



URBAN DECAY, the Californian L'Oréal Luxe brand, recorded very strong growth in the first half of 2014.

## DEAR SHAREHOLDERS,



■ In the first half of 2014, sales showed contrasts by distribution channel. L'Oréal Luxe is growing rapidly, driven by the vitality of the American brands URBAN DECAY, KIEHL'S and CLARISONIC and by the success of fragrances with LANCÔME, "La vie est belle" and GIORGIO ARMANI, SI.

The Active Cosmetics Division also delivered a very good performance thanks to LA ROCHE-POSAY, which this year once again is growing very strongly, the continuing recovery of VICHY, and the roll-out of SKINCEUTICALS.

The international development of this Division is presented in the Analysis section.

The Professional Products Division is confirming its gradual improvement across all its brands, particularly KÉRASTASE, which is showcased in this letter and is celebrating its 50<sup>th</sup> anniversary.

The Consumer Products Division's growth is held back by a sluggish American market, to a certain extent by a slowdown in the New Markets, and a market which is marking time in Western Europe.

*“Growth in the cosmetics market is slowing this year, and the economic and monetary environment remains uncertain, but we are confident in L'Oréal's ability to once again outperform the market in 2014.”*

**JEAN-PAUL AGON**  
Chairman and CEO of L'Oréal



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### How L'Oréal ROLLS OUT ITS ACTIVE COSMETICS DIVISION INTERNATIONALLY

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**ANALYSIS**

Universalisation in action

# How L'Oréal ROLLS OUT ITS ACTIVE COSMETICS DIVISION INTERNATIONALLY

**No.1**

IN DERMOCOSMETICS  
WORLDWIDE <sup>(1)</sup>

**5 COMPLEMENTARY  
BRANDS:**

VICHY, LA ROCHE-POSAY,  
SKINCEUTICALS, INNÉOV, SANOFLORE

2014 FIRST-HALF:

■ ACTIVE COSMETICS DIVISION  
GROWTH:

**+8.1%** <sup>(2)</sup>

■ DERMOCOSMETICS MARKET  
GROWTH:

**+5.5%** <sup>(3)</sup>



*Reaching beyond its traditional market in Western Europe, the Active Cosmetics Division is today grasping all international opportunities. A closer look at the Division's development as part of the universalisation strategy.*

**A dynamic Division in a rapidly developing market**

■ Historically strong in Western Europe, the dermocosmetics market has seen its internationalisation accelerate over the last few years. Its growth is also underpinned by strong consumer appeal of products that closely match their health, safety and efficacy concerns. With +8.1%<sup>(2)</sup> growth in the first half, the Active Cosmetics Division is taking full advantage of this expanding market. Drawing on privileged partnerships with health professionals and its positioning in the health-beauty-safety territory, it is ideally placed to meet consumer expectations and roll out its brands all over the world.

**New approaches in health and beauty**

■ While pharmacies and parapharmacies remain at the core of the business in Western Europe, the Division is continuing to diversify its distribution channels to adapt to realities and opportunities in the different regions. The Division is present in drugstores, is setting up dermacenters in department stores, and is committed to e-commerce – which already accounts for 15% of the Division's sales in China.



## Targeting the New Markets

With growth of +7.3%<sup>(2)</sup> in 2013, the Active Cosmetics Division is setting its sights high in China. To win over increasing numbers of Chinese consumers, it relies both on its image of French expertise, and on growing demand for products that combine safety and quality. Brazil is another emblematic example of the successful internationalisation process: in 2013 it became the number three country of the Division, which is the Brazilian dermocosmetics market leader<sup>(4)</sup>.



## French industrial expertise from springs to products

The thermal waters of VICHY and LA ROCHE-POSAY each have specific beneficial properties that have been recognised in scientific studies. They are included in all the products of both brands, in a wide range of formulations devised by L'Oréal Research for the whole world.

Thermal waters are essential ingredients, but they are extremely fragile and cannot be reproduced in the laboratory. The production of the Active Cosmetics Division is therefore located as close as possible to the springs, in the long-established factories of VICHY and LA ROCHE-POSAY.

They embody industrial expertise gathered over more than 40 years, with extremely high standards in terms of safety, quality and environmental requirements.

Some 27 million euros have been invested over the last three years at the VICHY production site to support the Division's growth and internationalisation.

In 2013, some 270 million units were produced, and some 90% of them were exported all over the world.



In the Active Cosmetics laboratories at Chevilly-Larue, France, L'Oréal Research teams develop formulations for the whole world.



Active C[10] by LA ROCHE-POSAY, a facial skincare tailored to meet Brazilian consumers' expectations.

Professional advice and recommendations, the keystones of the success of Active Cosmetics' business model, also play a role in these new channels: from the expert dermo-advisors in sales outlets to the dermatologists whose recommendations and diagnoses are available via the Internet and mobile apps.

(1) Source: Panels and L'Oréal 2013 estimates. (2) Like-for-like. (3) Source: L'Oréal provisional estimates of the worldwide cosmetics market in net manufacturer prices. Excluding soap, oral hygiene, razors and blades. Excluding currency effects. (4) Source: IMS Brazil panel, dermocosmetics market, market share value 2013.

**BRANDS**

*The best of beauty for all*

# KÉRASTASE

## 50 YEARS AS A PIONEER IN HAIR LUXURY

*Since 1964, KÉRASTASE has been pushing back the boundaries of professional haircare to make women's hair their most attractive beauty attribute.*

**1984**

*The launch of Lait Vital, first fluid conditioner: its light texture creates a haircare beauty routine that appeals to the senses.*



**1987**

*KÉRASTASE invents sun care for hair, a specialised range to protect hair before and after exposure.*



**2013**

*The Stemoxydine® molecule, one of the main discoveries of L'Oréal Advanced Research, is at the heart of the Densifique scalp care which promotes hair density.*

**1964**  
*Created by François Dalle, the KÉRASTASE brand is launched to open up the way to haircare for hairdressers.*



**50 years of expertise and innovation**

■ To meet women's perpetually evolving desires and expectations, KÉRASTASE has from the outset offered innovative professional products which over the years have taken on cult status in the haircare sector: from the first haircare mask with corn germ oil in 1979 to Laque Couture hairspray in 2013. The pioneering spirit of KÉRASTASE has also taken it into new hair beauty territories, as in 1987 with the first sun care range for hair, and in 2012 with the scalp care serum Initialiste.

**50 years of service and luxury haircare**

■ The history of KÉRASTASE also embodies half a century of expertise and of working closely with hairstylist-consultants, to provide them with tailor-made beauty routines increasingly focused on a sensorial experience and luxury. The shampoo becomes a hair bath, thermo-activated milks target the hair fibre, and serums are used on the tips or scalp. For its hairdressers the brand creates a unique three-step beauty routine with carefully-conceived methods: cleanse, treat and texturise. And in 2014? KÉRASTASE is continuing its constant efforts to innovate and its rise in luxury, by striving for excellence in the consumer experience.

## INNOVATION

Beauty in the digital era

# THE DIGITAL REVOLUTION APPLIED

*The digital innovation of L'Oréal was highlighted when the group presented the very latest Makeup Genius app from L'ORÉAL PARIS at the Cannes Film Festival last June. Let's move into the connected beauty era!*



## Digital and beauty, a duo with strong potential

■ Digital is continuing to revolutionise the beauty market. Now an integral part of the purchasing process, it guides consumer choice, particularly through peer recommendations and opinions. It is also re-defining the relationship between brands and consumers, which is becoming richer and more personalised through permanent dialogue. To imagine what the consumer experience will be like tomorrow, L'Oréal has created an innovation incubator dedicated to connected beauty in Silicon Valley.

## At the cutting edge of virtual make-up

■ Following the success of its Switch the Look app, L'ORÉAL PARIS is now inventing augmented reality make-up with Makeup Genius. This app operates like a virtual mirror, simulating in real time the way make-up would actually look on the consumer in motion.

In a category where trying out the product is crucial in the purchase decision, L'ORÉAL PARIS enables consumers to test a large number of products with a minimum of effort, as well as looks inspired by the brand's collections and ambassadors.

Makeup Genius offers users the possibility of sharing photos on social networks or purchasing the selected products. One year after launching its e-commerce site, L'ORÉAL PARIS is now surfing on the rise of mobile commerce. The app can also be used directly in sales outlets, by scanning the barcode of the product to be tested. Another first for L'Oréal: a new service and consumer experience that makes it stand-out in the mass-market world.

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## In China, L'Oréal visits the Air Quality app

In the run-up to the October launch of Makeup Genius, L'Oréal China is continuing to set up innovative initiatives tailored to suit local practices and trends. One important concern for Chinese consumers is the impact of the environment on the quality and health of their skin. L'Oréal China has thus joined forces with Air Quality, one of the country's most popular mobile air quality apps, to highlight group brands whose products deal with this concern. As a result, CLARISONIC and VICHY, amongst others, are now benefiting from greater visibility thanks to this app used on a daily basis by large numbers of consumers, in a country where mobile commerce is expanding.

DOWNLOAD  
 THE MAKEUP  
 GENIUS APP  
 AND EXPERIENCE  
 AUGMENTED  
 REALITY MAKE-UP.



**STRATEGY**

Worldwide advances for L'Oréal

**ACQUISITION**

**NYX COSMETICS**  
A STRATEGIC  
ACQUISITION FOR  
THE CONSUMER  
PRODUCTS DIVISION

■ On July 30<sup>th</sup>, 2014, the acquisition of the American make-up brand NYX COSMETICS was completed. Sold in mass-market outlets, this brand – rooted in professional make-up artistry – is posting very strong growth in the United States, thanks to its highly original communication strategy and cult products such as The Curve eyeliner.



**BRANDS**

**BACK TO GROWTH IN A DIFFICULT MARKET:  
TWO SUCCESS STORIES FOR L'ORÉAL IN SPAIN**

**MATRIX is forging ahead**

■ With double-digit growth in the first half<sup>(1)</sup>, MATRIX is strengthening its positions in Spain. In a complex professional channel, the brand has found the right equation to win over both hairdressers and consumers. Its American heritage gives it an enterprising and upbeat image ideally suited to salons eager for change and innovation. Colorinsider, the first ammonia-free hair colourant from MATRIX, is attracting and winning the loyalty of Spanish consumers.



(1) Like-for-like.

**KIEHL'S  
is out to conquer  
the Spanish  
market**

■ Stepping up both visibility and popularity is the American brand's goal in Spain, particularly via an increasingly extensive and exclusive distribution network – with some thirty stores along with counters in department stores. In the Spanish market, facial skincare is a key category for KIEHL'S, driven primarily by two flagship products: Midnight Recovery Concentrate and Powerful Strength Line Reducing Concentrate.



**L'ORÉAL IN FIGURES**  
2014 half-year results

## A SOLID FIRST HALF

*With contrasted growth by Division and a good progression in operating profitability, L'Oréal has reasserted its confidence in achieving another year of growth in sales and profits.*

**€11.17 bn**

OF SALES

**+3.8%** LIKE-FOR-LIKE

**-1.5%** BASED ON REPORTED FIGURES

■ **NET EARNINGS PER SHARE<sup>(1)</sup>:**  
**+7.5% AT €3.17**

■ **GROSS PROFIT +10 BASIS POINTS**  
**AT 71.8% OF SALES**

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**18.2%** *a historic level of operating profitability*

■ In the first half, operating profit, at 2.029 billion euros, represented 18.2% of sales. Operating profitability, which has increased by +30 basis points, illustrates the robustness of L'Oréal's strong value-creating business model.



**+7.4%**<sup>(2)</sup>

*growth for L'Oréal Luxe*

■ In the first half, the Division continued to make market share gains in all regions of the world. It is being driven by the vitality of the American brands that are leading the way in growth terms, primarily with URBAN DECAY, which has posted growth of +93%<sup>(2)</sup>, as well as CLARISONIC and KIEHL'S. The Division's dynamism also continued thanks to the success of the European brands' initiatives, particularly the fragrances "La vie est belle" by LANCÔME and Si by GIORGIO ARMANI.

*“Following the finalisation on July 8<sup>th</sup>, 2014 of the strategic transaction between L'Oréal and Nestlé, the group will record this year a capital gain of more than 2 billion euros.”*

**CHRISTIAN MULLIEZ**  
Executive Vice-President, CFO



(1) Diluted earnings per share based on net profit of continuing operations, excluding non-recurring items, attributable to owners of the company, adjusted for the strategic transaction as from January 1<sup>st</sup>, 2014.  
(2) Like-for-like sales growth.

**L'ORÉAL AND YOU**

Close relationship with our shareholders



**Meet up with L'Oréal at the Actionaria Fair!**

For eleven years now, L'Oréal has been present at the Actionaria Shareholder Fair to meet up with its individual shareholders. This year once again the whole Financial Communications team will be on hand to welcome you on November 21<sup>st</sup> and 22<sup>nd</sup> at the L'Oréal stand, answering your questions and providing insight into the group's activities and strategy. On Friday, November 21<sup>st</sup> at 3 p.m., make sure you don't miss the Shareholder Meeting<sup>(1)</sup> to be chaired by Jean-Paul Agon, Chairman and CEO, and Christian Mulliez, Executive Vice-President, CFO.

**L'ORÉAL SHARE versus CAC 40**

September 15<sup>th</sup>, 2009 to September 15<sup>th</sup>, 2014.

Over 5 years, the L'Oréal share has outperformed the CAC 40 index.

**+83.63%**

L'Oréal share variation since September 15<sup>th</sup>, 2009

**+18.03%**

CAC 40 variation since September 15<sup>th</sup>, 2009



**YOUR SHAREHOLDER MEETINGS IN THE 2<sup>ND</sup> HALF OF 2014**

- Anancy** on 09/25
- Lille** on 09/29
- Cannes** on 11/17
- Nantes** on 11/24
- Dijon** on 12/09

[www.loreal-finance.com/eng/shareholders-corner-key-dates](http://www.loreal-finance.com/eng/shareholders-corner-key-dates)

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Receive the loyalty bonus: a dividend increase of 10%. That is a dividend of €2.75 instead of €2.50<sup>(2)</sup> for shareholders having held registered shares for more than 2 years<sup>(3)</sup>.

WATCH THE TESTIMONIALS OF SHAREHOLDERS WHO HAVE CHOSEN REGISTERED SHARES

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(1) Subject to seating capacity limits. (2) Dividend approved at the Annual General Meeting of April 17<sup>th</sup>, 2014 for the 2013 financial year. (3) For shares held continuously in registered form for two full calendar years and until the date of payment of the dividend.