

L'ORÉAL  
FINANCE

# The letter

TO SHAREHOLDERS

N°.69-SPRING 2018

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—HAPPY—  
NEW YEAR  
新春快乐



LANCÔME  
PARIS

COME



新一年 更美好的祝福

LANCÔME  
PARIS

—HAPPY—  
NEW YEAR

新春快乐

中央商场



THE CENTRAL

L'ORÉAL

# Message from the Chairman

**JEAN-PAUL AGON**

*Chairman and Chief Executive Officer*



“**BEAUTY HAS NEVER LOOKED THIS GOOD.**”

“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, **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 was proposed at the Annual General Meeting, on 17 April 2018. The Group has once again shown the strength of its powerful, balanced and value-creating business model. 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 development is crucial.

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.”

# Performance



## 2017 ANNUAL RESULTS

Sales at 31 December 2017

**€26.02 Bn**

**+4.8%**  
like-for-like<sup>(1)</sup>

**+2.0%**  
at constant exchange rates

**+0.7%**  
based on reported figures<sup>(2)</sup>

**Weight of digital in sales<sup>(3)</sup>**

**€2.1 Bn**

of sales in e-commerce

**8.0%**

of consolidated sales in e-commerce

**+33.6%**

of like-for-like growth in e-commerce in 2017<sup>(4)</sup>

**Operating profit**

**€4.68 Bn**

**Earnings per share<sup>(5)</sup>**

**+3.0%**

**Sales exceeding in the New Markets**

**€10 Bn**

**Record operating margin 18%**

**Dividend<sup>(6)</sup>**  
at 3.55 euros

**+7.6%**

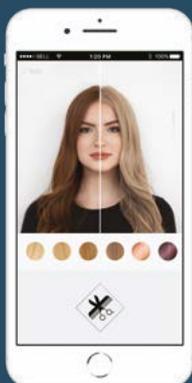
(1) Like-for-like sales growth: based on a comparable scope of consolidation and identical exchange rates. (2) In the full-year 2016, reported Group sales included the sales of The Body Shop in amount of 920.8 million euros. (3) Sales achieved on our brands' own websites + estimated sales achieved on our brands corresponding to sales through our retailers' websites (non-audited date); like-for-like growth. (4) Like-for-like: based on comparable structure and identical exchange rates. (5) Diluted earnings per share, based on net profit, excluding non-recurring items, after non-controlling interests, from continuing operations. (6) Proposed at the Annual General Meeting of 17 April 2018.



To discover all the Group's results, visit the 2017 Annual Report, on [www.loreal-finance.com/en/annual-report-2017](http://www.loreal-finance.com/en/annual-report-2017)

# Looking to the future

## L'Oréal acquires ModiFace further expanding its worldwide expertise in Beauty Tech



L'Oréal announces the acquisition of the Canadian company **ModiFace**, an internationally recognised leader in augmented reality and artificial intelligence applied to the beauty industry. This acquisition is in line with L'Oréal's digital acceleration strategy to provide the Group's 34 international brands with the most innovative technologies in terms of services and beauty experience.

Founded by **Parham Aarabi** 11 years ago in Toronto, ModiFace has developed advanced technologies of 3D virtual makeup, colour and skin diagnosis services using proprietary

know-how which track facial features and colour, and are used by nearly all the major beauty brands. ModiFace employs nearly 70 engineers, researchers and scientists who have submitted more than 200 scientific publications and registered over 30 patents.

ModiFace will be part of L'Oréal's Digital Services Factory, a dedicated network to design and develop new digital services for the Group's brands. ModiFace will work in close collaboration with L'Oréal's Advanced Research, and benefit from an unrivalled century-old expertise in beauty. ModiFace will remain based in Toronto close to the university with which it has established many research partnerships.



## L'Oréal advances its commitment to promoting sun safety with La Roche-Posay UV Sense, the first battery-free wearable electronic UV sensor

L'Oréal, developed its first commercial sunscreen product in 1935, furthered its 80-year commitment to sun safety with the unveiling of **UV Sense, the first battery-free wearable electronic UV sensor**, at the 2018 Consumer Electronics Show.

L'Oréal has long been dedicated to sun safety through research, product innovation, and public education campaigns, as well as funding significant research with the Melanoma Research Alliance to prevent certain skin cancers. In 2016, La Roche-Posay, L'Oréal's leading dermatological skincare brand, launched the first-ever stretchable skin sensor to monitor UV exposure, My UV Patch.

To further encourage consumers to change their sun safety behaviours, the **new UV Sense is smaller, and offers longer wear and real-time data**. The new wearable is designed to be worn on the thumbnail.

## MODIFACE





## BECOME A REGISTERED SHAREHOLDER

and take advantage of the loyalty bonus on your dividend

# +10%

### WHAT ARE REGISTERED SHARES?

Registered shares are registered **in your name**, which enables you to receive information from L'Oréal directly.

### YOUR LOYALTY IS REWARDED

If you register your shares, L'Oréal offers you an additional dividend of **+10%**<sup>(1)</sup>.

(1) After two years of continuously holding registered shares, up to a maximum of 0.5% of the capital for the same shareholder, at the closing date of previous financial year.

## BEFORE THE END OF 2018

You register your shares.

## 2019 / 2020

You hold your registered shares continuously for two full calendar years.

## FROM 2021

For the financial year 2020, you receive for the first time the **+10% loyalty bonus** for your shares continuously held in registered form since 2018.

You will be entitled to receive the +10% loyalty bonus in subsequent years if you hold your shares continuously for two full calendar years.

**TO BECOME A REGISTERED SHAREHOLDER, consult the Shareholders' Corner at [www.loreal-finance.com](http://www.loreal-finance.com)**

## House 99: a global brand to change the rules of the grooming game

This highly anticipated launch was created by David Beckham in partnership with L'Oréal Luxe to provide all the tools men need to experiment with their look in order to express their own evolving style and unique identity.

House 99 takes a holistic approach to grooming, merging British barbershop culture and style with hair, skin, beard and tattoo creativity to build a home for every man's next look. This new grooming brand has been launched in the UK, exclusively at Harvey Nichols, in February 2018, and will roll out to other British retailers, and in 19 countries, from 1 March 2018.



## L'Oréal leader in sustainability in 2017 in CDP<sup>(1)</sup> and Newsweek Green Rankings

L'Oréal was recognised by several major independent international organisations for its leadership in sustainability in 2017. Recently published by **Newsweek Green Ranking** in partnership with **Corporate Knights**, L'Oréal achieves a combined Newsweek Green Score of 89.90%, ranking as the top performing global company and best performing personal products company amongst 500 companies in the world.

(1) CDP is an independent international organisation which assesses companies' environmental performance.

## CHINA: BEAUTY IN THE MIDDLE KINGDOM

*Twenty years ago, L'Oréal China was born. It started with a dream: putting a lipstick in the hands of every Chinese woman. Twenty years later, L'Oréal is a major beauty player in China<sup>(1)</sup> and China has become the second largest market for the Group. It has developed a unique and complementary brand portfolio of 23 iconic brands, and has leadership across three categories: skincare, men skincare and makeup<sup>(2)</sup>. And it is above all, one of the most successful stories in the Group's digital acceleration, inspiring other markets.*

### Worldwide travellers

Boosted by rising disposable incomes, rapid urbanisation, improved travel infrastructure and the easing of restrictions on international travel, outbound tourism has grown exponentially over the last two decades in China<sup>(3)</sup>.

The country continues to lead international travel after recording ten years of double-digit growth in tourism expenditure<sup>(4)</sup>. Mainland Chinese travellers took 135 million trips abroad in 2016<sup>(3)</sup>.

**This makes it the largest generator of trips in Asia and the world.** Chinese shoppers represent near to half of the worldwide perfume and cosmetics Travel Retail market<sup>(5)</sup>.

## The rise of luxury

L'Oréal China is achieving strong double-digit, sustainable growth. L'Oréal Luxe has achieved particularly significant growth seizing the ongoing consumption upgrade in China. Consumers expect high-quality products, premium and personalised services and an experience in line with their increasingly demanding lifestyles.

The Group has consolidated its **No.1 position in the luxury beauty market in China**<sup>(6)</sup> thanks to a unique and complementary 13-brand portfolio that meets consumers' evolving aspirations.

The Lancôme brand has been particularly successful as was Yves Saint Laurent, the biggest phenomenon of the year in China. The French exclusive brand, Atelier Cologne, has also been launched in China.

**The makeup market is booming** with iconic brands such as L'Oréal Paris, Maybelline New York, Yves Saint Laurent lipsticks, Giorgio Armani foundations, and the rise of Yue Sai, all using social media, stimulated by selfie and live broadcasting phenomena.

## 731 million netizens<sup>(7)</sup>, with 95% mobile users

**In China, digital is at the heart of everything.**

Proof of this can be seen with the incredible success of the annual Singles' Day - 11/11 Global Shopping Festival – for which Alibaba recorded more than \$25Bn during the 2017 edition, breaking previous records for the world's largest retail event.

L'Oréal develops brands on digital, called digital love brands, to attract these consumers and is leading e-commerce with strong figures.

This leadership is consolidated thanks to close partnership with Chinese digital players such as Alibaba, JD.com and VIP. During Singles' Day, L'Oréal achieved significant results, double the figures of 2016, with 16 brands present online that day.

These online strategies are combined with offline retail experiences (O+O) creating a leading first-in-class new retail revolution.

## Helping local communities

L'Oréal teams in China focus on strategic projects that provide solutions for the local community to support underprivileged women, young students and disabilities. One perfect example was the "20 years women empowerment" announcement. To celebrate its 20<sup>th</sup> anniversary in China, the company announced the launch of "**L'Oréal China Women Empowerment Fund**", which aims at selecting and financing 20 nationwide projects dedicated to empowering women. Another initiative is the "**Inclusive Beauty**" programme, in cooperation with JingDong, one of the largest online direct retailers in China, which aims to empower employment of people with disabilities in e-commerce. **Charity Sales**, a locally initiated on-campus philanthropic programme is another initiative that provides financial aid and business practices to university students.

This article is an excerpt from the 2017 Annual Report. To discover more topics please visit the Annual Report on [www.loreal-finance.com/en/annual-report-2017](http://www.loreal-finance.com/en/annual-report-2017)

- (1) Source: Euromonitor 2016 (Excluding soaps, razors and blades and oral care).
- (2) Source: Euromonitor 2016.
- (3) Source: UNWTO, United Nations Worldwide Tourism Organisation.
- (4) Source: Internal estimates.
- (5) Source: L'Oréal estimate of the global cosmetics market in 2017 based on manufacturers' net prices. Excluding soaps, razors and blades and oral care. Excluding currency effects.
- (6) Source: Beauty Research 2017.
- (7) The term netizen is a portmanteau of the words Internet and citizen, which describes a person actively involved in online communities or the Internet in general. Source: CNNIC.



