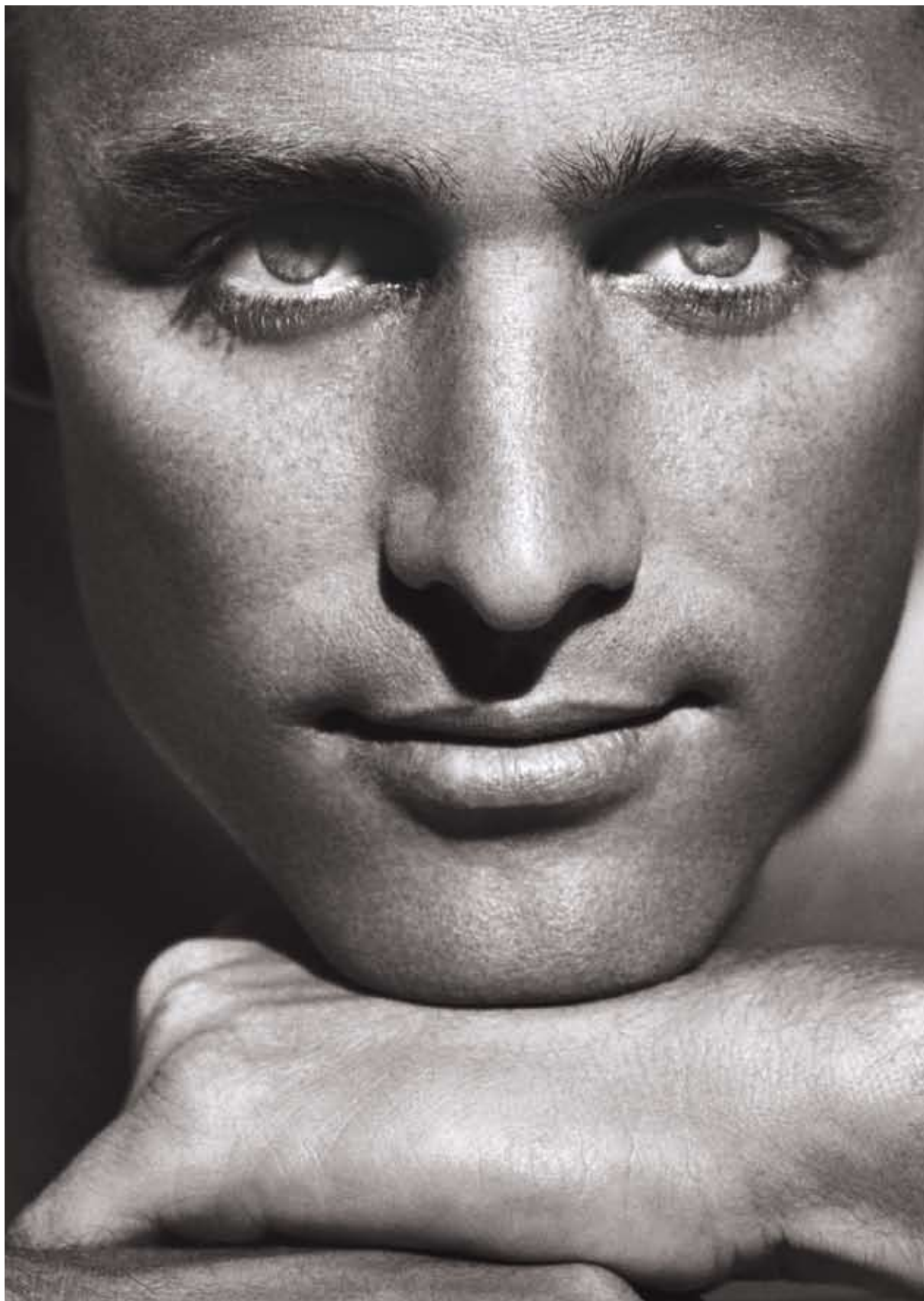


HALF-YEAR REPORT AT JUNE 30TH, 2006



L'ORÉAL

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L'ORÉAL

HALF-YEAR REPORT
AT JUNE 30TH, 2006

Half-year situation at June 30th, 2006

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

COMPARED CONSOLIDATED PROFIT AND LOSS ACCOUNTS

<i>€ millions</i>	Notes	1 st half 2006	1 st half 2005	2005
Net sales	3	7,785.5	7,163.6	14,532.5
Cost of sales		-2,218.9	-2,162.5	-4,347.3
Gross profit		5,566.6	5,001.1	10,185.2
Research and development		-253.9	-240.8	-496.2
Advertising and promotion		-2,360.9	-2,182.6	-4,367.2
Selling, general and administrative expenses		-1,575.1	-1,454.9	-3,009.3
Operating profit before foreign exchange gains and losses		1,376.7	1,122.8	2,312.5
Foreign exchange gains and losses		-43.3	-8.2	-46.5
Operating profit	3	1,333.4	1,114.6	2,266.0
Other income and expenses	4	1.2	-2.3	9.3
Operational profit		1,334.6	1,112.3	2,275.3
Finance costs	5	-45.9	-26.4	-63.8
Other financial income (expenses)		-0.8	-0.5	-3.3
Sanofi-Aventis dividends		217.4	171.6	171.6
Share in net profit equity affiliates		-	-0.6	-0.7
Profit before tax and minority interests		1,505.3	1,256.5	2,379.1
Income tax		-417.6	-364.2	-405.9
Net profit		1,087.7	892.3	1,973.2
Attributable to:				
- Group share		1,086.7	891.6	1,972.3
- Minority interests		1.0	0.6	0.9
Net profit after minority interests per share (<i>euros</i>)		1.76	1.41	3.13
Diluted profit after minority interests per share (<i>euros</i>)		1.76	1.40	3.13
Net profit before non-recurrent items after minority interests per share (<i>euros</i>)	6	1.76	1.41	2.60
Diluted profit before non-recurrent items after minority interests per share (<i>euros</i>)	6	1.76	1.40	2.60

COMPARED CONSOLIDATED BALANCE SHEETS

<i>€ millions</i>	Notes	June 30 th , 2006	June 30 th , 2005	Dec. 31 st , 2005
ASSETS				
Non-current assets		19,735.0	17,618.9	18,686.0
Goodwill	7	4,508.2	3,670.5	3,837.1
Other intangible assets	7	1,163.1	1,290.2	1,201.0
Tangible assets	8	2,585.2	2,354.6	2,466.0
Non-current financial assets	9	11,078.6	9,853.9	10,757.1
Deferred tax assets		399.9	449.7	424.8
Current assets		5,745.2	5,316.0	5,200.1
Inventories		1,317.7	1,276.0	1,261.8
Trade accounts receivable		2,790.7	2,629.1	2,379.7
Other current assets		904.3	844.9	829.0
Current tax assets		57.8	96.2	66.4
Cash and cash equivalents	10	674.7	469.8	663.2
TOTAL ASSETS		25,480.2	22,934.9	23,886.1

<i>€ millions</i>	Notes	June 30 th , 2006	June 30 th , 2005	Dec. 31 st , 2005
LIABILITIES				
Shareholders' equity		14,777.8	12,952.5	14,657.2
Capital stock		127.9	131.7	131.7
Additional paid-in capital		956.3	953.8	953.9
Other reserves		8,948.9	8,810.7	8,824.8
Items directly recognised in equity		5,568.1	4,032.9	5,197.2
Cumulative translation adjustments		-16.5	128.7	214.0
Treasury stock		-1,895.4	-1,998.3	-2,638.2
Net profit after minority interests		1,086.7	891.6	1,972.3
Shareholders' equity excluding minority interests	11	14,776.0	12,951.1	14,655.7
Minority interests		1.8	1.4	1.5
Non-current liabilities		3,646.9	3,163.4	2,460.5
Provisions for employee retirement obligation and related benefits		877.7	958.6	960.6
Provisions for liabilities and charges	12	151.8	164.2	157.0
Deferred tax liabilities		939.1	1,531.8	914.7
Non-current borrowings and debts	13	1,678.3	508.8	428.2
Current liabilities		7,055.5	6,819.0	6,768.4
Trade accounts payable		2,173.8	2,047.4	2,276.5
Other current liabilities		1,980.6	1,904.6	1,812.5
Current tax liabilities		227.2	256.5	227.3
Current borrowings and debts	13	2,673.9	2,610.5	2,452.1
TOTAL LIABILITIES		25,480.2	22,934.9	23,886.1

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>€ millions</i>	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 Dec. 31st, 2004	638,274,360	135.2	953.5	10,295.3	3,031.0	-2,450.9	-139.9	11,824.2	1.2	11,825.4
Capital increase	7,500	0.0	0.4					0.4		0.4
Cancellation of treasury stock		-3.5		-980.9		984.4				
Dividends paid (not paid on treasury stock)				-518.8				-518.8	-0.6	-519.4
<i>Cumulative translation adjustments</i>							353.9	353.9	0.2	354.1
<i>Financial assets available for sale</i>					2,255.8			2,255.8		2,255.8
<i>Cash flows hedging</i>					-89.6			-89.6	-0.1	-89.7
Items directly recognised in equity					2,166.2		353.9	2,520.1	0.1	2,520.2
Consolidated net income of the period				1,972.3				1,972.3	0.9	1,973.2
Deferred share-based payment				29.9				29.9		29.9
Net changes in treasury stock	-18,308,250			-0.9		-1,171.7		-1,172.6		-1,172.6
Other movements				0.2				0.2	-0.1	0.1
At Dec. 31st, 2005	619,973,610	131.7	953.9	10,797.1	5,197.2	-2,638.2	214.0	14,655.7	1.5	14,657.2
Capital increase	38,000	0.0	2.4					2.4		2.4
Cancellation of treasury stock		-3.8		-1,255.6		1,259.4		-		-
Dividends paid (not paid on treasury stock)				-616.1				-616.1	-0.5	-616.6
<i>Cumulative translation adjustments</i>							-230.5	-230.5	-0.1	-230.6
<i>Financial assets available for sale</i>					302.9			302.9		302.9
<i>Cash flows hedging</i>					68.0			68.0		68.0
Items directly recognised in equity					370.9		-230.5	140.4	-0.1	140.3
Consolidated net income of the period				1,086.7				1,086.7	1.0	1,087.7
Deferred share-based payment				23.0				23.0		23.0
Net changes in treasury stock	-6,967,900			-0.9		-516.6		-517.5		-517.5
Other movements				1.4				1.4	-0.1	1.3
At June 30th, 2006	613,043,710	127.9	956.3	10,035.6	5,568.1	-1,895.4	-16.5	14,776.0	1.8	14,777.8

Changes in first half 2005

<i>€ millions</i>	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 Dec. 31st, 2004	638,274,360	135.2	953.5	10,295.3	3,031.0	-2,450.9	-139.9	11,824.2	1.2	11,825.4
Capital increase	5,000		0.3					0.3		0.3
Cancellation of treasury stock		-3.5		-980.9		984.4				0.0
Dividends paid (not paid on treasury stock)				-518.8				-518.8	-0.6	-519.4
<i>Cumulative translation adjustments</i>							<i>268.6</i>	<i>268.6</i>	<i>0.3</i>	<i>268.9</i>
<i>Financial assets available for sale</i>					<i>1,094.0</i>			<i>1,094.0</i>		<i>1,094.0</i>
<i>Cash flows hedging</i>					<i>-92.1</i>			<i>-92.1</i>	<i>-0.1</i>	<i>-92.2</i>
Items 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	-8,666,750			-0.3		-531.8		-532.1		-532.1
Other movements				0.9				0.9		0.9
At June 30th, 2005	629,612,610	131.7	953.8	9,702.3	4,032.9	-1,998.3	128.7	12,951.1	1.4	12,952.5

COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	1 st half 2006	1 st half 2005	2005
Cash flows from operating activities			
Net profit after minority interests	1,086.7	891.6	1,972.3
Minority interests	1.0	0.6	0.9
Elimination of expenses and income with no impact on cash flows:			
<i>depreciation and charges to provisions</i>	<i>207.5</i>	<i>171.6</i>	<i>426.9</i>
<i>changes in deferred taxes</i>	<i>24.7</i>	<i>26.9</i>	<i>-290.1</i>
<i>share-based payment</i>	<i>23.0</i>	<i>14.4</i>	<i>29.9</i>
<i>capital gains and losses</i>	<i>-1.9</i>	<i>-4.7</i>	<i>-11.4</i>
<i>share in net income of equity affiliates net of dividend received</i>	<i>-</i>	<i>0.6</i>	<i>0.7</i>
<i>other non-cash movements</i>	<i>-</i>	<i>-0.3</i>	<i>0.4</i>
Gross cash flow	1,341.0	1,100.7	2,129.6
Cash used for working capital	-418.0	-502.6	-35.7
Net cash provided by operating activities (A)	923.0	598.1	2,093.9
Cash flows from investing activities			
Investments in tangible and intangible assets	-351.7	-321.3	-662.3
Disposals of tangible and intangible assets	8.6	1.7	11.9
Changes in other financial assets (including investments in non-consolidated companies)	-14.4	-7.7	-37.7
Effect of changes in the scope of consolidation	-852.7	-148.4	-181.7
Net cash used by investing activities (B)	-1,210.2	-475.7	-869.8
Cash flows from financing activities			
Dividends paid	-634.6	-553.1	-563.3
Capital increase of the parent company	2.3	0.3	0.4
Disposal (acquisition) of treasury stock	-517.5	-553.4	-1,193.9
Issuance (repayment) of short-term loans	370.2	877.3	582.0
Issuance of long-term borrowings	1,350.0	-	100.0
Repayment of long-term borrowings	-254.6	-13.3	-85.0
Net cash used by financing activities (C)	315.8	-242.2	-1,159.8
Net effect of exchange rate changes and fair value changes (D)	-17.1	13.4	22.7
Change in cash and cash equivalents (A+B+C+D)	11.5	-106.4	87.0
Cash and cash equivalents at beginning of the period (E)	663.2	576.2	576.2
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (A+B+C+D+E)	674.7	469.8	663.2

Income taxes paid amount to €366.8 million, €349.1 million and €688.3 million respectively for the first half of 2006 and of 2005 and for the year 2005.

Interest paid amounts to €45.3 million, €45.4 million and €82.5 million respectively for the first half of 2006 and of 2005 and for the year 2005.

Dividends received amount to €217.4 million, €171.6 million and €171.6 million respectively for the first half of 2006 and of 2005 and for the year 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting principles

The summary half-year consolidated financial statements of L'Oréal and its subsidiaries ("the group") have been prepared in accordance with the international accounting standard IAS 34. As summary financial statements, they do not include all the information required by IFRS for the preparation of the annual financial statements and must therefore be read in conjunction with the IFRS as adopted in the European Union for the year ending at December 31st, 2005.

The accounting methods applied are identical to those applied in the annual financial statements at December 31st, 2005, except for those relating to income tax.

The tax charge (current and deferred) is calculated for the half-year financial statements by applying to the profit for the period the estimated annual tax rate for the current tax year for each entity or tax group.

The group has not applied any standards or interpretations whose application is not yet compulsory in 2006.

Note 2 Changes in the scope of consolidation

2.1 FIRST HALF 2006

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

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

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

On June 9th, 2006, L'Oréal declared the offer wholly unconditional and had acquired or received at that date valid acceptances in respect of 208,098,583 The Body Shop shares in aggregate (representing approximately 95.5% of the existing issued share capital of The Body Shop). L'Oréal decided to compulsorily acquire the remaining The Body Shop shares. As the operation is finalised at a date close to the half-year closing date, The Body Shop has been fully consolidated from June 30th, 2006 onwards. As the allocation of the acquisition cost between the various identifiable assets and liabilities of the company acquired was not finalised at June 30th, 2006, the whole of the difference between the acquisition cost and the net equity acquired has been entered under *Goodwill* (note 7).

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

	<i>€ millions</i>
Non-current assets	168.1
Current assets	235.7
Non-current liabilities	-25.9
Current liabilities	-158.9
TOTAL NET EQUITY ACQUIRED	219.0

The cost of these new acquisitions amounts to approximately 1 billion euros.

2.2 YEAR 2005

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

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

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

The total cost of these new acquisitions amounted to some €180 million, of which acquisitions in the first half of 2005 represented €150 million. The total amount of goodwill and other intangible

assets resulting from these acquisitions amounted to €128 million and €60 million respectively.

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** Division: 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 division are established using the same accounting principles as those used for the preparation of the consolidated financial statements.

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

SALES OF BRANCHES AND DIVISIONS

€ millions	1 st half 2006	1 st half 2005	2005
Professional Products	1,070.3	1,022.7	2,060.9
Consumer Products	4,077.0	3,767.9	7,499.4
Luxury Products	1,786.5	1,632.4	3,582.4
Active Cosmetics	653.2	560.3	985.9
Other cosmetics	46.4	44.0	86.2
Cosmetics branch	7,633.4	7,027.4	14,214.7
Dermatology branch	152.1	136.2	317.8
Group	7,785.5	7,163.6	14,532.5

OPERATING PROFIT OF BRANCHES AND DIVISIONS

€ millions	1 st half 2006	1 st half 2005	2005
Professional Products	224.0	194.9	405.8
Consumer Products	799.8	668.7	1,290.4
Luxury Products	327.3	279.2	723.5
Active Cosmetics	178.7	138.5	187.0
Other cosmetics	1.0	0.4	1.9
Cosmetics divisions total	1,530.8	1,281.7	2,608.6
Non-allocated	-214.2	-181.3	-396.4
Cosmetics branch	1,316.6	1,100.4	2,212.2
Dermatology branch	16.8	14.2	53.8
Group	1,333.4	1,114.6	2,266.0

3.2 INFORMATION BY GEOGRAPHIC ZONE – GROUP

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

GROUP SALES

	1 st half 2006		Growth (%)		1 st half 2005		2005	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	3,714.3	47.7%	3.9%	4.0%	3,574.1	49.9%	6,822.4	46.9%
North America	2,045.4	26.3%	9.6%	4.7%	1,866.1	26.0%	4,051.9	27.9%
Rest of the World	2,025.8	26.0%	17.5%	12.5%	1,723.4	24.1%	3,658.2	25.2%
Group	7,785.5	100.0%	8.7%	6.3%	7,163.6	100.0%	14,532.5	100.0%

COSMETICS SALES

	1 st half 2006		Growth (%)		1 st half 2005		2005	
	€ millions	% of total	Published data	Excluding exchange effect	€ millions	% of total	€ millions	% of total
Western Europe	3,670.7	48.1%	3.9%	4.0%	3,533.5	50.3%	6,742.1	47.4%
North America	1,965.4	25.7%	9.5%	4.6%	1,794.3	25.5%	3,868.2	27.2%
Rest of the World	1,997.3	26.2%	17.5%	12.5%	1,699.6	24.2%	3,604.4	25.4%
Cosmetics	7,633.4	100.0%	8.6%	6.2%	7,027.4	100.0%	14,214.7	100.0%

Note 4 Other income and expenses

This item may be divided into the following:

€ millions	1 st half 2006	1 st half 2005	2005
Capital gains or losses on disposals of tangible and intangible assets	1.9	4.7	11.5
Depreciation of tangible and intangible assets	-	-	-
Restructuring costs	-0.7	-7.0	-2.2
TOTAL	1.2	-2.3	9.3

Note 5 Finance costs

This item may be divided into the following:

€ millions	1 st half 2006	1 st half 2005	2005
Financial interests related to the gross debt	-57.7	-45.7	-84.3
Financial interests related to cash and cash equivalents	11.8	19.3	20.5
FINANCE COSTS	-45.9	-26.4	-63.8

Note 6 Net profit before non-recurrent items after minority interests – net earnings per share

6.1 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:

€ millions	1 st half 2006	1 st half 2005	2005
Net profit after minority interests	1,086.7	891.6	1,972.3
Capital gains and losses on tangible and intangible asset disposals	-1.9	-4.7	-11.5
Restructuring costs	0.7	7.0	2.2
Tax effect on non-recurrent items	0.4	-2.3	1.3
Effect of change in tax rate on Sanofi-Aventis deferred tax liability	-	-	-325.8
NET PROFIT BEFORE NON-RECURRENT ITEMS AFTER MINORITY INTERESTS	1,085.9	891.6	1,638.5

6.2 NET PROFIT PER SHARE

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

	June 30 th , 2006		
	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit after minority interests per share	1,086.7	616,879,899	1.76
Stock options plan		1,749,047	
Diluted net profit after minority interests per share	1,086.7	618,628,946	1.76
	June 30 th , 2005		
	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit after minority interests per share	891.6	634,156,110	1.41
Stock options plan		1,630,043	
Diluted net profit after minority interests per share	891.6	635,786,153	1.40
	December 31 st , 2005		
	Net profit after minority interests (€ millions)	Number of shares	Net profit after minority interests per share (€)
Net profit after minority interests per share	1,972.30	629,508,822	3.13
Stock options plan		1,383,648	
Diluted net profit after minority interests per share	1,972.30	630,892,470	3.13

6.3 NET PROFIT BEFORE NON-RECURRENT ITEMS PER SHARE

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

	June 30 th , 2006		
	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests per share (€)
Net profit before non-recurrent items per share	1,085.9	616,879,899	1.76
Stock options plan		1,749,047	
Diluted net profit before non-recurrent items per share	1,085.9	618,628,946	1.76

	June 30 th , 2005		
	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests per share (€)
Net profit before non-recurrent items per share	891.6	634,156,110	1.41
Stock options plan		1,630,043	
Diluted net profit before non-recurrent items per share	891.6	635,786,153	1.40

	December 31 st , 2005		
	Net profit before non-recurrent items after minority interests (€ millions)	Number of shares	Net profit before non-recurrent items after minority interests per share (€)
Net profit before non-recurrent items per share	1,638.5	629,508,822	2.60
Stock options plan		1,383,648	
Diluted net profit before non-recurrent items per share	1,638.5	630,892,470	2.60

Note 7 Goodwill and other intangible assets

The €671.1 million increase in the “Goodwill” item results mainly from the acquisitions during the half-year amounting to €794.2 million, offset by the negative variation in exchange rates amounting to €122.1 million. The difference between the acquisition cost and the net equity acquired of The Body Shop has been provisionally allocated in full to the “Goodwill” item in an amount of €788.9 million, pending the definitive allocation of the various identifiable assets and liabilities.

The reduction in the “Other intangible assets” item results from the acquisitions for the half-year amounting to €19.0 million, increases in the scope of consolidation amounting to €15.6 million, and the negative variation in exchange rates amounting to €44.9 million.

Note 8 Tangible assets

The depreciation for the first half of 2006 amounts to €239.0 million, compared with €225.3 million and €470.7 million respectively for the first half of 2005 and the year 2005.

Investments for the first half of 2006 amount to €316.6 million, compared with €278.9 million and €600.4 million respectively for the first half of 2005 and the year 2005.

Note 9 Non-current financial assets

€ millions	June 30 th , 2006		June 30 th , 2005		December 31 st , 2005	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Investments in non-consolidated companies						
- Sanofi-Aventis ⁽¹⁾	10,914.0	4,880.1	9,712.5	4,880.1	10,585.0	4,880.1
- Unlisted securities ⁽²⁾	4.3	6.4	4.2	6.3	4.4	6.5
Non-current loans and receivables	160.3	169.1	137.2	146.2	167.7	176.4
TOTAL	11,078.6	5,055.6	9,853.9	5,032.6	10,757.1	5,063.0

(1) The balance sheet value at June 30th, 2006, June 30th, 2005 and December 31st, 2005 of €10,914.0 million, €9,712.5 million and €10,885 million respectively corresponds to the market value of the shares based on the closing price at June 30th, 2006, June 30th, 2005 and December 31st, 2005 of €76.30, €67.90 and €74.00 respectively. The increase over the half-year of €329.0 million has been recorded as shareholders' equity for the amount net of tax of €301.8 million.

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

Note 10 CASH AND CASH EQUIVALENTS

€ millions	June 30 th , 2006		June 30 th , 2005		December 31 st , 2005	
	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost	Balance sheet value	Acquisition cost
Marketable securities	130.2	122.6	133.9	129.1	142.7	136.6
Bank accounts and other cash and cash equivalents	544.5	544.5	335.9	335.9	520.5	520.5
TOTAL	674.7	667.1	469.8	465.0	663.2	657.1

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

Unrealised gains recorded at June 30th 2006 amount to €7.6 million, and are recorded directly through shareholders' equity, compared with €4.8 million at June 30th, 2005 and €6.1 million at December 31st, 2005.

Note 11 Shareholders' equity

11.1 SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

The share capital consists of 639,578,410 shares with a par value of €0.20 at June 30th, 2006.

It consisted of 658,769,660 shares at December 31st, 2005.

11.2 TREASURY STOCK

The shares bought under the L'Oréal share buyback programme authorised by the Annual General Meeting of Shareholders are deducted from consolidated shareholders' equity. Capital gains or losses relating to these shares net of tax are also recorded in shareholders' equity.

In the first half of 2006, L'Oréal purchased 8,378,000 shares for €588.4 million. In view of the 17,660,000 shares cancelled and the exercise of 1,500 shares, 5,756,500 shares are held at June 30th, 2006.

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

Furthermore, the L'Oréal shares acquired as part of employee share purchase option plans amounted to 23,756,050 shares at December 31st, 2005 for an acquisition price of €1,706.2 million.

At June 30th, 2006, these shares amounted to 20,778,200 for an acquisition price of €1,514.7 million.

In 2005, no shares were bought or sold for this purpose, and options relating to 1,691,750 shares were exercised.

In the first half of 2006, no shares were bought or sold for this purpose, options relating to 1,408,600 shares were exercised, and 1,569,250 shares were cancelled.

11.3 SHARE SUBSCRIPTION OR PURCHASE OPTIONS

The Board of Directors at its meetings on April 25th, 2006, June 29th, 2005 and November 30th, 2005 decided to introduce share subscription option plans relating to 2,000,000, 400,000 and 4,200,000 shares respectively, with an exercise price of €72.60, €60.17 and €61.37.

The Board of Directors at its meeting on November 30th, 2005 also decided to introduce a share purchase option plan relating to 1,800,000 shares, with an exercise price of €62.94. All these plans have an exercise period of 5 years.

Note 12 Provisions for liabilities and charges

12.1 BALANCES AT CLOSING DATE

€ millions	June 30 th , 2006	June 30 th , 2005	Dec. 31 st , 2005
Non-current provisions for liabilities and charges	151.8	164.2	157.0
Provisions for restructuring	1.6	3.1	2.8
Other non-current provisions ⁽¹⁾	150.2	161.1	154.2
Current provisions for liabilities and charges ⁽²⁾	266.2	275.1	289.3
Provisions for restructuring	27.5	38.8	32.2
Non-current provisions ⁽¹⁾	238.7	236.3	257.1
TOTAL	418.0	439.3	446.3

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

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

12.2 VARIATIONS IN PROVISIONS FOR RESTRUCTURING AND OTHER PROVISIONS FOR LIABILITIES AND CHARGES DURING THE PERIOD

€ millions	Dec. 31 st , 2005	Charges ⁽²⁾	Reversals (used) ⁽²⁾	Reversals (not used) ⁽²⁾	Impact of change in scope/exchange rate/other ⁽¹⁾	June 30 th , 2006
Other provisions for liabilities and charges	411.3	102.8	-103.7	-11.7	-9.8	388.9
Provisions for restructuring	35.0	0.2	-5.2	-0.1	-0.8	29.1
TOTAL	446.3	103.0	-108.9	-11.8	-10.6	418.0

(1) Mainly resulting from translation differences.

(2) These figures may be analysed as follows:

	Charges	Reversals (used)	Reversals (not used)
- Other income and expenses	0.2	-5.2	-0.1
- Operating profit	100.3	-98.7	-11.2
- Income tax	2.5	-5.0	-0.5

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.

13.1 DEBT BY TYPE

€ millions	June 30 th , 2006		June 30 th , 2005		December 31 st , 2005	
	Non-current	Current	Non-current	Current	Non-current	Current
Short-term paper	-	2,000.8	-	1,952.2		1,795.9
MLT bank loans	1,581.8	292.8	416.4	264.8	339.3	359.4
Perpetual loan	-	14.1	15.6	12.3	8.0	13.0
Debts on capital lease contracts	71.7	10.8	51.6	14.2	53.9	14.5
Overdrafts	-	125.0	-	148.0		51.0
Other borrowings and debts	24.8	230.4	25.2	219.0	27.0	218.3
TOTAL	1,678.3	2,673.9	508.8	2,610.5	428.2	2,452.1

13.2 DEBT BY MATURITY DATE

<i>€ millions</i>	June 30 th , 2006	June 30 th , 2005	Dec. 31 st , 2005
Under 1 year	2,673.9	2,610.5	2,452.1
1 to 5 years	1,639.0	459.8	385.1
Over 5 years	39.3	49.0	43.1
TOTAL	4,352.2	3,119.3	2,880.3

13.3 DEBT BY CURRENCY (AFTER ALLOWING FOR CURRENCY HEDGING INSTRUMENTS)

<i>€ millions</i>	June 30 th , 2006	June 30 th , 2005	Dec. 31 st , 2005
Euro (EUR)	2,984.1	1,860.6	1,772.3
US dollar (USD)	939.4	921.7	808.9
Canadian dollar (CAD)	85.0	78.7	56.0
Yuan (CNY)	66.4	6.9	57.4
Yen (JPY)	55.4	58.9	32.8
Others	221.9	192.5	152.9
TOTAL	4,352.2	3,119.3	2,880.3

**13.4 BREAKDOWN OF FIXED RATE AND FLOATING RATE DEBT
(AFTER ALLOWING FOR INTEREST RATE HEDGING INSTRUMENTS)**

<i>€ millions</i>	June 30 th , 2006	June 30 th , 2005	Dec. 31 st , 2005
Floating rate	4,059.5	2,830.3	2,592.7
Fixed rate	292.7	289.0	287.6
TOTAL	4,352.2	3,119.3	2,880.3

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 30th, 2006, the fair value of the debt amounts to €4,355.9 million, compared with €3,125.7 million and €2,884.9 million respectively at June 30th, 2005 and December 31st, 2005.

Note 14 Financial instruments

To manage its exposure to currency and interest rate risks arising in the course of its normal operations, the group uses derivatives negotiated with organisations with the best credit ratings.

In accordance with the group's rules, the currency and interest rate derivatives are set up exclusively for hedging purposes.

14.1 CURRENCY RISK

The group is exposed to currency risk from commercial transactions recorded on the balance sheet and from future transactions considered to be highly probable.

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 30th, 2006, the change in the intrinsic value of the hedging instruments allocated to future transactions and deferred through shareholders' equity amounts to +€34.3 million, compared with -€55.4 million and -€47 million respectively at June 30th, 2005 and December 31st, 2005.

14.2 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 30th, 2006, the market value of the interest rate hedging instruments deferred through to shareholders' equity is €2.0 million, compared with -€2.3 million and €0 million respectively at June 30th, 2005 and December 31st, 2005.

ACTIVITY REPORT

It should be noted that L'Oréal's half-year results are not representative of the full-year results.

1 Consolidated group

The sales of the L'Oréal group, at June 30th, 2006, amounted to 7,785 billion euros, an increase of +8.7%.

Currency fluctuations had a positive impact of +2.4%. Growth excluding exchange rate impact amounted to +6.3%.

The net impact of changes in consolidation was +0.5%, mainly as a result of the acquisition of SkinCeuticals and Delial in 2005.

Like-for-like, i.e. based on a comparable structure and identical exchange rates, the increase in the group's sales amounted to +5.8% at June 30th, 2006.

Gross profit increased considerably from 69.8% to 71.5% of sales. This increase reflects the tight rein kept on production costs (the cost of sales increased by 2.6%), the improvement in price mix and the positive exchange rate impact.

Research and development expenses increased by +5.4% to €254 million, representing 3.3% of sales.

Advertising and promotion expenses grew by +8.2% to €2,361 million, or 30.3% of sales, compared with figures of 30.5% of sales in the first half of 2005 and 30.1% for the full-year 2005.

Selling, general and administrative expenses amounted to €1,575 million, representing 20.2% of sales, an improvement compared with the figures of 20.3% of sales in the first half of 2005 and 20.7% for the full-year 2005.

Operating profit, before foreign exchange gains and losses, amounted to €1,377 million in the first half-year, or 17.7% of sales, representing an increase of +22.6% compared with the first half of 2005.

Fluctuations in the main currencies against the euro, and currency hedges, resulted in a foreign exchange loss of €43 million for the first half of 2006. Following the transition to IFRS, this item now covers not only exchange rate gains and losses but also the cost of hedges.

Operating profit after foreign exchange gains and losses (EBIT) ⁽¹⁾ amounted to €1,333 million, or 17.1% of sales, a sharp increase (+19.6%) compared with the first half of 2005, when it stood at 15.6% of sales.

Finance costs in the first half-year totalled €46 million, an increase compared with 2005, reflecting in particular the higher interest rates in the United States and Europe, and the continuing share buyback programme.

Dividends received from Sanofi-Aventis for 2005 amounted to €217 million.

Profit before tax grew strongly to €1,505 million (+19.8%) compared with the same period in 2005.

The net profit excluding non-recurrent items and after minority interests amounted to €1,086 million, reflecting an increase of +21.8% compared with June 30th, 2005.

With the accretive effect of the share buyback programme, the group's net earnings per share amounted to €1.76, representing growth of +25.2% compared with the first half of 2005.

(1) EBIT: Profit before interest, tax and other income and expenses

2 Segment information

In Western Europe, the Professional Products Division achieved growth in all product categories, and sales trends for its American brands Redken and Matrix were extremely buoyant.

The Consumer Products Division recorded a good first half, with growth in major countries such as Germany and France, driven by the success of *Elsève* in shampoo and haircare, whose growth rate was considerably higher than the market. Facial skincare products from Garnier and L'Oréal Paris also proved outstandingly successful.

The Luxury Products Division achieved strong growth thanks to the success of its perfumes, particularly during special "Mother's day"

promotional periods, and thanks to the success of *High Resolution* from Lancôme, particularly in France, Germany and Italy.

The favourable trend in Active Cosmetics sales is continuing, with a particularly good performance from La Roche Posay.

In North America, like-for-like sales growth amounted to +3.8%, with sales clearly gathering pace in the second quarter, despite some inventory reduction in most of the distribution channels.

The Consumer Products Division achieved high sales growth, reflecting the success of the *HIP* make-up line and *Natural Match* hair colourants from L'Oréal Paris, and also the continuing breakthrough of *Fructis* by Garnier, with the launches of *Body*

and *Volume* shampoos and conditioners and *Pure Fixe Styling*. Maybelline won market shares by capitalising on the success of *Superstay* lipstick, *Lash Stylist* mascara and the new *Pure* foundation.

The Professional Products Division enjoyed some major successes, with the launches of the new styling sprays and the *Shimmer One* hair colourant line by Redken, and of *Matrix for Men* haircare products. Kérastase is continuing to achieve very rapid sales growth in the high-end segment.

Growth in the Luxury Products Division was bolstered by the performance of Lancôme, in skincare, with its successful *Collaser* and *High Resolution* lines, and in perfumes, with *Hypnôse*. The launches of the women's fragrances *Ralph Hot* by Ralph Lauren and *Armani Code Women* were greeted with immediate success.

The Active Cosmetics roll-out is continuing with the launch of Vichy in the North-East of the United States.

Growth in the Rest of the World amounted to +12.0% like-for-like and +17.5% based on reported figures.

Like-for-like sales growth in the Asia zone was +6.3%, driven by rapid expansion in China and Indonesia, despite a more contrasting situation in Japan.

Professional Products sales growth was double-digit, thanks to the excellent performance of hair colourants and the Kérastase brand.

The growth in sales of Consumer Products outstripped the expansion of the market, and was boosted by the success of the L'Oréal Paris brand in China and all the ASEAN countries, thanks in particular to *Revitalift* and *UV Expert* skincare products, and in China the launch of *Garnier Skin Natural* which will be more extensively distributed in the second half of the year.

Luxury Products sales are growing strongly in China thanks in part to the contributions of Biotherm and *Blanc Expert* from Lancôme. The Division continues to face a more competitive market in Japan.

The successful launch of *Lift Activ Pro* by Vichy is bolstering the growth of the Active Cosmetics department in this zone.

Sales growth in the Latin America zone increased strongly by +16.2% like-for-like, supported by good performances in major countries such as Brazil and Mexico, together with Argentina and Chile.

Professional Products is achieving rapid growth with the success of *Hi-Richesse* from L'Oréal Professionnel and the expansion of Matrix in Brazil and Chile.

There was a good first-half performance in Consumer Products, reflecting the remarkable success of *Elsève NutriGloss*, and the launches of *Combleur Collagène* skincare in the *DermoExpertise* range and of *XXL* mascara by Maybelline.

Sales of Luxury Products increased sharply, boosted by the success of *Hypnôse* from Lancôme, *LinePeel* and *Biofirm Lift* skincare from Biotherm Homme and the enthusiastic reception given to *Polo Black* by Ralph Lauren.

Active Cosmetics is continuing its rapid expansion, thanks in particular to the proven success of *Lift Activ Pro* by Vichy and *Redermic* anti-wrinkle skincare from La Roche Posay.

Sales in Eastern Europe grew by +22%, with rapid expansion in all divisions. This figure reflects the success of the main initiatives taken in the different markets: *Glam Shine Crystal* lipstick in L'Oréal make-up, the new *Nutri-Céramide* line from Elsève, *Body Summer* skincare from Garnier, and the Maybelline *Pure Make-up* range for younger consumers.

Luxury Products benefited from the excellent reception given to *Armani Code Women* perfume, which is ranked number one in all its markets.

The continuing advances made in hair salons by Matrix, and the success of the *Normaderm* range at Active Cosmetics are also worth noting.

In the Other Countries, like-for-like growth was +8.9%, as sales accelerated in the second quarter. Growth is very strong in the Middle East, but above all in India where very rapid sales growth has been underpinned by the Garnier brand in hair colourants with *Color Naturals* and in skincare with *Garnier Light*, and by the L'Oréal Paris brand in skincare and make-up with *Volume Shocking*.

2.1 COSMETICS

Sales trends by cosmetics division were as follows.

The Professional Products Division recorded a like-for-like growth rate of +2.7% and +4.7% based on reported figures, with positive scores in Western Europe and strong expansion in the Rest of the World. In the United States our brands achieved high sell-through; inventory reduction in professional distribution to hair salons, which was substantial in the first quarter, returned to a more moderate level in the second quarter.

L'Oréal Professionnel benefited from the launches of the *Play Ball* and *Hair Mix* styling ranges, and of the haircare line *Série Expert Lumino Contrast* for hair with highlights. Kérastase very successfully relaunched its *Nutritive* range. Redken launched the haircare line *Blonde Glam* and a new hair colourant *Shimmer One*. Matrix launched a new range, *Matrix for Men*.

The Consumer Products Division achieved a like-for-like growth rate of +5.8% and +8.2% based on reported figures. Western Europe confirmed its good start to the year.

North America remained dynamic despite inventory reductions by some major customers, and the growth rate in the Rest of the World was double-digit. L'Oréal Paris made progress thanks to the success of *Elsève* haircare products, the *Revitalift* and *Combleur Collagène* facial skincare lines, and the bodycare lines *Nutribronze* and *Solar Expertise*.

Garnier recorded double-digit growth as it continued the global roll-out of its three flagship products: *Fructis*, *Nutrisse* and *Garnier Skin Naturals*.

Maybelline, boosted by the launch of *Lash Stylist* mascara and *Superstay* lipstick, made great strides forward in the United States.

The sales of the Luxury Products Division at the end of June grew by +6.1% like-for-like, and by +9.4% based on reported figures.

The strong growth seen in Western Europe confirms the rebound which began at the end of 2005.

The fragrance business is proving particularly dynamic. It is being driven by the success of the new fragrance *ArmaniCode Women* by Giorgio Armani, now one of the top 10 best selling perfumes in Europe, the encouraging start made by *Amor pour Homme* by Cacharel, and confirmation of the success of *Hypnôse* by Lancôme and *Polo Black* by Ralph Lauren.

The Division's performance has also been bolstered by skincare products, with the success of new launches such as Lancôme's *Bienfait Multivital* and *Blanc Expert XW* (specific to the Asian market), Biotherm's *Biofirm Lift*, and Helena Rubinstein's *Life Pearl Cellular*.

Active Cosmetics is continuing to achieve strong like-for-like growth at +11.6% and +16.6% based on reported figures. This growth across all zones reflects the launches made at the start of the year, such as *LiftActiv Pro Nuit* anti-wrinkle firmness skincare and *Normaderm Nuit* skincare from Vichy, *Redermic* anti-wrinkle skincare and *Tolériane Teint* from La Roche Posay, and the good start made by the sun protection products of both brands. Innéov sales are also growing strongly thanks to the new *InnéovSolaire*, the first sun preparation product to include Skin Probiotic.

2.2 DERMATOLOGY (GROUP SHARE, I.E. 50%)

The sales of the dermatology branch increased by +7.9% like-for-like and +11.6% based on reported figures. The sales growth of Galderma benefited from the success of the corticosteroid *Clobex*, the rosacea treatment *Metrogel* and the very promising start made by *Metvix*.

2.3 OPERATING PROFIT BY BRANCH AND DIVISION

There were clear increases in the profitability of each of the four cosmetics divisions in the first half of 2006.

<i>In millions of euros</i>	At June 30 th , 2006	At June 30 th , 2005
By operational division		
- Professional Products	224.0	194.9
- Consumer Products	799.8	668.7
- Luxury Products	327.3	279.2
- Active Cosmetics	178.7	138.5
- Other Cosmetics	1.0	0.4
COSMETICS DIVISIONS TOTAL	1,530.8	1,281.7
Non-allocated *	-214.2	-181.3
Cosmetics branch	1,316.6	1,100.4
Dermatology branch	16.8	14.2
Group	1,333.4	1,114.6

* The group's central expenses, fundamental research expenses, stock option expenses and miscellaneous items.

3 Outlook

"Over the first half of 2006 there has been a clear upturn in sales growth, thanks to the return to growth in Western Europe and the strong advances still being made in the new markets, particularly in Latin America and Eastern Europe. The efforts made in cost control, in enhancing the value of products and the favourable impact of currency fluctuations have resulted in a large increase in the gross profit and operating profit of each of the Divisions, thus contributing to a large increase in net profit.

Although once again it is important to emphasise that the significance of half-year figures is limited, the quality of these results and the prospect of sustained growth in the second half mean that we are very confident of achieving another year of double-digit earnings per share growth in 2006."

4 Parent company

In the first half of 2006, the sales of the L'Oréal parent company amounted to €1,042 million, compared with €958 million in the first half of 2005.

The net profit of the L'Oréal parent company for the same period was €1,544 million, an increase of 5.25% compared with the first half of 2005.

The figures indicated in the financial statements of the parent company have been prepared in accordance with French accounting principles, as required by French law.

5 Post-balance sheet date events

None.

STATUTORY AUDITORS' REVIEW REPORT ON THE FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2006

(Period from January 1st, 2006 to June 30th, 2006)

This is a free translation into English of the Statutory Auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders

In our capacity as Statutory Auditors and in accordance with the requirements of article L 232-7 of the French Commercial Law (*Code de Commerce*), we hereby report to you on:

- the review of the accompanying summary half-year consolidated financial statements of L'Oréal, for the period January 1st to June 30th, 2006,
- the verification of information contained in the half-year management report.

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

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying summary half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to Interim financial information.

In accordance with professional standards applicable in France, we have also verified the information given in the interim financial report on the summary half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the summary half-year consolidated financial statements.

Neuilly-sur-Seine, August 31st, 2006

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit
Etienne Boris

Deloitte & Associés
Etienne Jacquemin

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