

# ADMINISTRATION AND FINANCE



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Executive Vice-President  
Administration and Finance



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

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

Several of the projects implemented this year constitute significant advances:

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

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

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

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

20.9%  
in 2004 (as % of sales)

20.7%  
in 2005 (as % of sales)

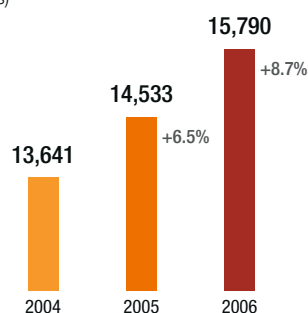
20.5%  
in 2006 (as % of sales)

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

## GROUP PERFORMANCE over three years

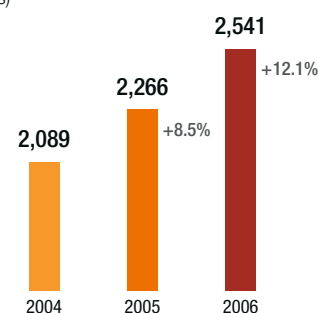
## &gt; CONSOLIDATED SALES

(€ millions)

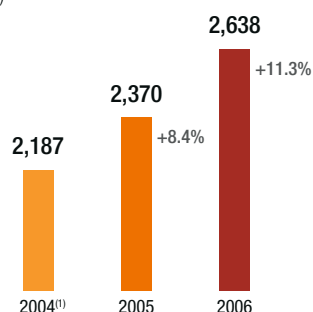


## &gt; OPERATING PROFIT

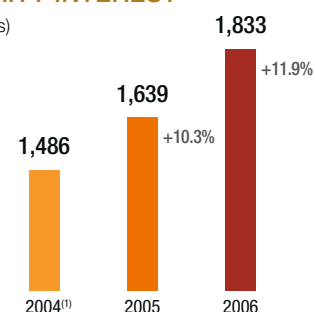
(€ millions)

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

(€ millions)

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

(€ millions)

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

## &gt; 2006 CONSOLIDATED SALES

€ millions

Growth  
Like-for-like    Published figures

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

## &gt; 2006 OPERATING PROFIT

€ millions

Weight

Growth based on  
published figures

% of sales

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

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

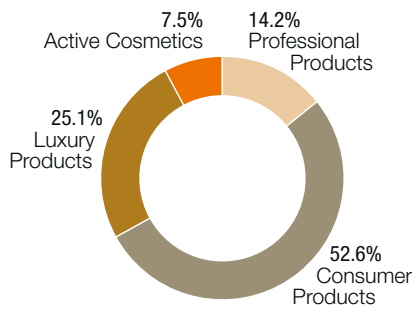
(2) Non-recurrent items include capital gains and losses on long-term asset disposals, depreciation of long-term assets and restructuring costs.

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

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

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

## COSMETICS BRANCH: 2006 consolidated sales

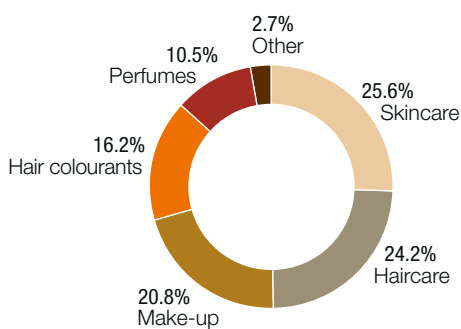


### > DIVISIONS WEIGHT

### > BY DIVISION

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

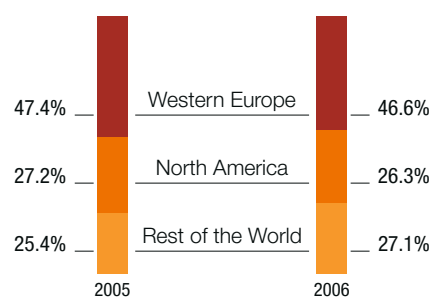
(1) The difference between the total cosmetics sales and the combined total of the 4 divisions, (€81 million), consists mainly of mail order sales.



### > BUSINESS SEGMENTS WEIGHT

### > BY BUSINESS SEGMENT

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



### > EVOLUTION OF THE GEOGRAPHIC ZONES WEIGHT

### > BY GEOGRAPHIC ZONE

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

## COSMETICS BRANCH: 2006 operating profit

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

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

(1) Includes the operating profit of the "cosmetics miscellaneous" activity which consists mainly of mail order sales.

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

## THE L'ORÉAL SHARE (at December 31<sup>st</sup>, 2006)

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

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

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

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

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

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

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

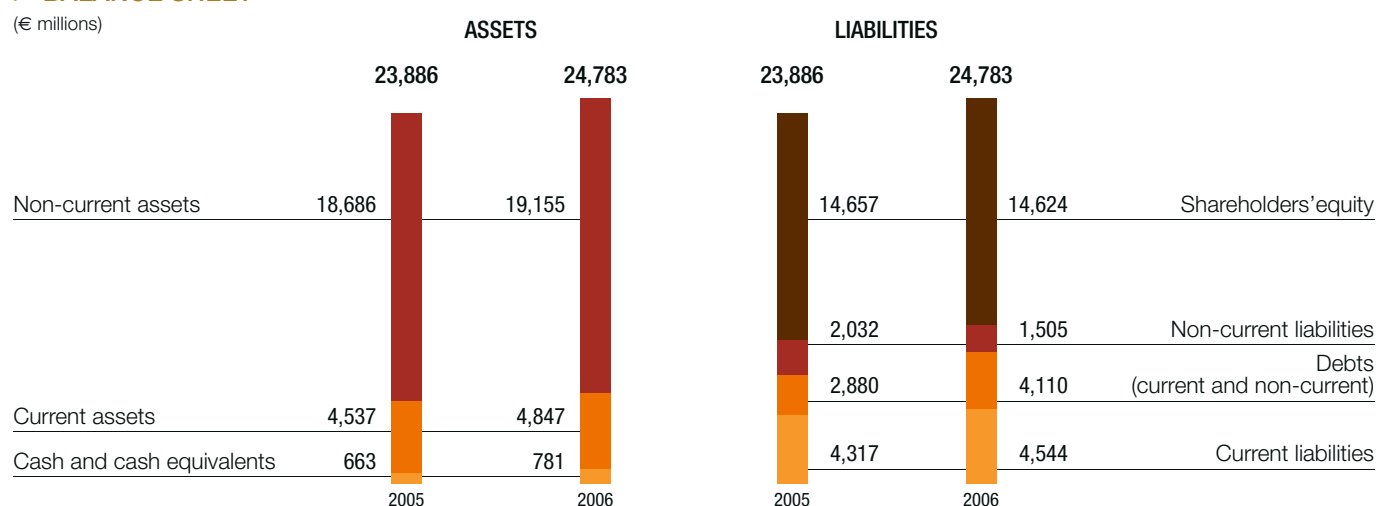
Purchase of 25 shares at €586.17 <sup>(6)</sup> on December 31 <sup>st</sup> , 1986	14,654.25 euros
Valuation at December 31 <sup>st</sup> , 2006, including reinvestment of dividends (3,719 shares at €75.90)	282,272.10 euros
<b>Initial capital multiplied by 19.26 in 20 years</b>	
<b>Total Shareholder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

(6) Non-adjusted share price.

# BALANCE SHEET, CASH FLOWS AND FINANCIAL RATIOS

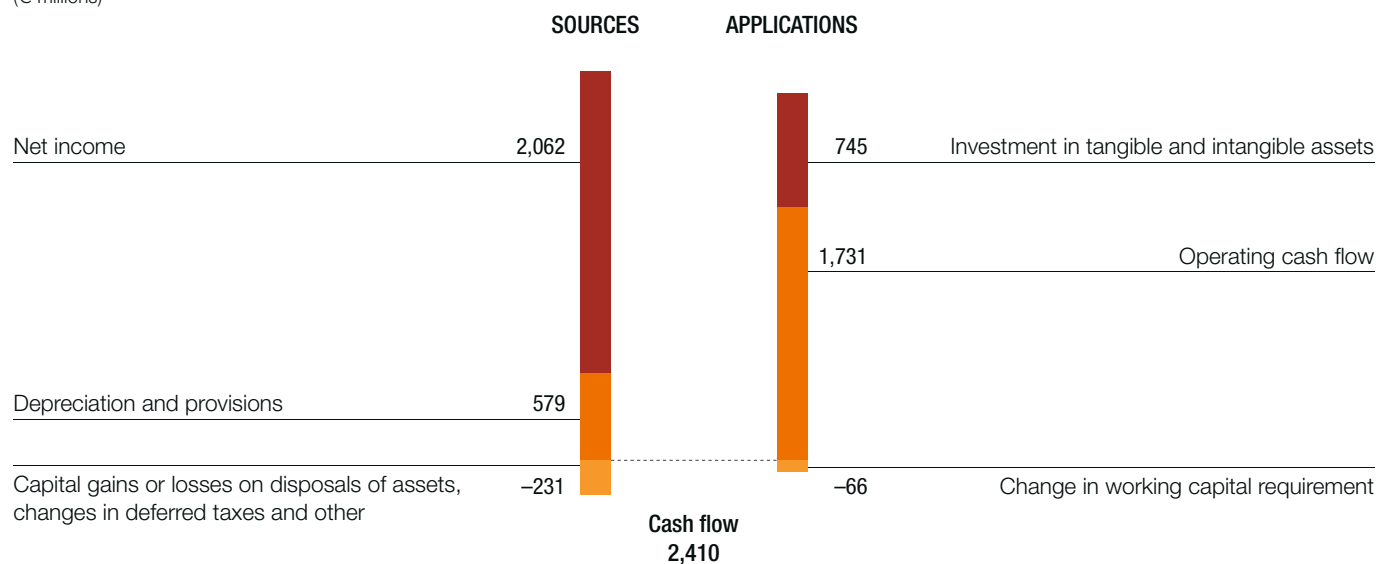
## > BALANCE SHEET

(€ millions)



## > 2006 SOURCES AND APPLICATIONS OF FUNDS

(€ millions)



## > FINANCIAL RATIOS

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

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

## L'ORÉAL over ten years

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

**IFRS**

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

- by replacing the share in net income of Sanofi-Synthelabo, €293.5 million, by the received dividends, €149.5 million,

- and by neutralizing the net of tax dilution capital gain relating to these shares, €2,854.5 million before any deduction and €471.1 million of taxes.

(2) Plus minority interests.

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

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

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

**FRENCH ACCOUNTING STANDARDS**

(1) For purposes of comparability, the figures include:

- in 1998, the pro forma impact of the change in the consolidation method for Synthelabo, following its merger with Sanofi in May 1999,

- the impact in 1998 and 1999 of the application of CRC Regulation no.99-02 from January 1<sup>st</sup>, 2000 onwards. This involves the inclusion of all deferred tax liabilities, evaluated using the balance sheet approach and the extended concept, the activation of financial leasing contracts considered to be material, and the reclassification of profit sharing under "Personal costs".

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

(2) The figures for 1999 and 2000 also include the impact on the balance sheet of adopting the preferential method for the recording of employee retirement obligation and related benefits from January 1<sup>st</sup>, 2001 onwards. However, the new method had no material impact on the profit and loss account of the years concerned.

(3) Plus minority interests.

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

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

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

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

In order to provide data that are genuinely recurrent, L'Oréal calculates and publishes net earnings per share based on Net operational profit after minority interests, before allowing for the provision for depreciation of treasury stock, capital gains and losses on fixed assets, restructuring costs, and the amortisation of goodwill.

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

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

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