				3,969.7	3.1	3,972.8
Deferred share-based payment				20.4				20.4		20.4
Net changes in treasury stock	-11,301,400					-658.3		-658.3		-658.3
Other movements <sup>(1)</sup>			0.1	45.4				45.5	-3.7	41.8
<b>At 12.31.2004</b>	<b>638,274,360</b>	<b>135.2</b>	<b>953.5</b>	<b>10,295.3</b>	<b>3,031.0</b>	<b>-2,450.9</b>	<b>-139.9</b>	<b>11,824.2</b>	<b>1.2</b>	<b>11,825.4</b>
Capital increase	5,000	0.0	0.3					0.3		0.3
Cancellation of treasury stock	-17,300,000	-3.5		-980.9		984.4				0.0
Dividends paid (not paid on treasury stock)				-518.8				-518.8	-0.6	-519.4
• Cumulative translation adjustments							268.6	268.6	0.3	268.9
• Financial assets available for sale					1,094.0			1,094.0		1,094.0
• Cash flows hedging					-92.1			-92.1	-0.1	-92.2
Net income changes directly recognised in equity					1,001.9		268.6	1,270.5	0.2	1,270.7
Consolidated net income of the period				891.6				891.6	0.6	892.3
Deferred share-based payment				14.4				14.4		14.4
Net changes in treasury stock	8,633,250			-0.3		-531.8		-532.1		-532.1
Other movements <sup>(1)</sup>				0.9				0.9		0.9
<b>At 06.30.2005</b>	<b>629,612,610</b>	<b>131.7</b>	<b>953.8</b>	<b>9,702.3</b>	<b>4,032.9</b>	<b>-1,998.3</b>	<b>128.7</b>	<b>12,951.1</b>	<b>1.4</b>	<b>12,952.5</b>

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

## Consolidated statement of changes in shareholders equity 2004 Pro forma

(€ millions)

	Common shares 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				2 531.0	2 800.1			5 331.1		5 331.1
At 12.31.2003 pro forma	649,575,760	135.2	953.4	9 304.6	2 873.8	-1 792.6		11,474.4	8.3	11,482.7
Dividends paid (not paid on treasury stock)				-513.8				-513.8	-6.0	-519.8
• Cumulative translation adjustments							-139.9	-139.9	-0.3	-140.2
• Financial assets available for sale					174.0			174.0		174.0
• Cash flows hedging					-16.8			-16.8	-0.3	-17.1
Net income changes directly recognised in equity					157.2		-139.9	17.3	-0.6	16.7
<b>Consolidated net income of the period</b>				<b>1,438.7</b>				<b>1,438.7</b>	<b>3.1</b>	<b>1,441.8</b>
Deferred share-based payment				20.4				20.4		20.4
Net changes in treasury stock	-11,301,400					-658.3		-658.3		-658.3
Other movements <sup>(1)</sup>			0.1	45.4				45.5	-3.7	41.8
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

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

## Consolidated statement of changes in shareholders equity

### First half 2004

(€ millions)

	Common shares outstanding	Capital stock	Additional paid-in capital	Retained earnings and net income	Items directly recognised in equity	Treasury stock	Cumulative translation 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 on treasury stock)				-513.8				-513.8	-5.3	-519.1
• Cumulative translation adjustments							75.1	75.1	0.3	75.4
• Financial assets available for sale					0.8			0.8		0.8
• Cash flows hedging					-49.0			-49.0		-49.0
Net income changes directly recognised in equity					-48.2		75.1	26.9	0.3	27.2
Consolidated net income of the period				946.8				946.8	2.7	949.5
Deferred share-based payment				9.2				9.2		9.2
Net changes in treasury stock	569,400					12.9		12.9		12.9
Other movements <sup>(1)</sup>			0.1	26.6				26.7	-1.9	24.8
At 06.30.2004	650,145,160	135.2	953.5	7,242.4	25,5	-1,779.7	75.1	6,652.0	4.2	6,656.2

(1) Other investments mainly relates to adjustments linked to Sanofi-Synthelabo transition to IFRS standards as well as for first half 2004 to a reversal of provision for risks relating to pension plans initially accounted for through equity (€ 21.6 million).

## Consolidated statement of changes in shareholders equity

### First half 2004 – Pro forma

(€ millions)

	Common shares 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				2,531.0	2,800.1			5,331.1		5,331.1
At 12.31.2003 pro forma	649,575,760	135.2	953.4	9,304.6	2,873.8	-1,792.6		11,474.4	8.3	11,482.7
Dividends paid (not paid on treasury stock)				-513.8				-513.8	-5.3	-519.1
• Cumulative translation adjustments							75.1	75.1	0.3	75.4
• Financial assets available for sale					-879.9			-879.9		-879.9
• Cash flows hedging					-49.0			-49.0		-49.0
Net income changes directly recognised in equity					-928.9		75.1	-853.8	0.3	-853.5
Consolidated net income of the period				877.7				877.7	2.7	880.4
Deferred share-based payment				9.2				9.2		9.2
Net changes in treasury stock	569,400					12.9		12.9		12.9
Other movements <sup>(1)</sup>			0.1	26.6				26.7	-1.9	24.8
At 06.30.2004 pro forma	650,145,160	135.2	953.5	9,704.3	1,944.9	-1,779.7	75.1	11,033.3	4.2	11,037.5

(1) Other investments mainly relates to adjustments linked to Sanofi-Synthelabo transition to IFRS standards as well as for first half 2004 to a reversal of provision for risks relating to pension plans initially accounted for through equity (€ 21.6 million).

# Compared consolidated statements of cash flows

(€ millions)

	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004 pro forma *	1 <sup>st</sup> half 2004	2004 pro forma *	2004
<b>Cash flows from operating activities</b>					
Net profit after minority interests	891.6	877.7	946.8	1,438.7	3,969.7
Minority interests	0.6	2.7	2.7	3.1	3.1
Elimination of expenses and income with no impact on cash flows:					
• depreciation and charges to provisions	171.6	113.8	113.8	413.2	413.2
• changes in deferred taxes	26.9	-0.3	18.7	-19.2	451.9
• share-based payment	14.4	9.2	9.2	20.4	20.4
• capital gains or losses	-4.7	-4.9	-4.9	62.7	62.7
• sanofi-aventis dilution capital gain					-2,854.4
• share in net income of equity affiliates net of dividend received)	0.6	0.5	-94.8	1.3	-146.3
• other non-cash movements	-0.3	0.3	0.3	2.5	2.5
<b>Gross cash flow</b>	<b>1,100.7</b>	<b>999.0</b>	<b>991.8</b>	<b>1,922.8</b>	<b>1,922.8</b>
Cash used for working capital	-502.6	-398.4	-398.4	-76.4	-76.4
<b>Net cash provided by operating activities (A)</b>	<b>598.1</b>	<b>600.6</b>	<b>593.4</b>	<b>1,846.4</b>	<b>1,846.4</b>
<b>Cash flows from investing activities:</b>					
Investments in tangible and intangible assets	-321.3	-313.2	-313.2	-677.1	-677.1
Disposals of tangible and intangible assets	1.7	8.0	8.0	32.2	32.2
Changes in other financial assets (including investments in non-consolidated companies)	-7.7	5.7	12.9	-11.6	-11.6
Effect of changes in the scope of consolidation	-148.4	-433.1	-433.1	-465.4	-465.4
<b>Net cash used by investing activities (B)</b>	<b>-475.7</b>	<b>-732.6</b>	<b>-725.4</b>	<b>-1,121.9</b>	<b>-1,121.9</b>
<b>Cash flows from financing activities</b>					
Dividends paid	-553.1	-505.8	-505.8	-542.9	-542.9
Capital increase of the parent company	0.3				
Disposal (acquisition) of treasury stock	-553.4	13.0	13.0	-637.0	-637.0
Changes in financial debt	864.0	386.4	386.4	321.0	321.0
<b>Net cash used by financing activities (C)</b>	<b>-242.2</b>	<b>-106.4</b>	<b>-106.4</b>	<b>-858.9</b>	<b>-858.9</b>
Net effect of exchange rate changes and fair value changes (D)	13.4	9.7	9.7	-8.8	-8.8
<b>Change in cash and cash equivalents (A+B+C+D)</b>	<b>-106.4</b>	<b>-228.7</b>	<b>-228.7</b>	<b>-143.2</b>	<b>-143.2</b>
<b>Cash and cash equivalents at beginning of the period (E)</b>	<b>576.2</b>	<b>719.4</b>	<b>719.4</b>	<b>719.4</b>	<b>719.4</b>
<b>Cash and cash equivalents at end of the period (A+B+C+D+E)</b>	<b>469.8</b>	<b>490.7</b>	<b>490.7</b>	<b>576.2</b>	<b>576.2</b>

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

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

Income taxes paid amount to € 349.1 million, € 316.5 million and € 644.3 million respectively for the first half 2005 and 2004 and for 2004.

Interest paid amount to € 45.4 million, € 30.5 million and € 69.3 million respectively for the first half 2005 and 2004 and for 2004.

Dividends received amount to € 171.7 million, € 138.8 million and € 145.9 million respectively for the first half 2005 and 2004 and for 2004.

# Notes to the financial statements

## NOTE 1. ACCOUNTING PRINCIPLES

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

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

In accordance with the December 2003 recommendation of the CESR (Committee of European Securities Regulators), the 2005 half-year financial statements are presented in accordance with national rules, but have been prepared in accordance with the accounting and valuation rules set out in the IAS/IFRS standards adopted by the European Union on June 30<sup>th</sup>, 2005.

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

- no restatement of business combinations prior to January 1<sup>st</sup>, 2004;
- actuarial gains and losses on pensions obligations fully recognised against equity at January 1<sup>st</sup>, 2004;
- cumulative translation adjustments at January 1<sup>st</sup>, 2004 merged with consolidated reserves.

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

The comparative information, which will be presented in the consolidated financial statements at December 31<sup>st</sup>, 2005, and in the half-year consolidated financial statements at June 30<sup>th</sup>, 2006, may be different from the attached financial statements as a result of the possible publication during the second half of 2005 of European regulations and of official interpretations.

Statements of reconciliation between the consolidated results for the first half of 2004 and the full year 2004 and the consolidated shareholders' equity at June 30<sup>th</sup>, 2004 and December 31<sup>st</sup>, 2004 in accordance with IFRS standards and those prepared using the previously used French standards are presented in note 16. The details of the main reclassifications carried out for the cash flows statements for the first half of 2004 and the full year 2004 are also presented in note 16. The reconciliation table at January 1<sup>st</sup>, 2004 is included in the 2004 reference document.

### 1.1. Scope and methods of consolidation

All companies included in the scope of consolidation have a fiscal year ending December 31<sup>st</sup> or close their accounts on that date. A half-year financial statement is prepared for all these companies at June 30<sup>th</sup>.

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.

### 1.2. Foreign currency translation

#### 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 rates, long-term contracts and options are negotiated to cover commercial transactions recorded on the balance sheet as fair value hedges and cash flows on future commercial transactions, recorded as cash flow hedges, whose completion is considered to be highly probable.

All hedging instruments are recorded on the balance sheet at their market value, including those, which relate to purchases and sales in the next accounting period. If the future cash flow hedging relationship is duly documented and the effectiveness of the hedges demonstrated, the variation in the fair value of these hedging instruments is recorded as follows:

- the part of the market value linked to variations in the time value is recorded in the profit and loss account, and this also applies to option premiums;
- the part of the market value linked to variations in the spot rate between the inception of the hedge and the closing date is charged directly to shareholders' equity and impact the profit and loss account at the date on which the transactions hedged are completed. Any ineffective part is charged directly to the profit and loss account.

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

The group may decide to cover certain investments in foreign companies. Exchange gains or losses relating to these hedges are directly charged to consolidated shareholders' equity, under the item cumulative translation adjustments, except for the time value if the hedging instrument is a derivative.

### **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 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.

### **Valuation of goodwill in foreign currencies**

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

### **1.3. 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.

### **1.4. 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, and inventory depreciation costs.

### **1.5. Research and development expenditure**

Expenditure during the research phases 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,
- 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 as regards the programming, coding and testing phases. The costs of substantial updates and improvements 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 and 7 years.

### **1.6. Advertising and promoting 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.

### **1.7. 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 1.2).

### **1.8. Finance cost**

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.

## 1.9. 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.

## 1.10. Other income and expenses

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

## 1.11. Operational profit

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

## 1.12. Provisions for restructuring

The cost of restructuring operations is fully provisioned if it results from a group obligation towards a third party originating from the decision taken by the competent body and giving rise before the closing date to the announcement of this decision to the third parties concerned. This cost consists mainly of severance payments, early retirement payments, the cost of notice periods not worked, and the costs of training costs of 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.

## 1.13. Income tax

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated wherever temporary differences occur between the tax base and the consolidated base of assets and liabilities, using a balance sheet approach and the liability method.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends. Deferred tax is valued using the enacted tax rate at the closing date and which will also be in force when the temporary differences reverse.

Deferred tax assets generated by tax loss 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.

## 1.14. 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 acquisition cost and 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 IFRS3 "Business combinations". It is subjected to an impairment test if an unfavourable event occurs, and at least once a year, during the fourth quarter.

Impairment tests consist of comparing net asset values including goodwill and the recoverable value of each Cash Generating Unit. A Cash Generating Unit corresponds to one or more worldwide brands. Recoverable values are determined on the basis of discounted operating cash flows over a period of 10 years and a terminal value. The discount rate used for these calculations is the weighted average cost of capital (WACC). The hypotheses adopted in terms of growth of sales and terminal values are reasonable and in line with the available market data.

The depreciation of goodwill is not reversible.

### Other intangible assets

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition are also included in this item. They mainly consist of trademarks, product ranges, formulas and patents.

The newly acquired assets are valued by an independent expert.

With regard to trademarks, the use of the discounted cash flow method is preferred in order to make it easier to follow up the value in use after acquisition. Two approaches have been adopted to date:

– Premium-based approach: this method involves estimating the part of future flows that could be generated by the trademark, compared with the future flows that the activity could generate without the trademark;

– Royalty-based approach: this involves estimating the value of the trademark by reference to the levels of royalties demanded for the use of similar trademarks, based on sales forecasts drawn up by the group.

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

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

Local trademarks, which are to be gradually replaced, by an international trademark already existing inside the group are trademarks with a finite life span.

They are depreciated over a life span, which is estimated at the date of acquisition.

International trademarks are trademarks with an indefinite life span. They are subjected to annual impairment tests during the fourth quarter. The impairment test consists of calculating the recoverable value of the trademark based on the model adopted when the acquisition takes place.

As for product ranges, this concept covers all items which constitute a franchise: product concept, complementary name in addition to the trademark, formulas and patents used, packaging, logos, advertising trademark, etc.

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

The group may decide to identify and value patents and formulas that it wishes to develop.

The value of a patent or a formula is evaluated on the basis of the future profits expected from its ownership in the future, in accordance with the royalty-based approach.

The depreciation period of patents corresponds to the period of legal protection. Formulas, which are not protected by legal means, are depreciated over a maximum period of 5 years.

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

### 1.15. 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
POS advertising, stands and display units	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.

### 1.16. Financial assets

Financial assets include investments in non-consolidated companies and long-term loans and other debtors maturing after more than 12 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.

### 1.17. Inventories

Inventories are valued at the lowest 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.

### 1.18. Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value.

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

### 1.19. Cash

Cash consists 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 "Borrowings and debts".

Short-term investments 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.

### 1.20. 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.

### 1.21. 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 risk-free rate, share price volatility, expected dividends and behavioural factors of beneficiaries.

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

The impact on the profit and loss account 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.

### 1.22. 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 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 charge to the profit and loss account without the application of the corridor principle.

### 1.23. Provisions for liabilities and charges

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

### 1.24. 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 their market value. The resulting changes in value are recorded as financial income and are offset by variations 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 debt 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 recorded under current liabilities.

### 1.25. 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 1.2.

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 financial income, 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 the interest rate derivative instruments is their market value. This market value is calculated by the discounted cash flow method at the interest rate effective at the closing date.

### 1.26. Earnings per share

Net earnings per share are calculated in accordance with the rules set out in IAS 33.

Net earnings per share is 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.

### 1.27. Interim consolidated financial statements

The same accounting principles as those indicated above are applied for interim accounts, except for those concerning income tax.

### 1.28. Income tax

For the interim financial statements, the income tax (current and deferred) is calculated by applying to the pre-tax profit for the period the estimated average annual rate of taxation for the year in progress for each entity or tax group.

## NOTE 2. CHANGES IN THE SCOPE OF CONSOLIDATION

### 2.1. First half 2005

In May 2005, the L'Oréal group increased its stake in Club des Créateurs de Beauté Japon to 50%. This company, previously consolidated by the equity method, will be proportionately consolidated from July 1<sup>st</sup>, 2005 onwards.

In June 2005, the L'Oréal group finalised the acquisition of SkinCeuticals, an unlisted company, which is one of the leading players in the U.S. market for upmarket skincare products sold by professionals. The sales of SkinCeuticals amounted to USD35 million in 2004. This acquisition has been recorded under "Other intangible assets" until the acquisition price has been definitively allocated.

The cost of the new acquisitions is around €150 million.

### 2.2. 2004

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

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

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

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

The cost of these new acquisitions represented approximately €530 million. The total amount of goodwill and other intangible assets resulting from these acquisitions came out 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*, AMF) on August 12<sup>th</sup>, 2004, confirmed the success of the operation, leading to the acquisition of 95.47% of Aventis' capital. Further to this operation, L'Oréal had 10.41% of the capital and 17.23% of the voting rights of the new sanofi-aventis group. As such, L'Oréal stopped consolidating its stake in Sanofi-Synthelabo on August 12<sup>th</sup>, 2004, generating a €2.9 billion gross capital gain on dilution. The shareholders' agreement concluded between L'Oréal and the Total group concerning their respective interests in Sanofi-Synthelabo ended on December 2<sup>nd</sup>, 2004.

## NOTE 3. SEGMENT INFORMATION

### 3.1. Segment information

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

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

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

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

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

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

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

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

### Sales of Branches and Divisions

(€ millions)

	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004	2004
Professional Products	1,022.7	989.8	1,920.4
Consumer Products	3,767.9	3,634.6	7,050.1
Luxury Products	1,632.4	1,627.3	3,449.6
Active Cosmetics	560.3	492.2	840.9
Other cosmetics	44.0	46.5	86.8
<b>Cosmetics branch</b>	<b>7,027.4</b>	<b>6,790.4</b>	<b>13,347.9</b>
<b>Dermatology branch</b>	<b>136.2</b>	<b>131.2</b>	<b>293.4</b>
<b>Group</b>	<b>7,163.6</b>	<b>6,921.6</b>	<b>13,641.3</b>

### Operating profit of Branches and Divisions

(€ millions)

	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004	2004
Professional Products	194.9	206.8	365.4
Consumer Products	668.7	644.8	1,186.6
Luxury Products	279.2	291.3	693.6
Active Cosmetics	138.5	114.0	156.8
Other cosmetics	0.4	4.0	4.0
<b>Cosmetics Divisions Total</b>	<b>1,281.7</b>	<b>1,260.9</b>	<b>2,406.3</b>
Non-allocated	-181.3	-155.3	-368.0
<b>Cosmetics branch</b>	<b>1,100.4</b>	<b>1,105.6</b>	<b>2,038.3</b>
<b>Dermatology branch</b>	<b>14.2</b>	<b>9.7</b>	<b>50.6</b>
<b>Group</b>	<b>1,114.6</b>	<b>1,115.3</b>	<b>2,088.9</b>

### 3.2. Information by geographic zone

All information is presented on the basis of geographic location of the subsidiaries.

#### Group sales

(€ millions)

	1 <sup>st</sup> half 2005		Growth (%)		1 <sup>st</sup> half 2004		2004	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	3,574.1	49.9%	-1.0%	-0.9%	3,608.8	52.1%	6,805.5	49.9%
North America	1,866.1	26.0%	3.4%	6.8%	1,805.2	26.1%	3,750.0	27.5%
Rest of World	1,723.4	24.1%	14.3%	13.5%	1,507.6	21.8%	3,085.9	22.6%
<b>Group</b>	<b>7,163.6</b>	<b>100.0%</b>	<b>3.5%</b>	<b>4.2%</b>	<b>6,921.6</b>	<b>100.0%</b>	<b>13,641.3</b>	<b>100.0%</b>

#### Cosmetics sales

(€ millions)

	1 <sup>st</sup> half 2005		Growth (%)		1 <sup>st</sup> half 2004		2004	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	3,533.5	50.3%	-1.1%	-1.0%	3,572.6	52.6%	6,732.8	50.4%
North America	1,794.3	25.5%	3.8%	7.2%	1,728.6	25.5%	3,570.5	26.7%
Rest of World	1,699.6	24.2%	14.1%	13.3%	1,489.2	21.9%	3,044.6	22.8%
<b>Cosmetics</b>	<b>7,027.4</b>	<b>100.0%</b>	<b>3.5%</b>	<b>4.2%</b>	<b>6,790.4</b>	<b>100.0%</b>	<b>13,347.9</b>	<b>100.0%</b>

### NOTE 4. OTHER INCOME AND EXPENSES

This item may be divided into the following:

(€ millions)	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004	2004 pro forma	2004
Capital gains or losses on disposal of tangible and intangible assets	4.7	4.9	-62.7	-62.7
Depreciation of tangible and intangible assets	-	-	-24.0	-24.0
Restructuring costs	-7.0	-0.4	-39.5	-39.5
sanofi-aventis dilution capital gain	-	-	-	2,854.5
<b>Total</b>	<b>-2.3</b>	<b>4.5</b>	<b>-126.2</b>	<b>2,728.3</b>

### NOTE 5. FINANCE COSTS

This item may be divided into the following:

(€ millions)	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004	2004
Financial interests related to the gross debt	-45.7	-31.1	-64.6
Financial interests related to cash and cash equivalents	19.3	8.0	21.5
<b>Finance costs</b>	<b>-26.4</b>	<b>-23.1</b>	<b>-43.1</b>

## NOTE 6. GOODWILL AND INTANGIBLE ASSETS

The increase in the "Goodwill" item is mainly the result of a change in exchange rates, which represented an amount of €161 million.

The increase in the "Other intangible assets" item is the result of acquisitions during the half-year amounting to €145 million, and the change in exchange rates, which represented an amount of €64 million.

## NOTE 7. TANGIBLE ASSETS

Investments for the period amounted to €278.9 million, compared with €280.9 million and €617.1 million respectively for the first half 2004 and the full year 2004.

Depreciation for the second half of 2005 amounted to €225.3 million, compared with €194.4 million and €429.9 million respectively for the first half 2004 and the full year 2004.

## NOTE 8. FINANCIAL ASSETS

(€ millions)	06.30.2005		06.30.2004		12.31.2004	
	Book value	Acquisition cost	Book value	Acquisition cost	Book value	Acquisition cost
Investments in non-consol. companies						
• sanofi-aventis <sup>(1)</sup>	9,712.5	4,880.1	–	–	8,410.8	4,880.1
• Unlisted securities	4.2	4.2	3.9	3.9	4.0	4.0
Non-current financial loans and receivables	137.2	137.2	124.9	124.9	127.6	127.5
<b>Total</b>	<b>9,853.9</b>	<b>5,021.5</b>	<b>128.8</b>	<b>128.8</b>	<b>8,542.4</b>	<b>5,011.6</b>

(1) sanofi-aventis was deconsolidated on August 12<sup>th</sup>, 2004 (see notes 2 and 9). The book value at December 31<sup>st</sup>, 2004 and June 30<sup>th</sup>, 2005, of €8,410.8 million and €9,712.5 million respectively, corresponds to the market value of the shares based on the closing prices on December 31<sup>st</sup>, 2004 and June 30<sup>th</sup>, 2005 of €58.80 and €67.9 respectively.

## NOTE 9. INVESTMENTS IN EQUITY AFFILIATES

(€ millions)

	06.30.2005			06.30.2004			Book value		
	% interest	Consolidated shareholders' equity	Consolidated profit	% interest	Consolidated shareholders' equity	Consolidated profit	06.30.2005	06.30.2004	12.31.2004
sanofi-aventis <sup>(1)</sup>	–	–	–	20.95%	1,731.2	234.0	–	1,965.2	–
Club des Créateurs de Beauté Japon <sup>(2)</sup>	50.00%	–	–0.6	20.00%	1.2	–0.5	–	0.7	–
<b>Investments in equity affiliates</b>			<b>–0.6</b>		<b>1,732.4</b>	<b>233.5</b>	<b>–</b>	<b>1,965.9</b>	<b>–</b>

(1) sanofi-aventis was deconsolidated on August 12<sup>th</sup>, 2004 (See notes 2 and 8)

(2) In May 2005, L'Oréal increased its stake in Club des Créateurs de Beauté Japon to 50%. This company will be consolidated using the proportionate method from July 1<sup>st</sup>, 2005 (note 2.1.).

## NOTE 10. CASH AND CASH EQUIVALENTS

(€ millions)

	06.30.2005		06.30.2004		12.31.2004	
	Book value	Acquisition cost	Book value	Acquisition cost	Book value	Acquisition cost
Marketable securities	133.9	129.1	174.0	160.7	180.4	170.9
Bank accounts and other cash and cash equivalents	335.9	335.9	316.7	316.7	395.8	395.8
<b>Total</b>	<b>469.8</b>	<b>465.0</b>	<b>490.7</b>	<b>477.4</b>	<b>576.2</b>	<b>566.7</b>

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

Unrealised capital gains at June 30<sup>th</sup>, 2005 amounted to €4.8 million, and are recorded directly through equity, compared with €13.3 million at June 20<sup>th</sup>, 2004 and €9.5 million at December 31<sup>st</sup>, 2004.

## NOTE 11. SHAREHOLDERS' EQUITY

The share capital consists of 658,767,160 shares with a par value of €0.20 at June 30<sup>th</sup>, 2005 following the decision made by the Board of Directors of April 26<sup>th</sup>, 2005 to cancel 17,300,000 L'Oréal shares and the exercise of subscription options for 5,000 shares.

The share capital consisted of 676,062,160 shares with a par value of €0.20 at December 31<sup>st</sup>, 2004.

A L'Oréal share buyback programme was authorised by the Annual General Meetings of Shareholders on May 29<sup>th</sup>, 2002, May 22<sup>nd</sup>, 2003, April 29<sup>th</sup>, 2004 and April 26<sup>th</sup>, 2005. These shares are deducted from consolidated shareholders' equity. The proceeds from the transactions relating to these shares net of tax are also recorded in shareholders' equity.

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

In the first half of 2005, L'Oréal purchased 9,500,000 shares for €557.9 million. In view of the 17,300,000 shares cancelled, 4,540,000 shares are held at June 30<sup>th</sup>, 2005.

Furthermore, the L'Oréal shares acquired as part of employee share purchase option plans, which are now deducted from consolidated shareholders' equity, amounted to 25,447,800 shares at December 31<sup>st</sup>, 2004 for an acquisition price of €1,759.1 million.

At June 30<sup>th</sup>, 2005, these shares amounted to 24,614,550 for an acquisition price of €1,733.0 million. During 2004, no shares were bought or sold for this purpose, and options relating to 1,038,600 shares were exercised.

In the first half of 2005, no shares were bought or sold for this purpose, and options relating to 833,250 shares were exercised.

The Board of Directors decided on June 29<sup>th</sup>, 2005, March 24<sup>th</sup>, 2004 and December 1<sup>st</sup>, 2004 respectively to introduce share subscription action plans of 400,000, 2,000,000 and 4,000,000 shares respectively, with an exercise price of €60.17, €64.69 and €55.54. Their exercise periods of 5 years are respectively: June 2010 to June 2015; March 2009 to March 2014; and December 2009 and December 2014.

## NOTE 12. PROVISIONS FOR LIABILITIES AND CHARGES

### 12.1. Balances at closing date

(€ millions)

	06.30.2005	06.30.2004	12.31.2004
<b>Non-current provisions for liabilities and charges</b>	<b>164.2</b>	<b>202.0</b>	<b>188.0</b>
Provisions for restructuring	3.1	8.4	3.7
Other non-current provisions	161.1	193.6	184.3
<b>Current provisions for liabilities and charges <sup>(1)</sup></b>	<b>275.1</b>	<b>264.8</b>	<b>286.6</b>
Provisions for restructuring	38.8	17.9	44.0
Other current provisions	236.3	246.9	242.6
<b>Total</b>	<b>439.3</b>	<b>466.8</b>	<b>474.6</b>

(1) These are presented in the balance sheet under "Other current liabilities".

## 12.2. Variations in “Provisions for restructuring” and “Other provisions for liabilities and charges” during the period

(€ millions)

	12.31.2004	Charges <sup>(2)</sup>	Reversals (used) <sup>(2)</sup>	Reversals (not used) <sup>(2)</sup>	Impact of scope of cons./ exchange rates/other <sup>(1)</sup>	06.30.2005
Other provisions for liabilities and charges	426.9	78.5	-89.9	-37.6	19.5	397.4
Provisions for restructuring	47.7	5.1	-8.9	-2.7	0.7	41.9

(1) Mainly resulting from translation differences.

(2) These figures may be analysed as follows:

	Charges	Reversals (used)	Reversals (not used)
Restructuring costs	5.1	-8.9	-2.7
Operating provisions	76.5	-84.9	-27.1
Income tax	2.0	-5.0	-10.5

## NOTE 13. 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.

### Debt by type

(€ millions)

	06.30.2005		06.30.2004		12.31.2004	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	1,952.2	-	1,134.7	-	1,109.8
MLT bank loans	416.4	264.8	619.6	6.6	625.3	70.9
Perpetual loan	15.6	12.3	30.0	14.6	22.9	11.6
Debts on capital lease contracts	51.6	14.2	65.6	10.8	60.1	11.0
Overdrafts	-	148.0	-	124.4	-	69.3
Other borrowings and debts	25.2	219.0	25.5	265.2	4.7	158.6
<b>Total</b>	<b>508.8</b>	<b>2,610.5</b>	<b>740.7</b>	<b>1,556.3</b>	<b>713.0</b>	<b>1,431.2</b>

### Debt by maturity date

(€ millions)

	06.30.2005	06.30.2004	12.31.2004
Under 1 year	2,610.5	1,556.3	1,431.2
1 to 5 years	459.8	627.7	665.8
Over 5 years	49.0	113.0	47.2
<b>Total</b>	<b>3,119.3</b>	<b>2,297.0</b>	<b>2,144.2</b>

### 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 June 30<sup>th</sup>, 2005, the fair value of the debt amounts to €3,125.7 million, compared with €2,303.5 million, and €2,151.1 million respectively at June 30<sup>th</sup>, 2004 and December 31<sup>st</sup>, 2004.

## NOTE 14. FINANCIAL INSTRUMENTS

### Currency risk

Hedging instruments are allocated exclusively to payables and receivables recorded in the financial statements and to future transactions considered to be highly probable in the current year or in the following year.

Based on information supplied by the subsidiaries, the future operating transactions are covered by exchange rate hedges, either by options, or by purchases or sales of forward contracts.

At June 30<sup>th</sup>, 2005, the change in the intrinsic value of the hedging instruments allocated to future transactions and deferred through shareholders' equity amount to -€55.4 million, compared with €26.4 million and €70.3 million respectively at June 30<sup>th</sup>, 2004 and December 31<sup>st</sup>, 2004.

### Interest rate risk

As in the case of currency risk, the group's policy is not to take up a speculative position.

The group therefore mainly refinances at floating rates.

Furthermore, the financial derivative instruments, which are negotiated in this connection, are for hedging purposes.

At June 30<sup>th</sup>, 2005, the market value of the interest rate hedging instruments deferred through to shareholders' equity is -€2.3 million, compared with -€1.0 million and -€2.3 million respectively at June 30<sup>th</sup>, 2004 and December 31<sup>st</sup>, 2004.

## NOTE 15. NET PROFIT BEFORE NON-RECURRENT ITEMS AFTER MINORITY INTERESTS

### 15.1. 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 for the three periods presented.

(€ millions)

	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004 pro forma	2004 pro forma
<b>Net income after minority interests</b>	<b>891.6</b>	<b>877.7</b>	<b>1,438.7</b>
Capital gains or losses on long-term asset disposals	-4.7	-4.9	62.7
Long-term asset depreciation	-	-	24.0
Restructuring cost	7.0	0.4	39.5
Tax effect on non-recurrent items	-2.3	1.8	-78.8
Minority interests	-	-	-0.2
<b>Net income before non-recurrent items after minority interests</b>	<b>891.6</b>	<b>875.0</b>	<b>1,485.9</b>

## 15.2. Net earnings per share

The tables below set out the net earnings after minorities per share for the three periods presented:

	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
<b>06.30.2005</b>			
Net profit after minority interests per share	891.6	634,156,110	1.41
Stock options plans		1,630,043	
<b>Diluted net profit after minority interests per share</b>	<b>891.6</b>	<b>635,786,153</b>	<b>1.40</b>
<b>06.30.2004 pro forma</b>			
Net profit after minority interests per share	877.7	649,935,881	1.35
Stock options plans		2,382,588	
<b>Diluted net profit after minority interests per share</b>	<b>877.7</b>	<b>652,318,469</b>	<b>1.35</b>
<b>12.31.2004 pro forma</b>			
Net profit after minority interests per share	1,438.7	647,677,982	2.22
Stock options plans		1,920,422	
<b>Diluted net profit after minority interests per share</b>	<b>1,438.7</b>	<b>649,598,404</b>	<b>2.21</b>

## 15.3. Net earnings 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 for the three periods presented:

	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests (€)
<b>06.30.2005</b>			
Net profit before non-recurrent items after minority interests per share	891.6	634,156,110	1.41
Stock options plans		1,630,043	
<b>Diluted net profit before non-recurrent items after minority interests per share</b>	<b>891.6</b>	<b>635,786,153</b>	<b>1.40</b>
<b>06.30.2004 pro forma</b>			
Net profit before non-recurrent items after minority interests per share	875.0	649,935,881	1.35
Stock options plans		2,382,588	
<b>Diluted net profit before non-recurrent items after minority interests per share</b>	<b>875.0</b>	<b>652,318,469</b>	<b>1.34</b>
<b>12.31.2004 pro forma</b>			
Net profit before non-recurrent items after minority interests per share	1,485.9	647,677,982	2.29
Stock options plans		1,920,422	
<b>Diluted net profit before non-recurrent items after minority interests per share</b>	<b>1,485.9</b>	<b>649,598,404</b>	<b>2.29</b>

## NOTE 16. RECONCILIATION STATEMENTS BETWEEN FRENCH STANDARDS AND IFRS STANDARDS

### 16.1. Reconciliation of balance sheet at June 30<sup>th</sup>, 2004

#### Assets

(€ millions)

Published balance sheet at 06.30.2004 French standards	Note	IFRS reclassification and restatement		IFRS balance sheet at 06.30.2004		
		Asset/Asset	Asset/Liability			
<b>Fixed assets</b>		<b>8,893.3</b>	<b>698.4</b>	<b>15.3</b>	<b>Non-current assets</b>	<b>9,607.0</b>
Goodwill	1	1,240.0	2,404.9	45.6	Goodwill	3,690.5
Intangible assets	2	3,916.1	-2,746.2	-0.4	Other intangible assets	1,169.5
Tangible assets	3	1,935.3	227.8	-	Tangible assets	2,163.1
Financial assets	4	165.9	-36.9	-0.2	Financial assets	128.8
Investments in equity affiliates	5	1,636.0	340.7	-10.8	Investments in equity affiliates	1,965.9
	6		508.1	-18.9	Deferred tax assets	489.2
<b>Current assets</b>		<b>7,187.8</b>	<b>-698.4</b>	<b>-1,487.7</b>	<b>Current assets</b>	<b>5,001.7</b>
Inventories		1,175.0	-	-3.6	Inventories	1,171.4
Prepayments to suppliers		59.0	-59.0	-		-
Trade accounts receivable		2,439.2	-	-0.1	Trade accounts receivable	2,439.1
Other receivables and prepaid expenses	6	1,485.6	-693.8	25.2	Other current receivables	817.0
			83.5	-	Current tax assets	83.5
Marketable securities	7	1,724.2				
Cash and cash equivalents	7	304.8	-29.1	-1,509.2	Cash and cash equivalents	490.7
<b>Total</b>		<b>16,081.1</b>	<b>-</b>	<b>-1,472.4</b>	<b>Total</b>	<b>14,608.7</b>

## Liabilities

(€ millions)

Published balance sheet at 06.30.2004 French standards	Note	IFRS reclassification and restatement		IFRS balance sheet at 06.30.2004		
		Liability/Liability	Asset/Liability			
<b>Shareholders' equity <sup>(1)</sup></b>		<b>8,671.9</b>	<b>-524.9</b>	<b>-1,490.8</b>	<b>Shareholders' equity</b>	<b>6,656.2</b>
Capital stock		135.2	–		Capital stock	135.2
Additional paid-in capital		953.5	–	–	Additional paid-in capital	953.5
Reserves		8,756.1	-1,767.4	253.7	Reserves	7,242.4
			-0.9	26.4	Items directly recognised in equity	25.5
Cumulative translation adjustments		-1,168.6	1,243.3	0.4	Cumulative translation adjustments	75.1
Treasury stock		-12.0		-1,767.7	Treasury stock	-1,779.7
					Shareholders' equity excluding minority interests	6,652.0
Minority interests		7.7	0.1	-3.6	Minority interests	4.2
Provisions for liabilities and charges		1,351.5	244.0	–	Non-current liabilities	2,336.2
Provisions for employee retirement obligations and related benefits	8	813.2	217.7	–	Provisions for employee retirement obligations and related benefits	1,030.9
Other provisions for liabilities and charges	9	467.0	-265.0	–	Other provisions for liabilities and charges	202.0
Deferred tax liabilities	10	71.3	291.3	–	Deferred tax liabilities	362.6
<b>Borrowings and debts</b>		<b>2,331.4</b>	<b>-1,611.1</b>	<b>20.4</b>	Non-current borrowings and debt	740.7
<b>Current liabilities</b>		<b>3,726.3</b>	<b>1,892.0</b>	<b>-2.0</b>	<b>Current liabilities</b>	<b>5,616.3</b>
Customers' deposits and advances		0.5	-0.5			–
Trade accounts payable		2,039.3		-0.1	Customers' deposits and advances	2,039.2
	12		1,553.8	2.5	Current borrowings and debts	1,556.3
Other liabilities	13	1,686.5	28.4	-4.4	Other liabilities	1,710.5
			310.3		Current tax assets	310.3
<b>Total</b>		<b>16,081.1</b>	<b>–</b>	<b>-1,472.4</b>	<b>Total</b>	<b>14,608.7</b>

(1) Including "minority interests".

## Assets

Notes 1 and 2: Business value (€2,632.3 million) and market share (€113.2 million) have been reclassified as goodwill as they cannot be considered as identifiable intangible assets as defined by IAS 38.

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

Note 3: Advertising materials which can be depreciated have been transferred from "Other receivables and prepaid expenses" to "Tangible assets" in an amount of €222.6 million (IAS 16 standard).

Note 4: The outstanding part of loans has been reclassified as "Other current assets" or "Cash and cash equivalents".

Note 5: The goodwill relating to the Sanofi-Synthélabo shares has been reclassified to this line in an amount of €340.7 million.

Note 6: This corresponds to the reclassification of deferred tax assets to a separate line in IFRS (€508.1 million), the reclassification of advertising materials which can be depreciated as tangible assets (€222.6 million), and various reclassifications for a net amount of €62.1 million corresponding to "Prepayments to suppliers", current tax assets, financial hedging instruments and the current portions of loans.

Note 7: This corresponds to the reclassification of treasury stock, which is deducted from shareholders' equity (gross value: €1,767.7 million; depreciation: €245.2 million), the reclassification of financial hedging instruments (€40.5 million), the reclassification of short-term loans, and various reclassifications in a total amount of €3.9 million.

## Liabilities

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

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

Note 10: A deferred tax liability has been recorded for the Sanofi-Synthélabo investment (€291.3 million) on the difference between the tax value of the shares and their value in the consolidated financial statements, in accordance with IAS 12.

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

Note 13: This consists of the reclassification of current tax liabilities on a separate line (€310.3 million) and the reclassification of provisions for current liabilities and charges (€265.0 million), and various reclassifications for a net amount of €69.3 million.

## 16.2. Reconciliation of shareholders' equity at June 30<sup>th</sup>, 2004

The adjustments of shareholders' equity at June 30<sup>th</sup>, 2004 are as follows:

(€ millions)

	IFRS reclassification and restatement		Total
	Liability/Liability	Asset/Liability	
Shareholders' equity after minority interests			8,664.2
Minority interests			7.7
<b>Published shareholders' equity at 06.30.2004 based on French standards</b>			<b>8,671.9</b>
1. Reserves	-1,767.4	253.7	-1,513.7
Cancellation of depreciation on treasury stock		245.2	
Attached tax effect		-82.7	
Deferred tax liability on Sanofi-Synthélabo investment	-291.3		
IFRS impact on Sanofi-Synthélabo investment		-10.8	
Booking of actuarial gains and losses on pensions obligations and other adjustments	-215.5		
Attached tax effect		74.3	
Cancellation of goodwill amortisation		30.9	
Reclassification of cumulative translation adjustments in reserves at 1.1.2004	-1,243.3		
Fair value hedging net of tax (interest rate)	-17.2	18.0	
Fair value hedging net of tax (exchange rate)		-15.4	
Other restatements	-0.1	-5.8	
2. Items directly recognised in equity	-0.9	26.4	25.5
Cash flow hedging net of tax (exchange rate)		17.5	
Cash flow hedging net of tax (interest rate)	-0.9	0.3	
Revaluation at market value of securities available for sale		13.3	
Attached tax effect		-4.7	
3. Cumulative translation adjustments	1,243.3	0.4	1,243.7
Reclassification of cumulative translation adjustments in reserves at 1.1.2004	1,243.3		
Exchange rate adjustment on 2004 goodwill in foreign currency		-0.6	
Other restatements		1.0	
4. Treasury stock		-1,767.7	-1,767.7
Reclassification of gross value of treasury stock		-1,767.7	
5. Minority interests	0.1	-3.6	-3.5
Minority interest buyback commitments		-8.1	
Overall re-estimate net of tax		4.5	
Other restatements	0.1		
<b>IFRS shareholders' equity at 06.30.2004</b>			<b>6,656.2</b>

### 16.3. Reconciliation of balance sheet at December 31<sup>st</sup>, 2004

#### Assets

(€ millions)

Published balance sheet at 12.31.2004 French standards		Note	IFRS reclassification and restatement		IFRS balance sheet at 12.31.2004	
			Asset/Asset	Asset/Liability		
<b>Fixed assets</b>	<b>11,533.7</b>		<b>769.6</b>	<b>3,430.7</b>	<b>Non-current assets</b>	<b>15,734.0</b>
Goodwill	817.2	1	2,669.9	26.7	Goodwill	3,513.8
Intangible assets	3,739.7	2	-2,673.2	-1.6	Other intangible assets	1,064.9
Tangible assets	1,943.7	3	241.3	0.0	Tangible assets	2,185.0
Financial assets	5,033.1	4	-10.6	3,519.9	Financial assets	8,542.4
		5	542.2	-114.3	Deferred tax assets	427.9
<b>Current assets</b>	<b>6,645.4</b>		<b>-769.6</b>	<b>-1,224.6</b>	<b>Current assets</b>	<b>4,651.2</b>
Inventories	1,126.1			-2.7	Inventories	1,123.4
Prepayments to suppliers	62.3		-62.3			
Trade accounts receivable	2,063.6		0.2		Trade accounts receivable	2,063.4
Other receivables and prepaid expenses	1,412.9	5	-674.5	92.6	Other current receivables	831.0
			57.2		Current tax assets	57.2
Marketable securities	1,579.6	6	-255.6	-1,324.0		
Cash and cash equivalents	400.9	7	165.8	9.5	Cash and cash equivalents	576.2
<b>Total</b>	<b>18,179.1</b>			<b>2,206.1</b>	<b>Total</b>	<b>20,385.2</b>

## Liabilities

(€ millions)

Published balance sheet at 12.31.2004 French standards	Note	IFRS reclassification and restatement		IFRS balance sheet at 12.31.2004		
		Liability/Liability	Asset/Liability			
<b>Shareholders' equity<sup>(1)</sup></b>		<b>10,563.7</b>	<b>-904.0</b>	<b>2,165.7</b>	<b>Shareholders' equity</b>	<b>11,825.4</b>
Capital stock		135.2			Capital stock	135.2
Additional paid-in capital		953.5			Additional paid-in capital	953.5
Reserves		11,430.7	-1,542.1	406.7	Reserves	10,295.3
			-506.7	3,537.7	Items directly recognised in equity	3,031.0
Cumulative translation adjustments		-1,268.1	1,158.2	-30.0	Cumulative translation adjustments	-139.9
Treasury stock		-691.8		-1,759.1	Treasury stock	-2,450.9
					Shareholders' equity excluding minority interests	11,824.2
Minority interests		4.2	-13.4	10.4	Minority interests	1.2
Provisions for liabilities and charges		1,921.6	606.3	-22.1	<b>Non-current liabilities</b>	<b>3,218.8</b>
Provisions for employee retirement obligations and related benefits	8	787.1	208.5		Provisions for employee retirement obligations and related benefits	995.6
Other provisions for liabilities and charges	9	474.6	-286.6		Other provisions for liabilities and charges	188.0
Deferred tax liabilities	10	659.9	684.4	-22.1	Deferred tax liabilities	1,322.2
Borrowings and debts	11	2,174.7	-1,492.0	30.3	Non-current borrowings and debt	713.0
<b>Current liabilities</b>		<b>3,519.1</b>	<b>1,789.7</b>	<b>32.2</b>	<b>Current liabilities</b>	<b>5,341.0</b>
Customers' deposits and advances		0.3	-0.3			
Trade accounts payable		2,108.0	-0.1	0.8	Trade accounts payable	2,108.7
	12		1,431.6	-0.4	Current borrowings and debts	1,431.2
Other liabilities	13	1,410.8	154.9	31.8	Other current liabilities	1,597.5
			203.6		Current tax assets	203.6
<b>Total</b>		<b>18,179.1</b>		<b>-2,206.1</b>	<b>Total</b>	<b>20,385.2</b>

(1) Including "minority interests".

## Assets

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

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

Note 4: The sanofi-aventis investment has been restated at its market value at 12/31/2004 (€3,530.7 million); the current portion of loans has been reclassified as "Other current receivables".

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

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

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

## Liabilities

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

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

Note 10: A deferred tax liability has been recorded for the sanofi-aventis investment (€684.4 million) corresponding to the difference between the tax value of the investment and its book value in the consolidated financial statements, in accordance with IAS 12.

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

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

## 16.4. Reconciliation of shareholders' equity at December 31<sup>st</sup>, 2004

The adjustments of shareholders' equity at December 31<sup>st</sup>, 2004 are as follows:

(€ millions)

	IFRS reclassification and restatement		Total
	Liability/Liability	Asset/Liability	
Shareholders' equity after minority interests			10,559.5
Minority interests			4.2
Published shareholders' equity at 12.31.2004 in accordance with French standards			10,563.7
1. Reserves	-1,542.1	406.7	-1,135.4
Cancellation of depreciation on treasury stock		435.1	
Attached tax effect		-148.0	
Deferred tax liability on sanofi-aventis investment	-129.4		
IFRS impact on sanofi-aventis investment		-23.7	
Booking of actuarial gains and losses on pensions obligations and other adjustments	-211.4		
Attached tax effect		73.0	
Cancellation of goodwill amortisation		57.3	
Reclassification of cumulative translation adjustments in reserves at 1.1.2004	-1,243.3		
Cancellation of cumulative translation adjustments movement for sanofi-aventis deconsolidation	87.1		
Hedging of fair value net of tax (interest rates)	19.2	-18.5	
Hedging of fair value net of tax (exchange rates)	-64.3	38.3	
Other restatements		-6.8	
2. Items directly recognised in equity	-506.7	3,537.7	3,031.0
Hedging of future flow net of tax (exchange rates)	50.5		
Hedging of future flows net of tax (interest rates)	-2.2	0.8	
Revaluation at market value of sanofi-aventis investment		3,530.7	
Attached tax effect	-555.0		
Other items		6.2	
3. Cumulative translation adjustments	1,158.2	-30.0	1,128.2
Reclassification of cumulative translation adjustments in reserves at 1.1.2004	1,243.3		
Exchange rate adjustment on 2004 goodwill in foreign currency		-34.2	
Cancellation of movement for sanofi-aventis deconsolidation	-87.1		
Other restatements	2.0	4.2	
4. Treasury stock		-1,759.1	-1,759.1
Reclassification of gross value of treasury stock		-1,759.1	
5. Minority interests	-13.4	10.4	-3.0
Minority interest buyback commitments	-13.7	6.1	
Overall re-estimate net of tax		4.3	
Other items	0.3		
<b>IFRS shareholders' equity at 12.31.2004</b>			<b>11,825.4</b>

## 16.5. Transition from net income after minority interests at June 30<sup>th</sup>, 2004 in accordance with French standards to net income after minority interests at June 30<sup>th</sup>, 2004 in accordance with IFRS standards

(€ millions)

<b>Net income after minority interests based on French standards at 06.30.2004</b>	<b>958.2</b>
Costs relating to stock option plans attributed after November 7 <sup>th</sup> , 2002 <sup>(1)</sup>	-9.2
Elimination of depreciation charge for actuarial gains and losses on pension obligations	4.1
Time value effect of foreign exchange risk hedging instruments	6.4
Other restatements	
Tax effect of above adjustments	-4.3
Deferred tax liability on equity method consolidation of Sanofi-Synthélabo profit	-19.0
Cancellation of provision reversal for treasury stock – net of tax	-20.4
Elimination of goodwill amortisation	31.0
<b>Total adjustments</b>	<b>-11.4</b>
<b>Net income after minority interests based on IFRS standards at 06.30.2004</b>	<b>946.8</b>

(1) In accordance with IFRS 2 on share-based payments, the fair value of the stock options has been assessed using the Black & Scholes method and has been depreciated over the period of acquisition of rights.

## 16.6. Transition from net income after minority interests at December 31<sup>st</sup>, 2004 in accordance with French standards to net income after minority interests in accordance with IFRS standards

(€ millions)

<b>2004 net income after minority interests based on French standards</b>	<b>3,625.7</b>
Costs relating to stock option plans attributed after November 7 <sup>th</sup> , 2002 <sup>(1)</sup>	-20.4
Elimination of depreciation charge for actuarial gains and losses on pension obligations	8.4
Time value effect of foreign exchange risk hedging instruments	-9.1
Other restatements	-0.2
Tax effect of above adjustments	-1.2
Deferred tax liability on equity method consolidation of sanofi-aventis profit	-24.5
Cancellation of provision for treasury stock – net of tax	104.5
Elimination of goodwill amortisation	57.3
Restatement differential on gross sanofi-aventis dilution capital gain	61.9
Tax differential on sanofi-aventis <sup>(2)</sup>	167.3
<b>Total adjustments</b>	<b>344.0</b>
<b>2004 net income after minority interests based on IFRS standards</b>	<b>3,969.7</b>

(1) In accordance with IFRS 2 on share-based payments, the fair value of the stock options has been assessed using the Black & Scholes method and has been depreciated over the period of acquisition of rights.

(2) Of which €107.0 million on the dilution capital gain and €60.3 million relating to the decline in the rate of taxation of long-term capital gains from 20.2% to 15.72%.

## 16.7. Reconciliation of consolidated statements of cash flows of the 2004 first half and the full year 2004

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

The main impact on the various cash flow items concern the following reclassifications:

- inclusion of dividends received from equity affiliates in gross cash flow: in amounts of €145.9 million and €138.8 million respectively for the full year 2004 and the first half of 2004.
- reclassification of advertising materials which can be depreciated from “net cash provided by operating activities” to “net cash used by investing activities”: in amounts of €178.3 million and €79.4 million respectively for the full year 2004 and the first half of 2004.
- reclassification of buybacks / disposals of treasury shares from “cash flows from investing activities” to “cash flows from financing activities” in amounts of €637 million and €13 million respectively for the full year 2004 and the first half of 2004.
- redefinition of cash and cash equivalents, with reclassification of financial instruments to cash used for working capital, that is –€9.3 million and €35.0 million respectively for the full year 2004 and the first half of 2004, and of bank overdrafts to “cash flows from financing activities”, that is –€54.5 million and +€0.8 million respectively for the full year 2004 and the first half of 2004.

# Activity report

As the group has applied the IFRS from January 1<sup>st</sup>, 2005 onwards, and as the comparisons below are being expressed for the first time, complying both with the accounting and valuation principles of the IFRS standards adopted in the European Union on June 30<sup>th</sup>, 2005, and with the presentation and information rules laid down by the General Regulations of the AMF. For purposes of comparison, they contain data relating to the full year 2004 and the first half of 2004 restated to comply with the same rules.

Furthermore, in order to increase the comparability of the financial statements over the periods presented, 2004 pro forma financial statements have been prepared in order to allow for the deconsolidation of Sanofi-Synthelabo at January 1<sup>st</sup>, 2004.

## 1. CONSOLIDATED GROUP

It should be noted that the half-year results of L'Oréal are not representative of the year as a whole.

The sales of the L'Oréal group, at June 30<sup>th</sup>, 2005, amounted to 7,164 billion euros.

Growth based on reported figures, which amounted to +1.6% in the first quarter, reached +5.4% in the second quarter, giving a first half growth rate of +3.5%.

Like-for-like, i.e. based on a comparable structure and identical exchange rates, the growth in the group's sales, which was +3.1% in the first quarter, increased sharply in the second quarter to +5.1%, giving a growth rate of +4.1% for the first half of 2005.

Currency fluctuations, which had a negative impact of -1.6% in the first quarter, had a positive impact of +0.2% in the second quarter. For the first half of 2005, their negative impact was therefore only -0.7%.

The net impact of changes in consolidation amounted to +0.1%.

Gross profit at €5,001 million represents 69.8% of first half 2005 sales, i.e. a level virtually equivalent to that of the full year 2004, when the figure was 69.9%.

Research and development expenses amounted to €240 million, an increase of +8.3%. They represented 3.4% of sales, a level identical to that of 2004 as a whole.

Advertising and promotional expenses totalled €2,183 million, or 30.5% of sales, at June 30<sup>th</sup>, 2005. This percentage is almost stable compared with the full year 2004.

## 2. SEGMENT INFORMATION

In Professional Products, consumer spending in hair salons slowed at the start of the year in Western Europe, but our many new product launches and the success of our products enabled an increase in second quarter sales.

There was a return to growth in Consumer Products sales in the second quarter. This recovery reflects the launch of new higher value-added products, particularly in the skincare and make-up segments.

Selling, general and administrative expenses amounted to €1,455 million, or 20.3% of sales, lower than the level of 20.9% recorded over the full year 2004.

Operating profit before foreign exchange gains and losses amounted to €1,123 million in the first half-year, and represented 15.7% of sales, significantly higher than the 15% of sales recorded over the full year 2004.

Changes in the exchange rates against the euro of the other main currencies led to the recording of an exchange loss of €8 million in the first half of 2005, compared with an exchange gain of €28 million in the first half of 2004.

After foreign exchange gains and losses, operating profit came to €1,115 million.

Finance costs and other financial expenses for the first half amounted to €27 million.

Dividends received from sanofi-aventis for 2004 amounted to €172 million, up by 17.7% compared with the dividends of the previous year.

The pre-tax profit of €1,256 million was slightly higher (+1.1%) than the corresponding figure at June 30<sup>th</sup>, 2004 pro forma, i.e. after neutralisation of the effects of deconsolidating sanofi-aventis in 2004.

After income tax, the net profit after minority interests amounted to €892 million, up by +1.6% compared with the pro forma net profit at June 30<sup>th</sup>, 2004.

The sales of the Luxury Products Division began to pick up in the second quarter, despite continuing imbalances between sales in boutiques and amounts invoiced by the business units.

Once again, the Active Cosmetics sales trend was favourable.

In North America, like-for-like sales growth amounted to +7.2%.

Growth was once again particularly strong in the Consumer Products Division, thanks to the success of Fructis from Garnier which is continuing its winning ways in the shampoo and styling market, a very good start for the Men Expert range from L'Oréal Paris, and the successful launches of Maybelline foundations and mascaras.

In Professional Products, the Division has continued to make market share gains, thanks in particular to the success of Color Smart from Matrix and Platinium from L'Oréal Professionnel and the very rapid growth of Kérastase in the upmarket segment.

In the field of luxury products, the main developments were the spectacular sales of the new perfume Armani Code, the success of Flower Bomb from Viktor & Rolf in highly exclusive outlets, and the excellent start made by the new skincare line Rénergie Microlift from Lancôme.

Lastly, the acquisition of SkinCeuticals will support the expansion of the Active Cosmetics Department in the American market.

Sales in Asia advanced by +9.0% like-for-like, thanks largely to strong growth in China (+24%) and Hong Kong (+19%). Sales in South Korea are still being held back by the crisis in the country's selective distribution channel.

The success of L'Oréal Paris in China, Watershine lipstick from Maybelline in Japan and Skin Naturals from Garnier in Thailand are boosting Consumer Products sales. The Luxury Products Division has strengthened its position thanks to Line Peel cream from Biotherm and Cleansing oil from Shu Uemura. The excellent scores of Luxia colourant from L'Oréal Professionnel have bolstered the brand's position in Japan. Matrix is continuing to expand in several Asian countries. Finally, Active Cosmetics is growing very strongly thanks to Effaklar K from La Roche-Posay and Bi-White from Vichy.

Sales in Latin America have increased by +8.5% like-for-like. With a growth rate of +11.5%, sales in Mexico have been boosted by the success of 100% Color from Garnier. Professional Products have taken advantage of the successful launch of Majirel Absolu colourant throughout Latin America, and the promising start made by Matrix in Brazil. The Active Cosmetics Department has confirmed the strong growth in its sales, thanks largely to the success of the Liposyne slimming line from Vichy and Anthélios sun protection products from La Roche Posay.

Like-for-like sales in Eastern Europe have grown very strongly at +26.1%. Sales in the Russian Federation have advanced by +39%, and sales in the Czech Republic by +22%. The Garnier brand continued to grow rapidly with the success of Color Naturals colourant and the Skin Naturals bodycare lines. The launch of Elsève Anti-dandruff shampoo and the Happyderm skincare line from L'Oréal Dermo Expertise have contributed to the good scores of the L'Oréal Paris brand.

In the Other countries, like-for-like sales have increased rapidly by +13.3%. The excellent growth rate of +49% in India reflects the success of the Garnier Skin Natural facial skincare lines, Color Natural colourant and Fructis shampoos.

## 2.1. Cosmetics

Sales trends by division were as follows:

The sales of the Professional Products Division increased by +4.3% like-for-like. The success of the division's product launches has been confirmed, particularly Kérastase Réflexion, Platinium lightening paste from L'Oréal Professionnel and the Redken for Men range. The international roll-out of Matrix continued with the brand's launch in Brazil.

Sales of Consumer Products grew by +4.1% like-for-like, thanks to a better performance in the second quarter, particularly in Western Europe.

Sales trends were particularly good for the facial skincare, bodycare and sun protection lines of L'Oréal Paris, the Ultralift skincare line from Garnier and the successful L'Oréal Men Expert line. In the make-up segment, True Match foundations from L'Oréal Paris and Dream Matte Mousse from Maybelline New York once again proved successful.

The sales of the Luxury Products Division grew by +1.4% like-for-like, following second quarter growth of +3.2%. Several brands helped to bolster the sales trend: Armani Code perfume and the Armani Cosmetics range again proved successful. Flower Bomb perfume from Viktor & Rolf is one of the top-ranking women's perfumes wherever it is sold. Kiehl's is continuing to grow with the success of its Abyssine and Chryste Marine skincare lines. Growth in Biotherm sales was strengthened by the facial skincare lines Age Fitness and Line Peel and by men's skincare products, with AquaPower and the launch of Age Refirm.

The sales of Lancôme have benefited from the launch of the facial skincare lines Rénergie Morpholift and Resurface Peel and in make-up from the continuing extraordinary success of Hypnôse mascara and Rouge Absolu lipstick.

The Active Cosmetics Department, number one in dermocosmetic skincare products sold in pharmacies, once again achieved strong growth at +13.1% like-for-like. This growth reflects the success of the launches and range renewals at the start of this year, particularly the anti-wrinkle firmness skincare line Lift-Activ Pro, the hair loss treatment Aminexil SP94 from Vichy and the anti-dandruff range Kérium from La Roche-Posay. Innéov has confirmed its success by becoming the European nutricosmetics market leader.

## 2.2. Dermatology (group share 50%)

The Dermatology branch recorded sales of €136 million, up by +3.9% based on published figures, and +5.6% like-for-like.

### 2.3. Adjusted earnings by branch and by division

The L'Oréal group is continuing to improve the quality of its financial information by presenting the profitability of its activities by branch and by division.

<i>En millions d'euros</i>	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004	Année 2004
By operational division:			
– Professional Products	194.9	206.8	365.4
– Consumer Products	668.7	644.8	1,186.6
– Luxury Products	279.2	291.3	693.6
– Active Cosmetics	138.5	114.0	156.8
– Other Cosmetics	0.4	4.0	4.0
<b>Cosmetics divisions total</b>	<b>1,281.7</b>	<b>1,260.9</b>	<b>2,406.3</b>
Non-allocated*	–181.3	–155.3	–368.0
<b>Cosmetics branch</b>	<b>1,100.4</b>	<b>1,105.6</b>	<b>2,038.3</b>
<b>Dermatology branch</b>	<b>14.2</b>	<b>9.7</b>	<b>50.6</b>
<b>Group</b>	<b>1,114.6</b>	<b>1,115.4</b>	<b>2,088.9</b>

\* Group central expenses, fundamental research expenses, stock option costs and miscellaneous expenses.

### 3. OUTLOOK

«We have seen a significant increase in activity across all our businesses in the second quarter. Western Europe returned to sales growth. Strong growth continues in North America and the Rest of the World. In view of our intensive programmes of promotional activities and new product launches, sales growth should continue to accelerate for the rest of the year. Furthermore, if the present strengthening of the main currencies against the euro is maintained, exchange rates should have a slightly positive impact on 2005 sales figures.»

### 4. PARENT COMPANY

In the first half of 2005, the sales of the parent company L'Oréal amounted to €958 million, compared with €938 million in the first half of 2004.

The net profit of L'Oréal for the same period was €1,467.3 million, up by 16% compared with the first half of 2004.

These figures, which refer to the parent company accounts, have been established by applying French accounting principles, in accordance with the legislation in force in France.

### 5. POST-BALANCE SHEET DATE EVENTS

Paris, August 30<sup>th</sup>, 2005 – The L'Oréal group has just acquired Delial, the sun care brand, from Sara Lee International.

Founded 70 years ago, Delial is one of the leading brands of sun care in Europe, especially in Spain where it ranks among the top three brands on the market.

Delial's 2004 sales amounted to around €20 million. Delial includes a complete range of sun care products (protection lotion, after sun, self tanning, etc.).

Patrick Rabain, chief executive and Vice President of L'Oréal's Consumer Products Division, said: "The acquisition of this brand means that L'Oréal will reinforce its position in the European solar protection market, especially in Southern Europe. The Delial range will join our Garnier portfolio and will benefit from solar filter technologies developed in the group's laboratories.»

# Statutory Auditors' report

## on the 2005 half-year consolidated financial statement

**(Period from January 1 to June 30, 2005)**

In our capacity as statutory auditors of L'Oréal and in accordance with Article L.232-7 of the French Company Act (*Code de commerce*), we have performed the following procedures:

- a limited review of the accompanying summary of operations and income statement presented as they appear in the half-year consolidated financial statements of L'Oréal for the period from January 1 to June 30, 2005;
- an examination of the information contained in the half-year group's management report.

These half-year consolidated financial statements are the responsibility of the Board of Directors. Our responsibility, based on our limited review, is to express our conclusion on these half-year consolidated financial statements.

As part of the conversion to International Financial Reporting Standards (IFRS) as adopted within the European Union for the preparation of the 2005 consolidated financial statements, the half-year consolidated financial statements have been prepared for the first time by applying the principles of measurement and recognition applicable under IFRS as adopted in the European Union and the presentation and disclosure requirements as defined in the General Regulations of the AMF (*Autorité des Marchés Financiers*, the French Financial Markets Authority). They include, for comparative purposes, information related to the 12 month period ended December 31, 2004 and to the first half of 2004 restated using the same methods.

We conducted our limited review in accordance with professional standards applicable in France. Those standards require that we perform limited procedures to obtain assurance, of a lesser degree than in the case of an audit, that the consolidated half-year financial statements are free of material misstatement. A review of this nature does not include all controls required by an audit, but is limited to performing analytical procedures and obtaining information deemed necessary from management and other appropriate sources.

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying consolidated half-year financial statements as at June 30, 2005 are not prepared, in all material respects, in accordance with the presentation and disclosure requirements applicable in France and with the principles of measurement and recognition under IFRS as adopted in the European Union, as described in the notes to the consolidated half-year financial statements.

Without qualifying our conclusion, we draw your attention to Note 1 of the half-year consolidated financial statements which specifies:

that, while complying with the presentation and disclosure requirements set forth in the General Regulations of the AMF and recommendation 99-R01 of the French National Accounting Council (CNC), the options adopted for the presentation of the half-year consolidated financial statements do not include all the disclosure requirements under IFRS as adopted in the European Union,

the reasons why the comparative information which will be presented in the consolidated financial statements for the year ending December 31, 2005 and the consolidated financial statements for the half-year ending June 30, 2006 may differ from the financial statements accompanying this report.

We have also examined, in accordance with professional standards applicable in France, the information contained in the group's management report on the half-year consolidated financial statements that were the subject of our review.

We have no comment to make with respect to the fairness of such information and its consistency with the half-year consolidated financial statements.

Neuilly, September 2, 2005

Les commissaires aux comptes

PricewaterhouseCoopers Audit  
Pierre Coll

Deloitte & Associés  
Étienne Jacquemin

Layout: **SEITOSEI**  Levallois-Perret

This report is a free translation of a French language original prepared for convenience purposes only. Accounting principles and auditing standards and their application in practice vary among nations. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices followed by the statutory auditors in France with respect to such financial statements included in a half-year report may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and the auditors' report of which a translation for convenience purposes only is presented in this document, are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.

Incorporated in France as a “Société Anonyme”  
with registered capital of €131,752,432  
632012 100 RCS Paris

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

Registered Office:  
14, rue Royale  
75008 Paris – France