

L'ORÉAL  
FINANCE

# The Letter

TO SHAREHOLDERS

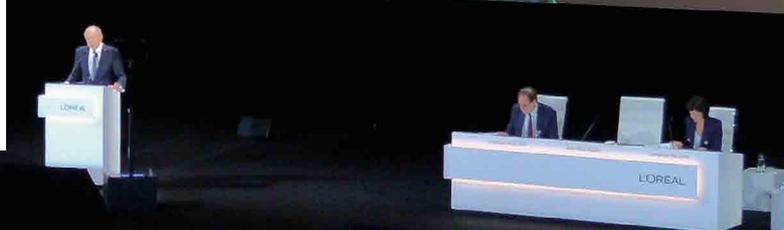
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2017 ANNUAL GENERAL MEETING  
SPECIAL EDITION

*EXCERPTS FROM  
THE ADDRESSES* / p.02

*HIGHLIGHTS* / p.03

**Read the questions raised by shareholders  
at the AGM and view the upcoming  
shareholder meeting dates / p.06 to 08**



Webcast: watch  
the highlights on  
[LOREAL-FINANCE.COM](http://LOREAL-FINANCE.COM)

# L'ORÉAL

# Addresses

JEAN-PAUL AGON

Chairman and Chief Executive Officer of L'Oréal

## EXCERPTS

“OUR SOLID GROWTH  
STRENGTHENS  
OUR POSITION  
AS WORLD No.1  
IN BEAUTY.”

“2016 was another good year for L'Oréal. We accelerated our growth, and once again **outperformed the beauty market**, with solid growth at +4%, thus strengthening **our position as No.1**.

As planned, the Consumer Products Division has reinvented itself to adapt to the new mass-market sector. Its growth accelerated significantly, as did its market share gains, thanks to its successful strategic focuses: the maximisation of make-up, in particular with the global roll-out of NYX Professional Makeup, and the natural haircare trend with the globalisation of Ultra Doux by Garnier.

Meanwhile, L'Oréal Luxe has grown faster than its market for the 6<sup>th</sup> year running, and strengthened its positions in all parts of the world.

The Active Cosmetics Division continued to drive the expansion of the dermocosmetics market, a sector that remains highly dynamic. As for the Professional Products Division, it had a disappointing year, despite the improved growth in hair colour.

In geographic terms, we have won market share in each of our three major geographic Zones.

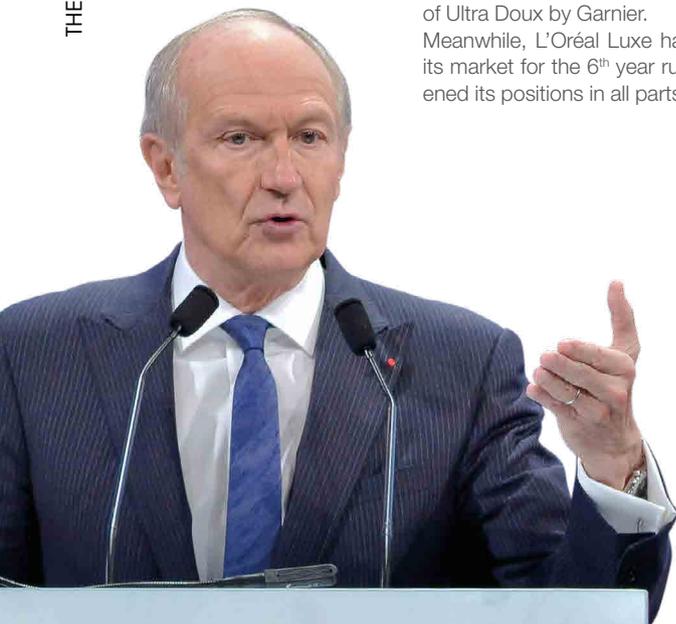
In North America, 2016 was a year of acceleration for the Consumer Products Division as well as for L'Oréal Luxe.

In Western Europe, our growth was solid, and we outperformed the market to achieve a market share three times greater than the No.2. With the exception of France, which remains difficult, most of the other countries performed well, and in some cases very well.

In the New Markets, growth remained solid, with an increase in our market share in Latin America, an excellent year in Eastern Europe, strong advances in Southern Asia, and market share gains in the Africa, Middle East Zone.

2016 was also a good vintage in terms of **emblematic innovations** and **strategic acquisitions**. IT Cosmetics, CeraVe, Atelier Cologne and Saint-Gervais Mont Blanc: these four very different acquisitions ideally complement our global flotilla of brands, while enabling us to respond to new beauty desires.”

CONTINUE READING  
JEAN-PAUL AGON'S  
ADDRESS  
P.04



# Highlights

## STRONG PARTICIPATION



Some 1,900 shareholders were present at the L'Oréal Annual General Meeting, held on 20 April 2017, at the *Palais des Congrès* in Paris. This event is an ideal opportunity to find out more about the group's results and future prospects, while exchanging views on various topics in a question and answer session. In all, the shareholders present or represented accounted for 80.80% of the shares forming the company's share capital.

1<sup>st</sup> quarter 2017 sales

€7.04 Bn

"The cosmetics market has unexpectedly proven extremely atypical in the first weeks of the year. In this context, the group delivered a good first quarter, up by +7.5% based on reported figures and +4.2% like-for-like<sup>(1)</sup>. Performance levels were consequently very differentiated across the Divisions, with outstanding growth for L'Oréal Luxe, a satisfactory start for Active Cosmetics, moderate growth for Consumer Products despite market share gains, and a slight drop for Professional Products."

**JEAN-PAUL AGON**  
Chairman and  
Chief Executive Officer  
of L'Oréal



+6.45%

Dividend increased to €3.30 per share, and €3.63 for registered shares<sup>(2)</sup>



46%

Percentage of seats on the Board of Directors held by women<sup>(3)</sup>

## APPOINTMENT OF A NEW DIRECTOR



### PAUL BULCKE

Mr Paul Bulcke has pursued an international career in the Nestlé group since 1979, in Latin America and Europe. He was appointed as Executive Vice-President of Nestlé S.A. in 2004 in charge of the Americas Zone. He was Chief Executive Officer of Nestlé S.A. from 2008 to 2016, and he was appointed President of the Board of Directors of Nestlé S.A. on 6 April 2017.

## ALL THE RESOLUTIONS PUT TO THE VOTE WERE APPROVED

Approval of the 2016 parent company financial statements (99.75%)

Approval of the 2016 consolidated financial statements (99.75%)

Allocation of the Company's net income and declaration of the dividend (99.74%)

Appointment of Mr Paul Bulcke as director for a tenure of four years (95.05%)

Renewal of the tenure as director of Mrs Françoise Bettencourt Meyers and Mrs Virginie Morgon for a period of four years (97.76% and 95.07%)

Approval of the principles and criteria for determination, distribution and allocation of the components of the total remuneration and the benefits of all kinds, that may be granted to Mr Jean-Paul Agon, Chairman and Chief Executive Officer (95.17%)

Advisory vote on the remuneration due or allocated to Mr Jean-Paul Agon, Chairman and Chief Executive Officer, in respect of the 2016 financial year (94.79%)

Authorisation for the Company to buy back its own shares (99.04%)

Authorisation to increase the share capital through the issue of ordinary shares, with maintenance of the preferential subscription right (96.01%)

Authorisation to increase the share capital via the capitalisation of share premiums, reserves, profits or other amounts (99.59%)

Authorisation to carry out a capital increase for the benefit of employees who are members of an employee savings scheme, with cancellation of the preferential subscription right (99.56%)

Authorisation of a capital increase for the benefit of employees of foreign subsidiaries, with cancellation of shareholders' preferential subscription right, within the scope of an employee share ownership programme (99.36%)

Harmonisation of the Articles of Association with Article 787 B of the French Tax Code (99.93%)

Powers for formalities (99.92%)

(1) Like-for-like: based on a comparable structure and constant exchange rates. (2) For shares held continuously in registered form for at least two years. (3) At the end of the Annual General Meeting of 20 April 2017.



“2016 was also a year of **further substantial progress** in the transformation of your group, as L'Oréal becomes **even more digital, efficient, agile and sustainable**.”

Our leadership in connected beauty has been further accentuated. Our e-commerce sales have grown by +33%, making it equivalent to the group's 4<sup>th</sup> largest country. Across all Divisions, digital is amplifying the power of our brands, and bringing them even closer to our consumers. We also continued our programme to transform our industrial model, Industry 4.0, which integrates all the new opportunities that digitalisation offers. There is a true industrial and logistical revolution taking place throughout our entire value chain. We also profoundly transformed ourselves to meet our sustainable development targets, set by the “Sharing Beauty With All” initiative. For example, 82% of products launched last year had an improved environmental or social profile.



***OUR COMPELLING RESULTS ONCE AGAIN PROVE THE ROBUSTNESS OF OUR ECONOMIC MODEL AND ITS POWERFUL CAPACITY TO CREATE VALUE.”***

**JEAN-PAUL AGON**

*Chairman and Chief Executive Officer of L'Oréal*

In the field of sustainable production, we achieved and even went beyond our goal of reducing CO<sub>2</sub> emissions by 60%, four years ahead of schedule, even though our production has risen by some 30% since 2005.

Ethics is another crucial element in ensuring lasting success. Our commitment in this area is widely acknowledged, and this is a source of pride for all the employees who put this culture of integrity into practice on a daily basis. The Ethisphere institute awarded us a distinction last month for the 8<sup>th</sup> time, as one of the “World's Most Ethical Companies”.

And finally, in the field of social progress, L'Oréal has been recognised as the world's No.1 company, out of 3,000 taken into consideration, for equality between men and women in the workplace.

Right now we are at the dawn of a **Bright New World of Beauty**. And it represents a **unique opportunity** for your company.

We are truly entering into a new era of “social beauty”, beauty that is connected and shared. Our consumers have new expectations and we already have all the advantages we need to meet them: our ability to track emerging trends, our superiority in Research and Innovation, and the quality of our interactions with consumers, strengthened by digital. And lastly we also know how to explore distribution channels.

This Bright New World of Beauty is a tremendous opportunity for your company, and we will make the most of it, thanks to our unique characteristics: our global flotilla of brands; our presence in all channels, and in all categories, price ranges and regions of the world; our agile and flexible organisation, strategically concentrated but operationally decentralised; and last but not least, our entrepreneurial culture and our strongly committed teams.

And so we are looking to the future with great **confidence** and **determination**. This Bright New World of Beauty offers us extremely promising perspectives, and we are going to take full advantage of them.

I would like to express my sincere thanks to you, our shareholders, for your loyalty and support, as we continue this great adventure.” ♦

## EXCERPTS



**FRÉDÉRIC ROZÉ**  
Executive Vice-President Americas Zone

**“IN A NUTSHELL, L'ORÉAL USA IS THE No.1 L'ORÉAL SUBSIDIARY WORLDWIDE, OPERATES IN THE WORLD'S No.1 BEAUTY MARKET, AND IS THE No.1 BEAUTY COMPANY IN THE UNITED STATES.**

In a strategic and highly competitive market of 320 million people, L'Oréal USA worked tirelessly to conquer the position of leader some 20 years ago. Today, three out of our four Divisions are leaders in their sector: Consumer Products, Professional Products and Active Cosmetics.

### What is behind our success in the American market?

The first reason: perseverance and **a constant striving for innovation and quality**, which bring us success in a long-term perspective.

In the mass-market, where we are roughly twice as big as the No.2, the No.1 position was won through long-term efforts. L'Oréal Paris, the No.1 beauty brand in the United States, Maybelline New York, the country's No.1 make-up brand, Essie, the nail make-up specialist, and above all the phenomenal NYX Professional Makeup brand, are driving our growth.

The Professional Products Division is the leader in hair salons, thanks to L'Oréal Professionnel, and our two American brands: Redken 5<sup>th</sup> Avenue, No.1 in the United States, and Matrix, which is No.2.

The history of the Active Cosmetics Division is more recent, with the creation of the dermocosmetics category in drugstores, thanks to Vichy and La Roche-Posay. SkinCeuticals, which has now reached the 100 million dollar mark, is the No.1 American skincare brand in the aesthetic medicine sector worldwide.

As for L'Oréal Luxe, the conquest is not quite complete, as the Division is currently No.2 in its market.

The second reason for the success of L'Oréal USA is the **American brands** that we have acquired. In all, more than half the group's brands in the United States are American, including Maybelline New York and Kiehl's.

The third reason for our success in the United States: the presence of a **Research centre**, the group's second research force after the Worldwide Research Centre in Paris, with which we collaborate closely. Furthermore, to take full advantage of the scientific and technological ecosystem of the Silicon Valley, in 2012 we created an incubator based in California.

And the last reason behind our success on American soil: **the force of digital**. In a highly connected market, L'Oréal USA is at the cutting edge, and very close to its consumers.

I can assure you we are all totally committed to making sure L'Oréal USA remains the **beauty champion** in the American market.” ♦

## AURA BOTANICA BY KÉRASTASE AN ENVIRONMENT-FRIENDLY LAUNCH

In 2016, 82% of L'Oréal products had an improved social or environmental profile. The group is aiming to make this 100% by 2020. To achieve this objective, we are working on the biodegradability of our products. Several products launched last year have biodegradability levels above 98%: one example is Aura Botanica, the new hair conditioner from Kérastase. It has an improved formula, enhancing its degradability in the natural environment. Taking action to protect the environment is one of the ways in which L'Oréal strives to be a responsible and innovative company.



# SHAREHOLDERS EXPRESS THEIR VIEWS

*The Annual General Meeting is an opportunity for instructive exchanges between the top managers of L'Oréal and its shareholders. Jean-Paul Agon and Christian Mulliez answered questions from shareholders on a wide variety of topics.*

## EXCERPTS

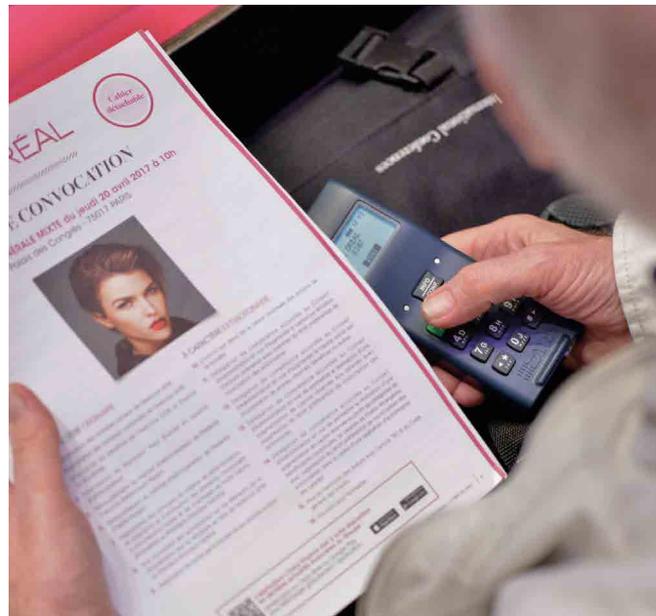
### Can you tell us something about the nature and duration of the progressive adjustment to evolving distribution channels that is affecting the Consumer Products Division in China?

**Jean-Paul Agon:** In China, our Consumer Products e-commerce sales have risen from 0% to 30% in the space of four or five years. This is not a problem in itself, as our brands are just as much leaders in e-commerce as they have been in traditional channels. But when we sell to traditional channels in China, several players are involved, and this gives rise to a number of intermediate inventories that are relatively large. E-commerce, on the other hand, is a direct-to-consumer channel, which leads to a progressive reduction in inventories. This means that sales are reduced during the time it takes to adjust inventories.

### Articles published in the French magazine “60 millions de consommateurs (1)” say that the hair of a group of children contains “undesirable” substances suspected of being endocrine disruptors. Can you throw some light on this question?

**Jean-Paul Agon:** We are very fortunate to have with us today the person who, for 15 years, was head of toxicology at L'Oréal. So I would now like to hand over to Dr Hervé Toutain.

**Hervé Toutain:** On this subject, we are working, of course, following the definition of the World Health Organisation, which defines endocrine disruptors as substances – whether chemical or natural, but foreign to the organism – that can



**HERVÉ TOUTAIN**  
Senior Vice President  
Product Stewardship & Public Affairs

interfere with the way the endocrine system functions, and thus have damaging effects on the organism or on its descendants. In the group, we do not use endocrine disruptors, as defined by the World Health Organisation, as none of our substances interferes with the hormonal system, causing damaging effects for human health. We take the question of endocrine modulation very seriously, and it has been an integral part of our safety assessment approach for more than 15 years.

(1) 60 million consumers.



**For your London-based incubator, you have selected five connected beauty start-ups. Can you tell us something about the five companies that have now joined the incubator?**

*Jean-Paul Agon:* We are working with a group called Founders Factory, in London, but also with a start-up incubator in France, Partech, and we have indeed identified with Founders Factory five start-ups with a range of activities linked to the world of beauty. They are precious, because lots of ideas are currently springing up all over the world thanks to these small start-ups. By means of the incubators, we can spot the ones that are right for us, so we can advance and outstrip our competitors in a range of fields.

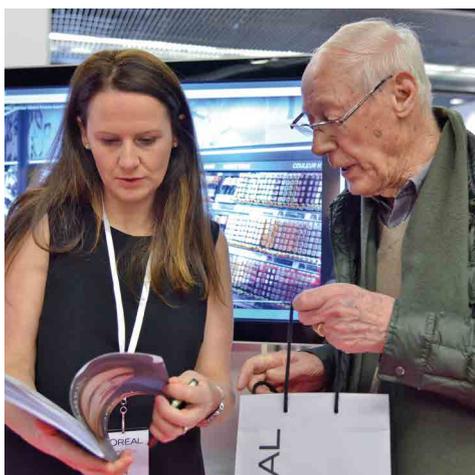
**You have just finalised the acquisition of three American brands: CeraVe, Acnefree and Ambi. In what ways are they complementary to Vichy and La Roche-Posay?**

*Jean-Paul Agon:* The price positioning of CeraVe is more accessible than La Roche-Posay. I believe this segment, dermocosmetics, is set to be one of the most lucrative markets over the next ten years. That's why we decided it was very important to acquire this brand, which will make a major contribution to the Active Cosmetics Division.



L'Oréal and you

## DIALOGUE AND A CLOSE RELATIONSHIP



DATES OF  
YOUR SHAREHOLDER  
MEETINGS (FRANCE)

**STRASBOURG on 22 June 2017**

**LYON on 19 September 2017**

loreal-finance.com  
Section: Your dates



OVER 5 YEARS, THE L'ORÉAL  
SHARE HAS OUTPERFORMED  
THE CAC 40 INDEX <sup>(1)</sup>

**+97.73%**

L'Oréal share variation

**+57.65%**

CAC 40 variation

OVER 10 YEARS, THE L'ORÉAL  
SHARE HAS OUTPERFORMED  
THE CAC 40 INDEX <sup>(1)</sup>

**+108.55%**

L'Oréal share variation

**-14.16%**

CAC 40 variation

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*“Confidence and exchange: these are really the two hallmarks of our relationship. A regular and direct exchange of views that works both ways. We want to keep you up to date with news about your company, via the financial communication tools and the meetings held all over France. And on the other hand, we are eager to hear your points of view, as they mean we never stop improving.”*

**JEAN-PAUL AGON**

*Chairman and Chief Executive Officer of L'Oréal*



(1) Period from 19/04/2012 to 19/04/2017 over 5 years, and period from 19/04/2007 to 19/04/2017 over 10 years.