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# Need help?
1st cosmetics group worldwide (1)

82,600 employees

34 brands

150 countries

26.02 billion euros of sales (2)

498 patents registered in 2017

4.68 billion euros in operating profit (2)

Commitments for 2020 “Sharing Beauty With All”

(1) Source: WWD, “Beauty’s Top 100”, April 2017. (2) As at 31 December 2017.
Beauty has never looked this good

by Jean-Paul Agon,
Chairman and Chief Executive Officer

Check out Jean-Paul Agon’s full interview in the digital version
As people’s desires for beauty grow in multiple ways worldwide, beauty has never looked this good. Market growth accelerated in 2017, stimulated by extremely favourable demographic and sociological developments. In this dynamic market, L’Oréal achieved a great new year in terms of sales and results.

PROSPECTS

L’Oréal also delivered good results achieving a record operating margin of 18%.

The year was marked by a sharp increase in net income, up +15.3%, as well as by a dividend increase that will be proposed at the Annual General Meeting\(^2\). The Group has once again shown the strength of its powerful, balanced and value-creating business model.

But our mission goes beyond economic success. This year, through our sustainability programme, “Sharing Beauty With All”, we have once again demonstrated that economic performance and environmental and social performance go hand in hand and are even mutually reinforcing. For example, in 2017, the reduction in our CO\(_2\) emissions reached -73% since 2005, whilst at the same time, our production increased by +33%.

Our performances have been widely recognised. L’Oréal was the top performing global company on Newsweek’s 2017 Global 500 Green Rankings and CDP\(^3\), the most respected authority in sustainability, awarded us, for the second year running, three “A” ratings for our actions in fighting climate change, water management and combatting deforestation. Another great source of pride - because it is a long struggle - is the fact that L’Oréal has come first in the worldwide rankings on gender equality among over 3,000 companies rated by Equileap.

First, in the two most important categories of the market, makeup and skincare. Secondly, in two key sectors: selective, where L’Oréal Luxe has experienced its strongest growth since 2000, and dermocosmetics, where our Active Cosmetics Division has passed the two billion euro mark. In the New Markets also where, for the first time, we surpassed ten billion euros in sales, particularly thanks to the dynamism of the Asia, Pacific Zone. Lastly, two growth boosters are running full steam ahead: on the one hand, 2017 was another great year of digital acceleration. Our e-commerce sales grew by +34%\(^1\) and online sales now exceed two billion euros, representing nearly 25% of sales in a digitally advanced country like China. On the other hand, Travel Retail, a high potential channel where L’Oréal celebrated its 40 years by strengthening its leadership position.

We strengthened our positions in categories, distribution channels and regions of the world, which are strategic for the future.

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(1) Sales achieved on our brands’ own websites + estimated sales achieved by our brands corresponding to sales through our retailers’ websites (non-audited data); like-for-like growth.
(2) Dividend proposed at the Annual General Meeting of 17 April 2018.
(3) CDP is an independent international organisation that evaluates companies’ environmental performance.
PROSPECTS

Being a leader both economically and socially is our goal.

Our ambition allows us to have a positive impact on the environment and society, as well as sustaining our success in the long-term. Overall, 2017 was a year of significant progress for L’Oréal, a pivotal year at a pivotal time. **We are entering 2018 and the coming years with great confidence** in our unique and original business model, ideally suited to this new world of beauty, full of new promises and opportunities.

Let me share with you what I call our seven reasons for success.

Firstly, a beauty market that will continue to grow in the coming years. This is in part thanks to the emergence of the new middle and upper classes who are powerful consumers of beauty, especially of premium products. But also the result of major shifts which reveal new needs, such as urbanisation or ageing populations.

Secondly, **L’Oréal is the archetype of the “Beauty Pure Player”** - nothing but beauty, for all types of beauty - and our unique expertise acquired over 109 years, allows us to understand, in extreme detail, the desires and aspirations of consumers all around the world.

Thirdly, our fundamentals, the reasons for our success today which will be the reasons for our success tomorrow: the obsession of innovation and superior quality, more important than ever in a world of ratings and reviews: our continuous strategic focus on Research & Innovation is absolutely necessary; the power of our brands, more essential than ever in a world of consumer hyper-choice: the richness of our complementary brands, eight of which are already billionaires, makes and will continue to make the difference; the star products, strong and powerful, in a world of algorithms.

The fourth reason is our superior digital prowess in a world where technological developments are crucial.
Mrs Liliane Bettencourt passed away on 21 September 2017.

Throughout her life, she lived and breathed L’Oréal. She always considered herself the custodian of her father’s work and proved to be a source of determined and unfailing support for the company.

Mrs Liliane Bettencourt was eager, determined and proud to see L’Oréal extend its influence worldwide. As François Dalle once said, she had inherited from her father an ardent “desire to see L’Oréal grow”. Discreet, astute, and kind-hearted, a person of sound judgement yet very modern in her thinking, Liliane Bettencourt shared with the Group’s employees this fabulous adventure, every step of the way.

Fifth, our unique multipolar footprint in all categories, distribution channels and regions of the world helps us to spot new consumer trends more quickly and to adapt in real time to market developments.

Sixth: the recognised excellence of our environmental and social commitments.

Finally: in a world where agility has become decisive, our decentralised organisation, our entrepreneurial culture and the high quality of our teams in the countries and on the ground.

For all these reasons, we are more than ever optimistic, confident and determined. Ready to seize every opportunity in a beauty market full of promise.
L’Oréal is looking to the future with confidence, driven by a clear mission and strategy.
Our mission

Beauty for All

Offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety to satisfy all their desires and all their beauty needs in their infinite diversity.

———

Our strategy

Universalisation

L’Oréal has chosen a unique strategy: Universalisation. It means globalisation that captures, understands and respects differences. Differences in desires, needs and traditions. To offer tailor-made beauty, and meet the aspirations of consumers in every part of the world. L’Oréal is driven by this vision of the world.
The Board of Directors

Stable governance

The composition of the Board reflects L’Oréal’s shareholding structure and guarantees the interests of all its shareholders. Alongside the Chairman and Chief Executive Officer, there are five directors who represent L’Oréal’s major shareholders, seven independent directors and two directors representing the employees. The diversity and complementarity of the directors’ industrial, financial and entrepreneurial expertise equip them to quickly and thoroughly comprehend the development challenges facing L’Oréal, the leader of a globalised and highly competitive cosmetics market in which the need to innovate and adapt is crucial. Most of the directors have experience managing international groups at the highest level. In 2017, Nestlé Board of Directors Chairman Paul Bulcke joined L’Oréal’s Board as Vice-Chairman, replacing Peter Brabeck-Letmathe. The Board members represent seven different nationalities and 46% of directors are women (50% of the Committees are chaired by independent women directors).

A Board of Directors that fully assumes its responsibilities to provide strategic reflection and impetus

The Board devotes most of its time to strategic issues, to foster and accelerate the Group’s transformation into a more universal, more digital and more sustainable L’Oréal. The Board is kept informed throughout the year about the Group’s activities and results, its positions in relation to its competitors, market trends and the expectations of consumers all over the world. It examines acquisition projects and monitors the integration of recently acquired companies. The Board members regularly meet with Group executives. This transparent and constructive dialogue culminates in a shared strategic vision, which gives General Management the confidence necessary for its implementation. This year’s strategic seminar focused on the challenges facing Research and Innovation, at the heart of the Group’s growth strategy.

Proactive and committed directors

The directors are committed and proactive, driven by the conviction that stringent governance creates value for the company. They always keep the company’s long-term interests first in mind as they voice their opinions. The directors play a tireless and dynamic role in the work of the Board and its Committees, which actively contribute to preparing the Board’s deliberations. The Board closely monitors changes in best practices and, to ensure that constant progress is achieved, carries out a full review of its modus operandi and organisation every year. It determines which topics to prioritise at this annual review, in line with its role to provide the impetus for L’Oréal’s long-term strategy.

Ethics at the heart of L’Oréal’s governance and commitments

The Board of Directors places great importance on respecting L’Oréal’s ethical principles – Integrity, Respect, Courage and Transparency – and more generally its Code of Ethics. In 2017, the Senior Vice-President and Chief Ethics Officer presented the ethics policy and the initiatives taken in this field, as well as their results. The Board considers these policies to be an integral part of L’Oréal’s growth model; it supports their implementation and regularly measures the advances made.

“L’Oréal’s governance is solid, perfectly in line with the challenges of tomorrow.”

Jean-Paul Agon
Chairman and Chief Executive Officer
The Executive Committee, the Group’s management body
The Executive Committee members are in charge of the operational Divisions and functional Departments, as well as the geographic Zones. They implement the strategic guidelines and direct the activities of L’Oréal all over the world.

(1) Since January 2018, Mrs. Lucia Dumas is in charge of Communications and Public Affairs, succeeding to Mrs. Isabel Marey-Semper.
Ethics at the heart of L’Oréal’s commitments

L’Oréal was built on strong ethical principles that guide its development and contribute to building its reputation. These principles are namely the foundation of the Group’s policies in terms of compliance, responsible innovation, environmental stewardship, social and societal responsibility and philanthropy.

Integrity
Because acting with integrity is vital to building and maintaining trust and good relationships.

Respect
Because what we do has an impact on many different stakeholders.

Transparency
Because we must always be sincere and able to justify our actions and decisions.

Courage
Because ethical questions are rarely easy but must be addressed.
More than 60% of employees from 71 countries participated in the ninth annual Ethics Day. Chairman and CEO Jean-Paul Agon, Country General Managers and members of the Executive Committee received more than 5,700 questions: proof of teams’ growing interest and their growing maturity with regards to business ethics topics. The question, “What more can we do on ethics at L’Oréal?” generated more than 1,100 suggestions. The proposals will be taken forward through concrete initiatives.

Ethics Day
A key date

L’Oréal received two awards in recognition of its commitment to ethics and transparency. The Group received the Grand Prix de la Transparence for its Code of Ethics, following the results of the Transparency study, carried out each year on the public financial documentation of the French SBF 120 listed companies. The Ethisphere® Institute, the global leader in defining and advancing the standards of ethical business practices, also ranked the Group as one of the world’s most ethical companies.

Ethics and transparency
L’Oréal receives honours

One Young World
Raising awareness about ethical dilemmas in business

During the One Young World Summit held in Bogota in October 2017, L’Oréal Senior Vice-President and Chief Ethics Officer Emmanuel Lulin engaged participants in exercises based on the complex choices leaders face when handling ethical dilemmas.
Our commitments

“Sharing Beauty With All”
The social and environmental responsibility programme “Sharing Beauty With All”, launched in 2013, is aimed at making L'Oréal a model company in terms of sustainable innovation, production and consumption, and in sharing its growth with all the Group’s stakeholders.

Innovating sustainably
By 2020, 100% of L’Oréal’s products will have an improved environmental or social profile. Reduction of the environmental footprint of formulas, respect for biodiversity via a sustainable and responsible sourcing policy for raw materials, eco-design of packaging and commitment to zero deforestation are all levers used by L’Oréal to drive sustainable innovation.

Producing sustainably
L’Oréal has set the target for 2020 of reducing the environmental footprint of its plants and distribution centres by 60% from a 2005 baseline. The reduction of greenhouse gas emissions in absolute terms, of water consumption and of waste generation per finished product unit, and the reduction of impacts related to transportation, have become fundamental criteria for L’Oréal’s industrial performance.

Living sustainably
L’Oréal aims to empower its consumers to make sustainable choices. To achieve this target, the Group adopts several approaches: aggregating information on the environmental and social impact of products, evaluating the footprint of each brand, raising awareness among consumers and making sustainable development desirable.

Developing sustainably
Sharing its growth with its internal and external stakeholders is a priority for L'Oréal. The Group promotes access to work for people from underprivileged communities by deploying various programmes, associates its suppliers with its sustainable development policy and offers its employees the best social practices all over the world, in terms of health insurance cover and social protection.
The L’Oréal Corporate Foundation
10 years in action

The L’Oréal Corporate Foundation, founded in 2007 to support women around the globe, celebrated its 10th anniversary. Its aim is to help them realise their potential through two programmes: “For Women in Science” and “Beauty for a Better Life”. Read on for a closer look at the initiatives implemented through these programmes.

Supporting female scientists in their careers

Every year, the L’Oréal-UNESCO “For Women in Science” programme celebrates and awards five eminent researchers from five continents. 97 laureates have been awarded since 1998, three of them have received a Nobel prize. This programme also helps more than 275 young women scientists at a crucial moment in their careers, by supporting them during their doctoral or post-doctoral studies. The scholarships are presented at national and regional awards ceremonies in more than 48 countries. Since 1998, 2,800 young women have been selected to receive the scholarship.

Training in the beauty industry for employability

As part of its “Beauty for a Better Life” programme, L’Oréal is joining hands with Les Apprentis d’Auteuil to offer free small business training in the beauty industry in France to people in difficult employability situations. The L’Oréal Corporate Foundation and Groupe SOS in France are joining hands to create L’Atelier des talents, a centre which will offer fast-track professional training to people with some background in hair styling but who no longer work in the field.
L’Oréal maintains for another year its position as leader of the global cosmetics market\(^1\)
The world of beauty in 2017

The global beauty market

Estimated at more than 200 billion euros, the worldwide cosmetics market has grown steadily, spurred on by innovation and the limitless diversity of consumer aspirations. It is a market driven by the development of social media, increasing urbanisation worldwide and rising growth in online beauty spending due to the expected growth of the high-income class between now and 2030, an increase in life expectancy and the continued desire for products that are new, different and better. In this context, L’Oréal has maintained its leadership in 2017(2).

Growth of the worldwide cosmetics market over 10 years(1)

Breakdown of the market by geographic Zone(1)

- **37%**  
  Asia Pacific
- **25%**  
  North America
- **18%**  
  Western Europe
- **11%**  
  Latin America
- **6%**  
  Eastern Europe
- **3%**  
  Africa, Middle East

Breakdown of the market by product category(1)

- **37%**  
  Skincare
- **22%**  
  Haircare
- **19%**  
  Makeup
- **12%**  
  Fragrances
- **10%**  
  Hygiene products

Online sales

- **+24%**  
  Growth in worldwide online cosmetics sales(3)
- **+10%**  
  Share of e-commerce in the beauty market(3)

Main worldwide players in sales(3)

(in billions of USD)

- **L’Oréal**  
  28.6
- **Unilever**  
  20.5
- **Estée Lauder**  
  11.4
- **Coty**  
  5.4
- **Shiseido**  
  7.7
- **Procter & Gamble**  
  15.4

Focus on the luxury cosmetics market

The luxury cosmetics market is constantly growing and has seen a boom in the last few years, driven by the expansion of the high-income class and the increase in the number of Chinese consumers travelling worldwide.

Luxury cosmetics market

23% of the beauty market\(^1\)

40% of worldwide cosmetics market growth\(^1\)

Performance of the luxury cosmetics market compared to the total market\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total market</td>
<td>+3.6%</td>
<td>+3.9%</td>
<td>+4.0%</td>
<td>+4.0%</td>
</tr>
<tr>
<td>Luxury cosmetics market</td>
<td>+5.2%</td>
<td>+5.7%</td>
<td>+5.7%</td>
<td>+8.5%</td>
</tr>
</tbody>
</table>

Luxury market consumers

The high-income classes in North America and Asia

- The high-income classes are likely to show the fastest population growth in the next 15 years, reaching more than 330 million people by 2030\(^2\).
- In the Asia Pacific region, the high-income class is still relatively small, but is set to grow the fastest here between now and 2030.
- North America will continue to be the wealthiest region, and is expected to be home to almost half of the world’s high-income class by 2030.

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\(^1\) Source: L’Oreal estimate of the global cosmetics market in 2017 based on manufacturers’ net prices. Excluding soaps, oral hygiene, razors and blades. Excluding currency effects.

\(^2\) Source: survey conducted for L’Oreal by The World Data Lab.
Chinese tourists

261 Bn USD

Chinese spending in international tourism in 2016 (1)

- Chinese spending in international tourism rose from 13 billion USD in 2000 to 55 billion in 2010 and 261 billion in 2016 (1).
- The number of Chinese travellers abroad has continued to rise, reaching 135 million in 2016. This growth confirms China as the largest source of outbound tourists since 2012, with tourist spending seeing double-digit growth since 2004.

Check out the Focus on China on the digital version.

Most buoyant categories of the luxury cosmetics market

Makeup

1/4

The Chinese makeup market, although historically small, has grown significantly in the last few years, accounting for a quarter of the Chinese selective market in 2017 (3).

Skincare

1st

The lip makeup segment has made a significant contribution to this growth; it is now the biggest market segment with sales more than doubling in one year (3).

+12%

The global luxury skincare market saw a resurgence in 2017, with growth increasing from approximately 5% in 2016 to approximately 12% (3) in 2017, driven by the women's skincare segment.

Past and predicted development of the weight of Chinese consumers in the global luxury market (2)

Travel Retail: a prestige channel

Weight (value) of the global Travel Retail market by nationality in 2017 (4)

L'Oréal Luxe has a strong, balanced portfolio of brands

Major aspirational and multi-expert brands:

LANÇÔME

YVES SAINT LAURENT

GIORGIO ARMANI

Growth drivers often specialised in a single product category:

Kiehl’s

URBAN DECAY

New niche additions:

Atelier Cologne

Proenza

Schouler

IT COSMETICS

A robust and balanced business model

The Group achieved dynamic growth in sales and robust profits in 2017. Operating margin and cash flows have set new records, confirming that L’Oréal’s business model is set to deliver robust performance and create significant value.

Sales growth in all Divisions

€26.02 Bn
sales in 2017

+4.8%
like-for-like sales growth (2)

Consolidated sales (1)
(in millions of euros)

2013 2014 2015 2016 2017
22,124 22,532 25,257 25,837 26,024

+4.8% (2)

Weight of digital in sales (3)

€2.1 Bn
of sales in e-commerce

8.0%
of consolidated sales in e-commerce

+33.6%
like-for-like growth in e-commerce sales in 2017 (3)

(1) Between 2008 and 2016, Group sales included sales for The Body Shop. (2) Like-for-like: based on a comparable structure and identical exchange rates. (3) Sales achieved on our brands’ own websites + estimated sales achieved by our brands corresponding to sales through our retailers’ websites (non-audited data); like-for-like growth.
Other includes hygiene products as well as sales by American professional distributors with non-Group brands.

Non-recurring items include impairment of assets, net income from discontinued operations, restructuring costs and tax impact on non-recurring items. (3) Pay-out ratio based on diluted net profit excluding non-recurring items, per share.

### Record operating margin at 18.0% of sales

#### Operating profit

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in millions of euros)</td>
<td>3,760</td>
<td>3,891</td>
<td>4,388</td>
<td>4,540</td>
<td>4,676</td>
</tr>
<tr>
<td>Growth (as %)</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Operating margin

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (as % of sales)</td>
<td>17.0%</td>
<td>17.3%</td>
<td>17.4%</td>
<td>17.6%</td>
<td>18.0%</td>
</tr>
</tbody>
</table>

#### Net profit excluding non-recurring items after non-controlling interests

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in millions of euros)</td>
<td>3,032</td>
<td>3,125</td>
<td>3,490</td>
<td>3,647</td>
<td>3,749</td>
</tr>
<tr>
<td>Growth (as %)</td>
<td>2.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Earnings per share

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (in euros)</td>
<td>4.99</td>
<td>5.34</td>
<td>6.18</td>
<td>6.46</td>
<td>6.65</td>
</tr>
<tr>
<td>Growth (as %)</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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1. “Other” includes hygiene products as well as sales by American professional distributors with non-Group brands.
2. Non-recurring items include impairment of assets, net income from discontinued operations, restructuring costs and tax impact on non-recurring items.
3. Pay-out ratio based on diluted net profit excluding non-recurring items, per share.
Balanced operating profitability

Profitability by Division
(as % of Division sales)

20.8% (1)
total operational Divisions’ profitability

Profitability by geographic Zone
(as % of Zone sales)

22.9% 19.2% 20.3%

Western Europe North America New Markets

A solid financial situation
at 31 December 2017

Net cash surplus of
1,872 million euros

Short-term ratings

<table>
<thead>
<tr>
<th>Rating</th>
<th>Agency</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1+</td>
<td>Standard &amp; Poor’s</td>
<td>SEPT. 2017</td>
</tr>
<tr>
<td>PRIME 1</td>
<td>Moody’s</td>
<td>MAY 2017</td>
</tr>
<tr>
<td>F1+</td>
<td>Fitch Ratings</td>
<td>SEPT. 2017</td>
</tr>
</tbody>
</table>

Capital expenditure

4.9% of sales

A dynamic shareholder return policy

Dividend per share
(in euros)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.75</td>
</tr>
<tr>
<td>2014</td>
<td>2.97</td>
</tr>
<tr>
<td>2015</td>
<td>3.10</td>
</tr>
<tr>
<td>2016</td>
<td>3.30</td>
</tr>
<tr>
<td>2017</td>
<td>3.63</td>
</tr>
</tbody>
</table>

+ 7.6% 3.90 (1)

At 31 December 2017

€ 184.95 (2)

Pay-out ratio (4)
(as % of profit)

<table>
<thead>
<tr>
<th>Year</th>
<th>Pay-out ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>48.7%</td>
</tr>
<tr>
<td>2014</td>
<td>50.6%</td>
</tr>
<tr>
<td>2015</td>
<td>50.2%</td>
</tr>
<tr>
<td>2016</td>
<td>51.1%</td>
</tr>
<tr>
<td>2017</td>
<td>53.4%</td>
</tr>
</tbody>
</table>

market capitalisation (3) € 103.7 Bn

At 31 December 2017

\[ \text{Share price} \times \text{Number of shares} = \text{Market capitalisation} \]

22

(1) Before non-allocated: before central Group expenses, fundamental research expenses, stock options, free grant of shares expense and miscellaneous items. As a % of sales. (2) Preferential dividend of +10% for shareholders who continuously hold their shares in registered form for a minimum of two full calendar years, up to a maximum of 0.3% of the capital for the same shareholder. (3) Dividend proposal at the Annual General Meeting of 17 April 2018. (4) Pay-out ratio based on diluted net profit excluding non-recurring items, per share. (5) Based on the dividend proposal at the Annual General Meeting of 17 April 2018. (6) On the number of shares at 31 December 2017, i.e. 500,519,688 shares.
The social and environmental responsibility programme “Sharing Beauty With All”, launched in 2013, is aimed at making L’Oréal a model company in terms of sustainable innovation, production and consumption, and in sharing its growth with all the Group’s stakeholders.

### Indicators

**“Sharing Beauty With All”**

**76%** of new products analysed have an improved environmental or social profile \(^{(1)}\)

**91%** of brands have assessed their environmental or social impact

**82%** of the Group’s strategic suppliers \(^{(2)}\) have been assessed and selected on the basis of their environmental and social performance

**53,505** people from socially and economically disadvantaged communities gained access to employment \(^{(3)}\)

**96%** of the Group’s permanent employees have health insurance in line with best practices in their country of residence

**37%** reduction in waste generation since 2005

**48%** reduction in water consumption since 2005

**73%** reduction in CO₂ emissions in absolute value in plants and distribution centres since 2005

**3 “A”** ratings by CDP \(^{(4)}\)

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\(^{(1)}\) In 2017, the SPOT tool replaced the systems previously used to assess the improvement in the environmental and social impact of our formulas and packaging. SPOT takes more criteria into account and allows for a more complete and in-depth analysis, where the various impacts are weighted according to their contribution to the product’s overall impact.

\(^{(2)}\) Strategic suppliers are suppliers whose added value is significant for the Group by contributing sustainably to L’Oréal’s strategy by their weight, their innovations, their strategic alignment and their geographical deployment.

\(^{(3)}\) L’Oréal having sold The Body Shop on 7 September 2017, the beneficiaries of the brand’s Community Trade initiative are no longer counted in the Group’s KPIs.

\(^{(4)}\) CDP is an independent international organisation which assesses companies’ environmental performance.
In a beauty market that pursued its steady growth in 2017, L’Oréal confirmed its position as the worldwide leader in beauty, with a strong presence in its three main geographic Zones: Western Europe, North America and the New Markets.

Seizing the potential of every market

North America

The American market is continuing to grow, but is facing a slowdown in some historical distribution channels. Performance in makeup is being further increased by the brands NYX Professional Makeup and L’Oréal Paris, but haircare is proving less dynamic. The L’Oréal Luxe Division has slowed, against a background of inventory reductions. Yves Saint Laurent and IT Cosmetics however have continued to record double-digit growth. In the fourth quarter, the Professional Products Division saw sales increase, thanks particularly to its partner brands. The Active Cosmetics Division performed well last year, bolstered by the recent acquisition of CeraVe and by the emblematic SkinCeuticals and La Roche-Posay brands.

13.6% L’Oréal market share in North America(3)
+ 1.7% Like-for-like growth in North America(2)

Latin America

Mexico and Argentina recorded double-digit growth, while the economic environment remains difficult in Brazil. The L’Oréal Luxe and Active Cosmetics Divisions have achieved double-digit growth, thanks respectively to the Lancôme and La Roche-Posay brands. The Consumer Products Division is growing in the makeup category, reflecting the expansion of the NYX Professional Makeup brand and the continuing growth of Maybelline New York.

7.9% L’Oréal market share in Latin America(3)
+ 5.6% Like-for-like growth in Latin America(2)
Turkey and Central Europe were the growth drivers, and sales in Russia were satisfactory. All the Divisions made market share gains. In this Zone, e-commerce now accounts for more than 5% of sales.

Eastern Europe

+ 8.6%  
Like-for-like growth in Eastern Europe

12.6%  
L’Oréal market share in Eastern Europe

Western Europe

+ 2.6%  
Like-for-like growth in Western Europe

20.3%  
L’Oréal market share in Western Europe

Growth was particularly robust in Great Britain, Spain and Germany, fuelled by the makeup and skincare categories. Sales in France continued to be held back by a slightly contracting market. The two main Divisions, Consumer Products and L’Oréal Luxe, outperformed their respective markets, and the Active Cosmetics Division’s growth accelerated in the second part of the year.

Africa, Middle East

-7.1%  
Like-for-like growth in Africa, Middle East

9.8%  
L’Oréal market share in Africa, Middle East (in countries where the Group operates)

Despite substantial declines in markets, the situation is stabilising in the Gulf states. Egypt’s growth was dynamic.

Asia Pacific

+ 12.3%  
Like-for-like growth in Asia Pacific

9.6%  
L’Oréal market share in Asia, Pacific (excluding Japan)

In Northern Asia, Chinese consumers are driving growth, particularly for the L’Oréal Luxe Division in China and Hong Kong. China’s strong growth is continuing, fuelled by very good e-commerce results across all Divisions. In Southern Asia, India is very dynamic. Thailand and Malaysia are also growing very strongly.

(1) Source: WWD, “Beauty’s Top 100”, April 2017.  
(2) Like-for-like sales growth: based on a comparable scope of consolidation and identical exchange rates.  
(3) Cosmetics Divisions market share. Source: L’Oréal 2017 estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soaps, oral hygiene, razors and blades. Excluding currency effects.
Brands

A global flotilla of complementary brands
L’Oréal’s global flotilla of brands is organised by Division, which each develop a specific vision of beauty by consumption universe and distribution channel.

Consumer Products

L’Oréal Luxe

L’ORÉAL PARIS
GARNIER
MAYBELLINE NEW YORK
NYX PROFESSIONAL MAKEUP
Dark & Lovely
essie

Professional Products

Active Cosmetics

LANCÔME PARIS
GIORGIO ARMANI beauty
URBAN DECAY
BIOTherm
IT COSMETICS
RALPH LAUREN FRAGRANCES
shu uemura
clarisonic
VIKTOR&ROLF
HR
DIESEL
cacharel

2017 Acquisition: CeraVe

Since it was founded over a century ago, L’Oréal has carried out targeted acquisitions to build a global flotilla of iconic and complementary brands. This portfolio – the richest and most diverse in the beauty industry – drives the Group’s long-term growth.

Check out the digital version of the Annual Report to read more about this 2017 acquisition, CeraVe, which has joined the Active Cosmetics Division’s brand portfolio.
Consumer Products

L’Oréal Paris • Garnier • Maybelline New York • NYX Professional Makeup • Essie Niely • Dark and Lovely • Mixa • MG • Carol’s Daughter
Alexis Perakis-Valat
President
Consumer Products
global brands: L’Oréal Paris, positioned as affordable luxury, which meets consumers’ premiumisation expectations; Garnier the future global champion in the natural category; and Maybelline New York and NYX Professional Makeup, which have capitalised on the makeup boom in the era of social beauty. To step up the Division’s transformation, we are constantly reinventing our growth drivers by producing creative content adapted to each tribe of consumers and to the major digital platforms. We are also developing our omnichannel strategy and taking full advantage of the opportunities afforded by e-commerce.

A favourable context for the future
We are very optimistic about the future of our market for three reasons: the growth of the upper middle class, our main target; the increase in premiumisation in every category; and the democratisation, thanks to digital technologies, of high value-added beauty categories, where our presence is particularly strong.

The “augmented consumer” revolution
We are in the midst of a major transformation: the “augmented consumer” revolution. Augmented, because smartphones connect consumers to the rest of the world 24/7, creating a significant shift in the consumer-brand relationship. Just ten years ago, brands had a maximum of around ten points of contact with consumers. Today, they have three or four times more: it has become a real dialogue. This consumer revolution has also impacted distribution, which has become omnichannel, from brick-and-mortar stores to digital sales.

Our strategy: strengthen our foundation and step up transformation
The Consumer Products Division’s strategy is twofold: strengthen our foundation and our assets on the one hand and step up the Division’s transformation on the other, making the most of our entrepreneurial culture and decentralised organisation. Our first asset is the power of our global brands: L’Oréal Paris, positioned as affordable luxury, which meets consumers’ premiumisation expectations; Garnier the future global champion in the natural category; and Maybelline New York and NYX Professional Makeup, which have capitalised on the makeup boom in the era of social beauty. To step up the Division’s transformation, we are constantly reinventing our growth drivers by producing creative content adapted to each tribe of consumers and to the major digital platforms. We are also developing our omnichannel strategy and taking full advantage of the opportunities afforded by e-commerce.

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(1) Like-for-like: based on a comparable structure and identical exchange rates. (2) Sales achieved on our brands’ own websites + estimated sales achieved by our brands corresponding to sales through our retailers’ websites (non-audited data), like-for-like growth. (3) Source: Euromonitor 2016. (4) Source: Nielsen.
The L’Oréal Paris mission is to “seize emerging trends” and ensure the greatest possible number of consumers have access to them. The pioneering and innovative French brand has stepped up its presence on social networks, where it taps into the big new trends propagated by beauty influencers. L’Oréal Paris capitalises on the Group’s strengths and its worldwide presence to develop and market new products in record time. The brand’s strategy is adapted to each of its segments and is particularly successful in the makeup category.

L’Oréal Paris is also strengthening its image as an aspirational brand that makes luxury accessible. Thanks to its celebrity ambassadors and numerous partnerships in the world of fashion and film, the brand grants its customers entry into an exclusive milieu. In 2017, the Color Riche X Balmain range of lipsticks combined fashion and the latest online trends. The big fashion show organised by L’Oréal Paris on the Champs-Elysées during the Paris Fashion Week was open to all and followed by millions of people on social networks.

To keep pace with the latest online trends, L’Oréal Paris has reinvented its categories. Hair colour flirts with makeup in the Colorista range, for example, which can be found in the makeup aisle in German stores. This agility allows the Group to meet the expectations of increasingly selective and demanding consumers.
For consumers looking for transparency and more natural products, Garnier is developing ranges inspired by nature and has set ambitious goals to improve its environmental and social impact. The brand has committed to revamping its formulations to increase the percentage of natural and/or biodegradable ingredients. The brand has reworked the formulas of star products, to reach up to 96% of ingredients of natural origin for some products. Innovations have also been launched, such as the organic charcoal fabric mask inspired by natural trends from Asia. The brand’s transformation goes beyond formulas as well. From solidarity sourcing to purchases made by concerned consumers, all the Garnier teams are committed to developing more natural and ethical products.

Naturalness
Garnier: future natural beauty champion

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Digital
E-commerce: consumer trust benefits brands

Today, brands are carefully scrutinised online by consumers. In this context, the strong image of the Division’s brands, fuelled by the teams’ inventiveness in the countries, is a precious asset, with their star products recommended by many satisfied users. Ultra-digital brands like NYX Professional Makeup capitalise on that trust to accelerate growth. As it pursues the opening of international points of sale, the brand remains very active online. Each store opening becomes an online event followed by thousands of influencers and shared by their followers. The brand’s star products, particularly in the lip category, are available in a seemingly infinite number of shades and versions, which consumers take to immediately. Enthusiasm for NYX Professional Makeup is also heightened by the discussions and communities launched by the “makeup junkies” who adore the brand.

Read more on the digital version.

Maybelline New York
“Hottest looks from New York made easy”

Global makeup leader Maybelline New York continues to reinvent itself and offer consumers around the world life-altering products. Its latest successes, peel-off Tattoo Brow Gel-Tint, longwearing lipstick SuperStay Matte Ink, and Fit Me Matte + Poreless foundation, are proof of this mission.

READ MORE ONLINE

- Facial cleansing: the latest innovations
- The L’Oréal Paris strategy in Germany: listen to the podcast about Colorista
- Watch the L’Oréal Paris fashion show on the Champs-Elysées
- Garnier’s initiatives to support UNICEF

(1) Source: Euromonitor 2016.
L’Oréal Luxe

Lancôme • Yves Saint Laurent • Giorgio Armani • Kiehl’s • Urban Decay • IT Cosmetics • Shu Uemura • Biotherm • Helena Rubinstein • Yue Sai • Clarisonic • Atelier Cologne • Ralph Lauren • Viktor&Rolf • Diesel • Cacharel • Maison Margiela
An exceptional year driven by iconic brands

Nicolas Hieronimus
Deputy CEO
President L’Oréal Luxe

A fast-growing market
The luxury market is growing strongly, driven on the one hand by the development of a more accessible, easy and relaxed kind of luxury, boosted by social media, and on the other hand, accelerating Chinese consumer spending. This tendency is leading to strong global growth in the selective makeup market, and we are taking full advantage thanks to our makeup and couture inspired brands, and thanks to the comeback of skincare. Meanwhile, new demand is building for a kind of luxury that is increasingly premium and exclusive, as shown by the success of niche fragrances and top-end skincare focused on ever-higher quality. This has led to the desire for exclusive experiences and a constant increase in personalisation.

A comprehensive brand portfolio
The great strength of L’Oréal Luxe is the richness of our brand portfolio, which enables us to meet the expectations of all consumer tribes, at all price levels with a truly global footprint. In addition to our innovative launches, our success lies in our ability to adapt our brands to keep pace with the swift changes of today’s digital world, while preserving the longer time span of luxury. The energy and initiative of our country teams play a decisive role in this area, as in many others.

A promising outlook
Consumer behaviours continued to change this year: our brands’ e-commerce websites are strategic destinations, and our boutiques are places that offer unique experiences and services. And 2018 is looking promising. The selective market is going to remain dynamic. Chinese consumption trends are set to continue, with the growth of the middle class and its appetite for luxury products. Travel Retail will also benefit from this trend.

+10% like-for-like growth in sales at Lancôme

x 2 sales growth at Yves Saint Laurent in three years

3.7 million Instagram followers for @yslbeauty by Yves Saint Laurent

Giorgio Armani and Kiehl’s exceeded €1Bn in sales in 2017

Check out the full interview online

(1) Like-for-like sales growth based on a comparable scope of consolidation and identical exchange rates.
The middle classes in Asia are keen on luxury products. They also perfectly illustrate the two trends that drive the market: younger consumers, who want direct access to iconic brands, often turn to makeup as an affordable option while the most experienced consumers want more exclusive and personalised products or services. Another feature that sets these new consumers apart is their mobility. Chinese customers, in particular, buy luxury beauty products in Asia and around the globe. To meet their expectations, L'Oréal’s Travel Retail teams have adapted their offering in duty-free shopping centres – which can be found in many major Asian cities – as well as in international airports. Couture brands Yves Saint Laurent and Giorgio Armani, with roots in the fashion world and known for their fashion and colour authority, are particularly desired. Their star products draw people to stores and are at the heart of discussions on social networks.
Brand

Lancôme wins over Millennials

Lancôme, the number one selective women’s beauty brand worldwide has reinvented itself to appeal to all generations while remaining an iconic French luxury brand. It stands out from the crowd with innovative packaging, digital marketing and partnerships with influential ambassadors Taylor Hill and Lily Collins. This year’s biggest successes included Monsieur Big mascara, Juicy Shaker and Matte Shaker lipsticks. And let’s not forget the latest addition to the Génifique franchise, Advanced Génifique Sensitive Dual Concentrate, which embodies the essence of Lancôme skincare: effective, innovative and universal. The La Vie est Belle fragrance and its new L’Éclat version were also big hits. Capsule collections for Christmas and Chinese New Year as well as personalisation services such as product engraving also help attract new consumers.

Successful fragrance collections

L’Oréal is meeting consumer demand for exclusive luxury products that remain rare with its private collections – Le Vestiaire by Yves Saint Laurent and the iconic Armani Privé collection – complete with 2017 additions, and niche fragrance brands such as Maison Margiela and Atelier Cologne.

Brand

IT Cosmetics: where makeup meets skincare

Acquired by L’Oréal in 2016, IT Cosmetics is blurring the lines between makeup and skincare. The brand founded by Jamie Kern couples its mission – “to reveal the beauty of every woman” – with a “problem/solution” approach to create formulas that respect the skin and provide scientifically proven results. Launched through TV shows in the United States, the first IT Cosmetics products immediately found their market and enthusiastic customers who share before and after pictures on social networks. Specialising in face makeup, IT Cosmetics has developed a comprehensive offering in the category. Its skincare range, and particularly its anti-ageing moisturiser Confidence in a Cream, also performs well. IT Cosmetics is expanding internationally with a launch in Selfridges in the United Kingdom in 2017 and continued growth in Canada.
Professional Products

L’Oréal Professionnel • Redken • Matrix • Kérastase • Pureology • Decléor
Shu Uemura Art of Hair • Carita • Mizani • Baxter
Professional beauty, a means of personal expression

Creating the best salon experience

At a time when everyone is talking about consumer experiences and community engagement, we have – thanks to our 1.5 million partner hairdressers and the expertise and inventiveness of our teams all over the world – an incredible opportunity to make a difference. Consumers are looking for unique hairstyles, personalised assessments, customised products and creative digital tools that help them express their identities.

Consumer enthusiasm for hair colour is a real opportunity to showcase hairdressers’ expertise and skills. We work with them to co-create colour palettes and new techniques designed to meet consumer expectations. Our innovations and exclusive salon ranges allow them to stay ahead of the game.

Our priority is to provide consumers with the best possible salon experience, and digital technology is a welcome tool. Our Salon Secret content platform and the quality development of new distribution channels has boosted salon traffic, as has the L’Oréal Professionnel Style My Hair app, downloaded over two million times (2).

Back to basics

Our business fundamentals underwent a thorough revamp in 2017. The Division recorded second-semester growth in line with the market, with the success of major brand initiatives. In 2018, we have several assets to provide consumers with a unique and personalised salon experience thanks to our Salon E-motion™ programme and L’Oréal Professionnel Style My Hair app, which now features augmented reality.

Nathalie Roos
President
Professional Products Division

450,000
hairdressers trained each year

250
training studios worldwide

1.5
million partner hairdressers
(out of 7 million total worldwide)(1)

1,500
salon managers from more than 60 countries came together at the L’Oréal Professionnel Business Forum in October 2017

(1) Source: Kline 2016. (2) Official report on downloads iOS and Android Analytics.
Hair colour has become a means for consumers to express their personal identity, style and belonging to a community. Trends—which take inspiration from the world of makeup—are becoming increasingly sophisticated and distinctive: pastel, multicoloured, ombré, etc. These techniques, which professionals have mastered best, firmly place hairdressers and haircare brands at the heart of this movement.

The Professional Products Division works with the best stylists to develop new colours and techniques in line with emerging trends. In the spring of 2017, L’Oréal Professionnel invited 40 celebrated colourists to be involved in every stage of development for a new product: prototype, development of techniques, test workshops and training via tutorials. Colorful Hair, Shimmer, Flash, Pastel Hair, and SmartBond were also developed through co-creation.

L’Oréal also builds creative partnerships with innovative professionals. For example, Redken works with two star hairstylists—Guido Palau and Josh Wood—to create unique looks and share them on social networks each month.

To share its knowledge of trends with hairdressers, L’Oréal Professionnel created a Flash Trend Alert, which sends out a message when a new trend has been identified on social networks.

“Creating a trend is like giving form to the spirit of the times, setting a tone for inspiration.”

Josh Wood, Global Colour Creative Director at Redken
Digitalisation

The digital revolution in hair salons

87% of women consult hairdressing tutorials on YouTube. 700 million beauty videos are watched on the platform each month(1). To stand out and create their identities, social beautistas(2) are looking for advice. To respond to these consumers, the Professional Products Division has adapted its ways of working and created a social listening tool. L’Oréal Professionnel is the first brand to roll out such a model. It can now reply to 100% of comments and questions asked online, but also identify trends that appear in the posts. The Division is also rolling out two programmes – Salon Secret and Salon E-motion™ – designed to enhance salon attractiveness by bringing customers and professionals together. Last but not least, applications have also been developed to showcase professional expertise in the retail channel. The “K Profile” app by Kérastase allows hairdressers to prescribe regimens to be used in salons and at home.

Natural products

L’Oréal is committed to developing natural professional beauty products

Combining beauty and naturalness has become an important purchasing criterion for a growing number of consumers. To meet their expectations, L’Oréal is committed to an approach that combines corporate social responsibility with excellence in skincare. Aura Botanica by Kérastase, an elegant luxury range containing 98% of natural ingredients, also boasts responsible sourcing. Launched worldwide in 2017, Biolage R.A.W. (Real.Authentic.Wholesome.) is further proof of the Group’s commitment to the environment: 99% of the ingredients used to create these haircare products are biodegradable, and, depending on the formula, 70 to 100% are of natural origin. The Division’s portfolio also includes aromatherapy pioneer Decléor.

United Kingdom

From hair salon to “creative hub”

In the United Kingdom, professional hair salons are reinventing themselves to provide customers with unique experiences. Josh Wood – a pioneer in the field – has organised his business into “creative hubs”, to offer customers bespoke hair dyes specially designed to suit them.

READ MORE ONLINE


• What is a trend? Josh Wood shares his approach at Redken
• Hair Fashion Night: 50,000 complimentary hairstyles in a single night
• Four colour trends gaining traction on social networks
• An approach to responsible packaging by the Professional Products Division

(1) Source: Google Trends Q2 2017 vs Q2 2016. (2) Beauty fan on social networks.
Active Cosmetics

La Roche-Posay • Vichy • CeraVe • SkinCeuticals • Roger&Gallet • Sanoflore
Health is the future of beauty

Dermocosmetics: combining health with immediate results

Skincare is the leading category in the beauty market—a category revolutionised by health and spearheaded by dermocosmetics. This area is also perfectly aligned with current trends: the desire for health, safety, well-being, authenticity and naturalness. Consumer expectations are twofold. On the one hand, they want products that combat external, environmental and lifestyle factors through highly efficient products whilst preventing future damage. On the other, they are looking for immediately visible results.

Leading brands that combine health and well-being

Our longstanding conviction that “health is the future of beauty” has put us ahead of the game. With growth that outperforms the market, we have confirmed the Division’s leadership and proven our strategy to be successful. We have a portfolio of perfectly complementary brands.

Brands recommended by healthcare professionals, from aesthetic medicine (SkinCeuticals) to dermatology (La Roche-Posay), to accessible skincare (CeraVe) and natural skincare (Vichy). In the natural market, we have the 100% certified organic brand Sanoflore and fragrant natural products by Roger&Gallet.

Addressing consumer needs

We don’t define ourselves by our distribution channels, but by our vision of health and beauty, which includes products, services and professional advice, regardless of which point of contact our consumers choose. We have two major assets to build consumer trust and our credibility: a close relationship with committed medical experts all over the world who feed our brands’ developments and endorse our products and facilitate engagement; and a longstanding connection with our consumers, who recommend our products to each other and become our most valuable ambassadors.
On social networks, our brands answer consumer questions, and provide them with experiences.

Skincare, especially face care, is an increasingly discussed topic on social networks. Our brands use social media and online platforms to reach out to consumers, providing content that answers their questions.

On forums and social networks, our brands are striving to build communities where information and dermatological advice directly linked to the issues that concern specific groups can be shared. La Roche-Posay targets its communications according to the type of skin problem to be treated: acne (stopspots), dryness (Lipikar families), cancer care (Better skin throughout cancer), moles (Skin Checker), etc. By producing targeted content, the brand engages consumers and focuses discussions on these topics and their treatment through La Roche-Posay products.

Online presence also allows our brands to offer complementary services designed to provide consumers with a comprehensive skincare experience that is both sensory and emotional, thereby building trust. For example, our brands offer skin diagnostics online and in stores, as well as daily skincare regimens like La Roche-Posay’s personalised “J’aime ma peau sensible” programme.

(1) Internal source. (2) Cosmetic diagnosis. (3) “I love my sensitive skin”.

Digital
Responding to new consumer expectations on social networks
Natural products

Minéral 89: the incredibly simple formula for natural skincare

Skincare consumers want natural, authentic, easy-to-use, innovative and effective products that provide pure and immediate sensory experiences. The clearest proof of this universal trend is the global success of Vichy’s Minéral 89 launch on social networks. The product’s simplicity – made from just 11 ingredients, including 89% Vichy mineral water – was an instant hit with consumers. People are also taken by how easy it is to use.

Acquisition

CeraVe: a simple, accessible range

Founded in the United States in 2005 and developed with American dermatologists, CeraVe offers a full range of daily skincare products for the face and body, as well as a range for babies. With its simple, accessible products, the brand perfectly complements the Division’s portfolio. L’Oreal’s USA teams have already integrated the brand into the Group, maintaining its model to boost the Group’s impact: solid recommendations from American dermatologists, widespread distribution, and strong consumer engagement on social networks.

Co-design

Lipikar Stick AP+: co-created by children

Designed for children with eczema, Lipikar Stick AP+ was co-created with young patients and their parents. Through the trials, as improvements were made based on their suggestions, the children grew fond of the product and using it became a game.

READ MORE ONLINE


- Sanoflore, 100% certified organic brand praised by consumers and recognised for its innovations
- SkinCeuticals: the brand that complements aesthetic procedures in China
- Online, in dermacenters and in airports: the Division’s omnichannel strategy
- How do the brands work with dermatologists? Listen to the podcast from the Paris Dermatological Days conference.
Our expertise contributes to sustainable growth
EXPERTISE

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Research & Innovation
To stay ahead of the game, we are both quick and inventive.

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Operations
Operations is accelerating.

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Digital
In a fast digitalising world, L’Oréal is pivoting to a “digital-first” mindset.

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Human Relations
Transforming the company to meet employees’ new expectations.

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Administration and Finance
Building trust and supporting the long-term growth of L’Oréal.

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Corporate Social Responsibility
Making sustainable development part of our daily lives.
To stay ahead of the game, we are both quick and inventive.

Several pivotal shifts are transforming Research & Innovation. New scientific and technological advances, changes in consumer trends, and environmental concerns all present challenges Research & Innovation will rise to as it strives to meet consumer expectations, like all of L’Oréal’s teams. To stay ahead of the game, we are both quick and inventive. Quick, because the Group is underpinned by a wealth of data, patents and research that allows it to develop innovations in record time and better serve consumers. We take advantage of our company’s intellectual capital to roll out “coalescent innovations”, which combine several existing technologies to create new products. Inventive, because our research strategy also focuses on developing disruptive scientific and technological innovations in every cosmetics category. Safety, which is crucial for our customers and the environment, has always been one of L’Oréal’s fundamental commitments.

Predictive evaluation
Creating safe beauty products

To ensure the safety and quality of future products, L’Oréal evaluates ingredient safety very early on, through a rigorous predictive process featuring innovative methods. The wealth of knowledge and data on ingredients and the predictive methods L’Oréal has at its disposal represent significant added value. Big data processing can further help take full advantage of this rich knowledge base. Thanks to tissue engineering, reconstructed human tissue is now an important tool that helps build biological understanding and conduct product application and skin reaction tests including tests for ageing, UV exposure, and pollution.

20 research centres of which 3 global centres in France and 6 regional hubs (United States, Japan, China, Brazil, India and South Africa)

877 million euros i.e. 3.4% of sales invested in Research & Innovation
Ensuring the quality and safety of all L’Oréal products for all consumers has been a priority for the Group for over 100 years. This guarantee relies on a rigorous system which encompasses every aspect of our production process worldwide, from the choice of ingredients to product formulation, from manufacturing to compliance with market regulations.

Safety
100 years of experience in guaranteeing product safety

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Environment
Safeguarding water quality and resources

L’Oréal’s global environmental approach covers a product’s entire lifecycle, from the origins of the raw materials through to end-of-life management. It takes into account the impact a product has on water resources, whose dwindling supply is a major environmental challenge. Research & Innovation pursues two water-protection strategies: preserving existing reserves and assessing their quality. Its initiatives focus on developing cosmetics that use less water and on formulas with minimal environmental impact. L’Oréal evaluates the environmental impact of raw materials used through two key parameters: biodegradability and the absence of aquatic ecotoxicity.

Innovation
Open innovation, the secret behind new beauty products

To enhance flexibility and responsiveness and decrease lead time, L’Oréal pursues open innovation by developing partnerships with laboratories, research institutions, startups, suppliers and more. By combining its vast database, formidable roll-out abilities and innovation expertise with the advances made by other industry players, the Group is contributing to the development of a promising and potent new innovation strategy for the beauty market. In line with this approach, L’Oréal has begun a partnership with the South Korean startup NanoEnTek, which has developed a miniature diagnostic tool which analyses the proteins on the skin’s surface to determine the consumer’s skin type. Combined with a visual assessment and a questionnaire, it recommends a personalised product perfectly suited to the consumer’s needs.

READ MORE ONLINE

• Alliagel®, an innovative, exclusive technology that is revolutionising product formulation
• Personalisation: the basis for trends and innovation
• Watch the video online to learn more about L’Oréal’s sustainable innovation initiatives
• Watch the video online to learn about the six major and lasting changes that are sustainably transforming the world of beauty
• Listen to the podcast online to learn more about L’Oréal’s approach to ingredient safety

(1) Cosmetic diagnosis.
Operations is accelerating

Operations is currently undergoing more structural changes than ever before. Consumers want to be able to access all our products anywhere, anytime, but they also want concrete proof of their quality, traceability, environmental responsibility and naturalness. This context has been a source of inspiration for the way we work for several years now. We have stepped up our global transformation in two strategic areas: on the one hand, the agility of our solutions and processes; on the other, our benchmark role in terms of product safety and quality, and environmental protection.

Agility and exemplary commitments
Agility in our product designs, with in-house 3D laboratories and fast prototyping. Industrial agility, thanks to new Industry 4.0 technologies. Supply chain agility, which is rising thanks to the digital transformation. The quality of the seven billion products we manufacture each year, the safety of our employees, and social and environmental protection are at the heart of what we do. These fundamental principles upheld by Operations ensure a solid competitive advantage for L’Oréal and its brands and exemplify our respect for our consumers, our employees and the planet.

Industry 4.0
Enhancing agility

From prototyping to distribution, new technologies have improved the production process, making it more flexible and efficient for consumers. To quickly roll out prototypes, L’Oréal now has in-house 3D laboratories. To continuously adapt its lines to new trends, the Group relies heavily on digital production tools and has introduced collaborative robots or “cobots” to help operators with certain steps. Machines are also helping to improve data processing. To simplify logistics, L’Oréal is using RFID technology: a chip that serves as a label and simplifies the path to purchase and makes operational management in stores easier. In 2017, L’Oréal opened a NYX Professional Makeup store fully equipped with RFID chips – a first in the cosmetics sector.
L’Oréal is one of just two companies to have received an “A” rating from CDP in each of the three categories: the fight against climate change, responsible water management, and the fight against deforestation.

Environment

Responsible packaging

Packaging – the most important marker of brand identity for consumers – plays a crucial role in purchasing choices for today’s more environmentally-conscious market. Since 2007, L’Oréal has had a “Packaging & Environment” policy that includes the “3R” eco-design approach: Respect the consumer and the environment, Reduce packaging volume and weight, Replace materials having a high environmental footprint with recycled materials or manufactured using renewable energy. As part of the “Sharing Beauty With All” programme, L’Oréal has committed to ensuring all its products feature an improved environmental or social profile by 2020. In 2017, 76% of products met this standard.

Three “A” ratings for sustainable production at L’Oréal

L’Oréal is one of just two companies to have received an “A” rating from CDP in each of the three categories: the fight against climate change, responsible water management, and the fight against deforestation.

E-commerce

Supply chain secrets

In stores or online, consumers expect simplicity and continuity from their purchasing experience. They want to decide where, when and how their product will be delivered. The entire L’Oréal supply chain is undergoing a transformation to improve agility and keep in step with this revolution. To meet this demand, L’Oréal teams organise adaptable real-time solutions, regardless of the origin and destination of the order. The Group, which records an order every two seconds, must reach over a billion consumers scattered across the globe simultaneously and with little lead time. To rise to these challenges, L’Oréal has automated and optimised flows at its logistics centres, located in 50 countries. With cutting-edge Industry 4.0 equipment, L’Oréal is able to supply products to close to 500,000 delivery points worldwide. E-commerce is a global challenge for the Group, which is adapting its offer to suit this new consumption model, with consistent high-quality service, whatever the distribution channel, all while maintaining economic performance.

READ MORE ONLINE


• Operational excellence and cost management create value
• L’Oréal’s first “dry” factory opens in Burgos
• Natural and sustainably sourced: Madagascan vanilla
• Logistics committed to protecting the planet
• Our report on Industry 4.0 at L’Oréal
Digital

Lubomira Rochet
Chief Digital Officer

In a fast digitalising world, L’Oréal is pivoting to a “digital-first” mindset

In 2017, L’Oréal continued to expand its digital leadership in all areas: e-commerce, marketing, social networks and cosmetics technologies. E-commerce now accounts for 8% of Group sales and is L’Oréal’s third “country”, after the United States and China. The boom in online sales has significantly contributed to the Group’s growth and played a positive role in all categories. Social networks, engagement and influencer marketing play an increasingly important role in our brands’ marketing strategies. In 2017, four L’Oréal brands made the Earned Media Value Top 10: L’Oréal Paris, NYX Professional Makeup, Maybelline New York and Urban Decay.

A sustainable digital transformation
L’Oréal’s digital transformation is building momentum, and we are doing everything in our power to ensure it is a lasting one. First, the Group measures its digital return on investment, to ensure the transformation is sustainable and successful. Next, L’Oréal is committed to respecting data confidentiality with a view to building trust and loyalty between brands and their consumers. Finally, L’Oréal trains and motivates all its teams and employees to be a part of the digital acceleration.

Thanks to its ability to adapt, L’Oréal has turned the digital revolution into a powerful tool that drives its competitive edge and brings it closer to consumers in a sustainable, respectful and inclusive model.

Technology
How augmented reality is revolutionising the beauty experience

In stores, customers can benefit from the advice of professionals and try out products before making a decision. To provide the same level of service online, the brands have developed “beauty companions”. These digital services guide consumers and help them choose the right products for them.

In addition to providing targeted advice, they also allow users to test products virtually, with very realistic results: 3D makeup and hair colour testers, complexion detectors, skin assessments, etc. L’Oréal and Perfect Corp. launched a global partnership to integrate the Group’s makeup products into the YouCam Makeup augmented reality app, which is also available in stores. L’Oréal Professionnel announced the launch of the first 3D hair colour tester: based on artificial intelligence, it has been incorporated into the Style My Hair app, which is used by consumers and hairdressers.

8% of consolidated Group sales from e-commerce

15,500 people trained through the Digital upskilling programme
With more than 38% of its media budget invested in digital platforms, a billion people visiting its websites and nearly 250 million followers on social networks, L'Oréal is adapting its content to the new creative codes of the digital world. The campaigns for Colorista by L'Oréal Paris, Fructis by Garnier, Minéral 89 by Vichy and the Yves Saint Laurent Vernis à Lèvres range were designed for digital platforms such as Facebook and Instagram and performed really well with consumers. People all over the world now also want personalised content. Thanks to the precision marketing programme and our teams’ agility in the subsidiaries, the Group is increasingly personalising content to a specific context and path to purchase to ensure the right message is sent at the right time. To evaluate return on investment, the Digital team has developed a set of powerful proprietary tools that marketers in the countries and media directors can now use to measure the real-time performance of their digital campaigns and focus on the most effective channels. These measures in the countries, shared widely throughout the Group, contribute to the Group's best practices.

L’Oréal and General Assembly developed DM1 or “Digital Marketing Level 1”: a professional test designed to help individuals and companies assess the full range of skills required for digital marketing today. L’Oréal is the first company to use DM1 on a large scale.

L’Oréal backs the new generation of beauty entrepreneurs by establishing partnerships with startup incubators like Founders Factory in London or Station F in Paris. The Group provides these young businesses with a team of internal experts who offer operational support and mentoring. L’Oréal’s 100 years of beauty experience and access to a wealth of marketing, research and innovation, and operational specialists are a real asset for these young entrepreneurs. In return, L’Oréal’s brands benefit from innovations launched by startups, from their creativity and ability to bring innovative services to market before anyone else. L’Oréal is the official sponsor for a beauty startup accelerator at Station F.

Digital marketing

Digital communications: a pillar of marketing strategies

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Open innovation

Co-creating the future of beauty with visionary startups

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Digital skills at the heart of professional transformations

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READ MORE ONLINE


• China leads in online sales
• L’Oréal China’s digital strategy in podcast by Hagen Wuefelter
• Beauty startups: watch the video with Eshe Omoruyi
• Focus on e-commerce in the Performance section

(1) Digital marketing practice that focuses on very narrow target segments, or on bigger segments by personalising messages for a large number of ‘micro-targets’. (2) International leader in the online training segment.
Human Relations

Transforming the company to meet employees’ new expectations

Our Human Relations policy has always been for one and for all: on the one hand, we recruit and nurture talents and the Group’s future executives through very personalised trajectories, and on the other, we strive to build a solid Group with an inclusive, collaborative and protective environment and a strong corporate entrepreneurial culture.

In addition, we are responsible for helping the company evolve and for supporting employees through the process. Human Relations now plays this change management role on a continuous basis in a world where the workplace is constantly changing, where the economic context is volatile, uncertain, complex and ambiguous (VUCA), and where the digital revolution is changing professions and ways of working.

We are witnessing the emergence of a new approach to careers: employees expect greater flexibility and are willing to try out different careers but still demand high social protection. This emerging status quo has created new challenges for the company, whose strength lies precisely in its ability to transform itself and meet the dual expectations of flexibility and protection.

Simplicity

Changing the way we work

L’Oréal is changing, and so are our ways of working. The Simplicity programme was created to support this transformation and infuse the company with a new mindset based on cooperation and trust.

With this comprehensive programme, the Group is laying the groundwork for agile and lasting growth by training adaptable, efficient teams. It is also ensuring its continued attractiveness as a benchmark employer that offers increasingly interesting and innovative jobs as well as a high-quality work environment. Simplicity has been rolled out throughout the Group through a manifesto shared with all employees, and through training programmes like Lead & Enable, which supports managers as they navigate these changes in work practices.

8th
most attractive company for students, Universum 2017

1st
global company in terms of gender equality in Equileap ranking

(1) Source: Business students, all industries combined, Universum, 2017. (2) Company transformation programme to move towards greater collaboration and cooperation.
Corporate culture

Building attractiveness and engagement

To better share its values with all employees, particularly those who have just joined the Group, Human Relations has created a document titled Life@L’Oréal, which communicates the L’Oréal culture to new employees. New employee orientation has also been strengthened through the inclusion of events focused on our corporate culture and strategic vision. Each new employee is also encouraged to download the new FIT culture (1) application. This digital coach helps employees appropriate key values through challenges, personal stories and videos. In addition to this daily guidance, employees can also benefit from MOOCs (2) and corporate culture learning games.

Read the full article on the digital version.

Share & Care

L’Oréal’s commitment to social protection

The Share & Care programme, launched in 2013, has rolled out the L’Oréal social model worldwide, to align employee benefits with the highest standards: a minimum of 14 weeks maternity leave, death and disability benefits, flexible work hours, improved working conditions, etc. The programme is now entering a second phase, with new measures set for implementation by 2020 to enhance social protection in four areas: benefits, health, parenthood and quality of life at work. Upcoming measures will include instituting a minimum paternity leave of 10 days with full pay, expanding flexible working hours and telecommuting wherever possible, and broadening the scope of employee benefits.

Equileap

No.1 in gender equality

L’Oréal was ranked number one by Equileap 2017, the first global, inter-industry ranking to measure gender equality performance. Nineteen criteria were used to assess 3,048 companies from 23 countries.

Read more online:


- Slideshow of the initiatives undertaken worldwide as part of the Share & Care programme
- L’Oréal is changing its management methods with the Lead & Enable programme
- Progress made with the Simplicity programme

(1) FIT, Follow Up and Integration Track. (2) Massive Open Online Course.
Building trust and supporting the long-term growth of L’Oréal

2017 was another year of growth in sales, results and profitability. The Administration and Finance teams work towards fostering a solid relationship of trust with all stakeholders centred around attentiveness, constant vigilance, fairness, transparency, professionalism and an ethical approach in our interactions. A focus on service, expertise, monitoring and best practices is at the heart of all that we do.

This year once again, the Administration and Finance teams worked closely with the Group’s different entities. They strongly contributed to the economic and financial management of L’Oréal’s businesses, helping to identify risks and opportunities, implement solutions in response to changes in consumption and buying habits, and optimise real-time allocation of resources.

The Group’s financial health is underpinned by committed operational discipline, closely monitored cash flows and secure financing. We maintain a close relationship with shareholders based on dialogue that consistently provides fair and transparent information as well as a practical perspective about the Group’s activities within the beauty market. The Administration and Finance teams also work to assist the Board of Directors and its Committees with a view to ensuring the long-term growth of L’Oréal.

Brands
Protecting its assets

The “Intellectual Property – Brands” department interacts with the operational and functional Divisions throughout the product lifecycle: prior to launch to safeguard L’Oréal’s intellectual property and ensure there is no infringement of third-party intellectual property rights, and post-launch to ensure that the Group’s brands are not copied. With marketing and the countries, it protects the various components of a brand’s identity: a signature (Lancôme), a product line (Fructis), the name of a product (Colossal) or ingredient (Aminexil), a slogan (“Because I’m worth it”), the form of a product (Viktor&Rolf Bonbon bottle), a logo (K Kiehl’s) or even a colour. With the Research & Innovation, Operations and Marketing teams, the department works on patents that protect technological innovations, such as Lancôme’s Génifique Advanced Sensitive Dual Concentrate. All this strengthens L’Oréal’s competitiveness.
Shareholders

Registered shares: loyalty bonus

Shareholders who hold their shares in registered form receive a loyalty bonus of +10% of the dividend(1) after holding registered shares continuously for two full calendar years up until the dividend payment date. The +10% loyalty bonus is maintained in subsequent years if the shares continue to be held in registered form. Registered shares are registered in the holder’s name, which means that they also receive information directly from L’Oréal and are invited to attend the Annual General Meeting. Holding registered shares has no distinct tax implications as they are subject to the same taxation rules as bearer shares.

Listening to shareholders’ views

To make financial information even more accessible, this Annual Report is now translated into Mandarin Chinese. The digital version incorporates the latest technology, including a navigation assistant which makes it easier to explore content illustrating the Group’s performance and outlook.

READ MORE ONLINE


- Focus on growth and operational discipline: the L’Oréal model
- L’Oréal recognised for transparency and ethical practices
- Operational discipline and cost control: two-drivers for value creation

(1) Up to a maximum of 0.5% of the share capital for any one shareholder, on the date of year-end closing.
Corporate Social Responsibility

Making sustainable development part of our daily lives

Consumer and employee expectations are evolving to focus on greater consciousness, health and naturalness. We are witnessing a real environmental awakening which is changing the way in which consumers make choices and the way we work.

L’Oréal participates in and supports this significant shift in mindset by developing sustainable production and consumption methods. With the founding of “Sharing Beauty With All” in 2013, we are committed to reaching ambitious 2020 goals. Significant progress was made in 2017. For the second consecutive year, CDP\(^1\) rewarded this quest for progress by awarding L’Oréal three “A” ratings.

L’Oréal aims to actively help overcome the serious environmental challenges facing our planet. As part of the Science Based Targets\(^2\) initiative, we have set a new series of goals for 2030; we will reduce our total greenhouse gas emissions – direct and indirect – by 25% in absolute value compared with 2016. By 2025, all of our sites will be required to achieve carbon neutrality and all our plastic packaging will be refillable, reusable, recyclable or compostable.

This transformation to make L’Oréal more responsible and sustainable plays a fundamental role in the Group’s strategy: it contributes to employee pride and benefits consumers, the beauty sector as well as future generations.

\(^1\) CDP is an independent international organisation that evaluates companies’ environmental performance. \(^2\) Programme launched by CDP, the UN Global Compact, the World Resources Institute (WRI) and NGO WWF to assess companies’ contributions to fighting global warming.
**Climate**

**Women fight against climate change**

The Women4Climate initiative was launched by C40 Cities, an international network uniting 90 big cities and metropolitan areas across the globe in their efforts to fight climate change. With this mentoring initiative, the network aims to support and train women as they develop local solutions aimed at limiting the impact of global warming. L’Oréal joined the initiative as a founding partner. In the cities that have joined the programme, L’Oréal mobilises women leaders from the Group to mentor young women selected locally and help them develop their projects and strengthen their leadership abilities. Partnerships have already been set in motion in Mexico City and in Paris, where Alexandra Palt and Barbara Lavernos serve as mentors. 650 million people from 90 cities are represented by C40 Cities.

**Sustainable development**

**Responsible beauty in China**

In 2017, L’Oréal China celebrated its 20th anniversary, as well as significant progress in terms of sustainable development in the four areas of the “Sharing Beauty With All” programme. To reduce the environmental impact of formulas and packaging, L’Oréal is innovating to improve the biodegradability of its formulas and reduce water consumption related to product use. For example, the L’Oréal Paris range of anti-dandruff shampoos is 95.1% biodegradable, and its water footprint is 90% lower than the category average. With the Suzhou factory fully powered by renewable energy, China is also doing its part in terms of sustainable production. To raise awareness about more sustainable and responsible lifestyles, the Group partnered with the Chinese Ministry of the Environment to launch a “green consumption initiative” in 2017. L’Oréal China is also committed to supporting communities on the ground by developing partnerships with local organisations or working with the L’Oréal Corporate Foundation.

**India**

**Digital solidarity sourcing**

Located in a “priority development zone” of the Chennai Metropolitan Area, L’Oréal’s Website Factory employs 69 people, a number which is expected to double in 2018. This initiative revolves around: job development, inclusion of vulnerable local communities, and equal treatment for women and minorities. L’Oréal Paris, Garnier, Kérastase and Essie already use this service to roll out and maintain their websites.

**READ MORE ONLINE**

- How does L’Oréal transform its industrial sites? Listen to the podcast
- The “Sharing Beauty With All” progress report
- How does L’Oréal innovate sustainably? Watch the video
- More on the Group’s initiatives to preserve global water resources
Consult all the 2017 publications

Annual Report
Overview of L’Oréal in 2017, its Divisions, brands and countries, driven by its mission - Beauty for All - and strategy - Universalisation.

Progress Report
2017 Progress Report of the “Sharing Beauty With All” sustainability programme.

Registration Document
This document includes the integrated Report, in particular the 2017 financial statements, the Annual Financial Report, the Management Report of the Board of Directors including a section on Social and Environmental Responsibility.
Environmental calculator (1)

Text pages

- brand: Cocoon Silk
- basis weight: 190 g/m²
- number of pages: 60

Cover

- brand: Cocoon Silk
- basis weight: 300 g/m²
- number of pages: 4

By using Cocoon Silk rather than a non-recycled paper, the environmental impact was reduced by:

- 1,564 kg of wood
- 210 kg CO₂
- 2,019 km travelled in an average European car
- 60,994 liters of water
- 3,583 kWh of energy
- 2,541 kg of wood

The digital version of this document is conform to Web content accessibility standards, WCAG 2.0, and is certified ISO 14289-1. Its design enables people with motor disabilities to browse through the PDF using keyboards commands. Accessible for people with visual impairments, it has been tagged in full, so that it can be transformed vocally by screen readers using any computer support. It has also been tested fully validated by a visually-impaired expert.

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Download the L’Oréal Finance app on your smartphone or tablet to access the Group’s latest financial news: strategic presentations, share price, webcasts of events and more.
FOR THE FULL VERSION OF THE 2017 ANNUAL REPORT

visit loreal-finance.com or the L’Oréal Finance app