

L'ORÉAL  
FINANCE

# The letter

TO SHAREHOLDERS

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2018 ANNUAL GENERAL MEETING

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# Addresses

**JEAN-PAUL AGON**

*Chairman and Chief Executive of L'Oréal*

EXCERPTS

To discover the full speech,  
please visit the website  
[loreal-finance.com](http://loreal-finance.com)

“  
LEADING THE WAY BOTH IN  
ECONOMIC AND SOCIETAL  
TERMS: THAT IS OUR GOAL.  
”

## **2017 was another good year for L'Oréal.**

The global beauty market accelerated. According to our estimates, it grew by between +4% and +5%. In this dynamic market, your Group too accelerated its **growth during the year, with an increase of +5.5%<sup>(1)</sup> in the fourth quarter.**

We have strengthened our positions in distribution channels, categories and world regions that are strategically important for the future.

In terms of distribution channels, **L'Oréal Luxe and Active Cosmetics** did particularly well:

**L'Oréal Luxe had an outstanding year.** The Division achieved its best growth rate since 2000, outperforming its market for the seventh year running. This was thanks to the power and complementarity of its portfolio of emblematic brands, its innovative launches, and its ability to seize the new opportunities opened up by digital.

**The Active Cosmetics Division has also outperformed the market** for the last seven years and has now topped the two billion euro sales mark. This very good performance reflects an underlying trend: consumers are looking for skincare that inspires trust, linked to health, well-being, authenticity and naturalness. The other reasons behind our performance include strong brands, particularly La Roche-Posay, and the acquisition of the American brand CeraVe.

The overall performance of the Consumer Products Division was rather disappointing, even though its growth improved in the course of the year, particularly in the New Markets. We have identified several levers and are working on them to accelerate the Division's growth this year. And finally, the Professional Products Division: in a difficult market we are working hard to revitalise the Division's growth, which picked up at the end of the year. 2017 was a year of strategy redefinition, to enable us to accelerate over the coming months and years.

In addition, we have strengthened our positions in two growth boosters of tremendous strategic importance for the future: one is **e-commerce**, where our sales increased by +34%<sup>(2)</sup> and have now topped two billion euros, making it the Group's third "country". The other is **Travel Retail, a dynamic and very buoyant channel**. L'Oréal celebrated its 40<sup>th</sup> year in this channel while strengthening its leadership position.

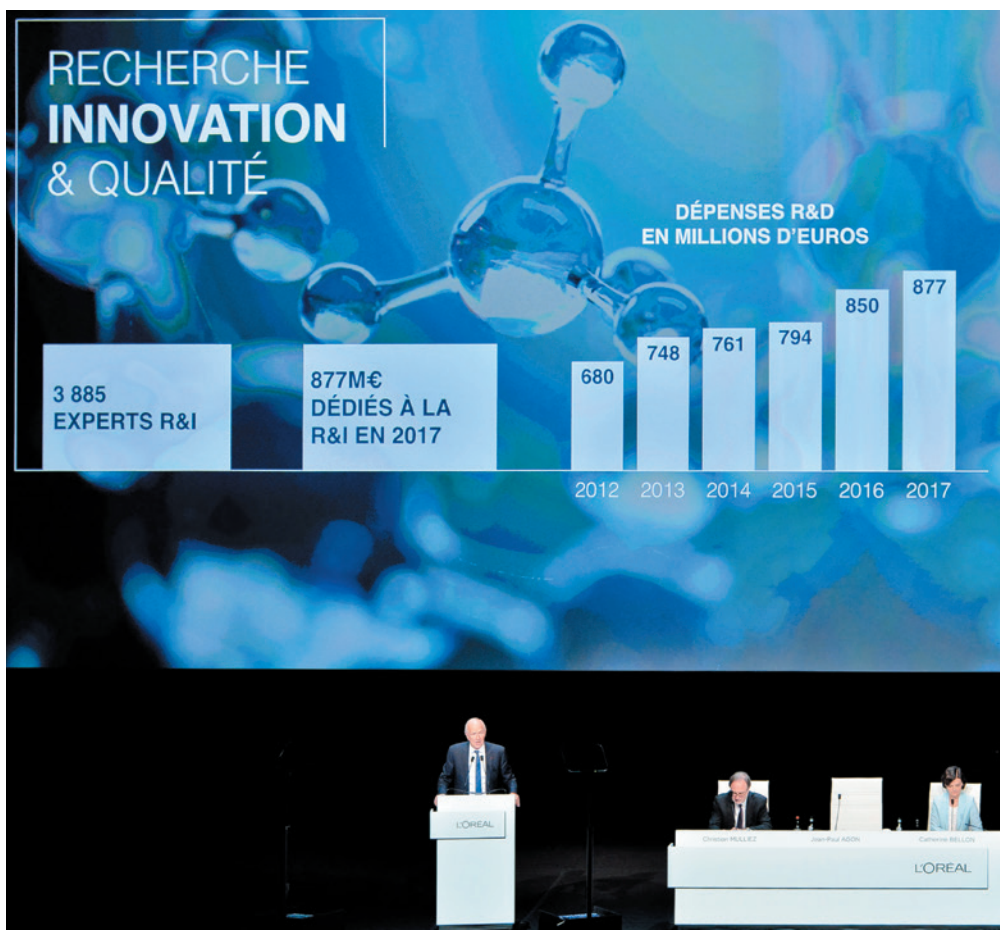
As for our performance across world regions, the Group significantly outperformed in the New Markets, where we recorded 10 billion euros of sales for the first time, especially thanks to the dynamism of the Asia Pacific Zone.

To complete the overall picture, I should add that L'Oréal has also delivered very good financial results, demonstrating once again the strength of its **powerful, balanced and value-creating business model**.

Operating margin reached a record level of 18%. One of the highlights of the year was the sharp **increase in net profit – up by +15.3% – , and in the proposed dividend**. As you know, a +10% loyalty bonus is added to the dividend if you hold your shares in registered form for more than two years. This raises the dividend from €3.55 to €3.90 per share.

Many of you have opted for registered shares, as the number of registered shareholders at the end of 2017 has surpassed the 35,000 mark. This demonstrates that you trust L'Oréal, and support it in a long-term perspective, and I would like to thank you for doing so. This also enables us to establish a dialogue that is constantly becoming closer and more personalised. **Your loyalty, commitment and support are the foundation for our company's strategic continuity, its long-term future and its success**. One direct consequence of this is the excellent return enjoyed by L'Oréal shareholders.

Our mission goes beyond economic success. Our achievements have been widely recognised. **L'Oréal is the top performing company in the Newsweek 2017 Global 500 Green Ranking**. And CDP, the leading environmental performance NGO, has for the second year running given us three A ratings, the highest possible mark, for our efforts in combating climate change, water stewardship and the prevention of deforestation. And there's another source of pride that also reflects many years of effort: L'Oréal has been ranked **world number one by Equileap for gender equality**, among more than 3,000 companies in all sectors of activity.



**Leading the way both in economic and societal terms: that is our goal.** That is what society expects from a company today. Our corporate responsibility ambitions mean we have a positive impact on the environment and on society, while ensuring that our success is maintained in a long-term perspective.

We are also very proud that our ethical approach has received recognition: Covalence, a company that specialises in monitoring ethical reputation, has ranked your company second worldwide, across all industries, and number one in its sector. And for the ninth year, L'Oréal has been recognised as one of the "world's most ethical companies" by Ethisphere.

We have just published our first-quarter sales growth, which confirms our optimism, with a figure of +6.8%<sup>(1)</sup>, our best growth rate for 8 years. This augurs well for a good year, **and we are confident about our ability to outperform the market** once again, and achieve significant like-for-like sales growth, and an increase in our profitability.

<sup>(1)</sup> Like-for-like: based on a comparable scope of consolidation and constant exchange rates.

<sup>(2)</sup> Sales achieved on our brands' websites plus estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data). Like-for-like: based on a comparable structure and constant exchange rates.

STÉPHANE RINDERKNECH  
Chief Executive Officer China

“OUR PORTFOLIO  
FEATURES MORE THAN  
TWENTY BRANDS  
IN CHINA.”

## EXCERPTS

To discover the full speech,  
please visit the website  
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China is the country of superlatives. It has the largest population on the planet. 1.4 billion people. 200 cities with a population over one million. 200 million new urban residents over the last ten years. **But China is also the story of the meteoric rise of the middle class, as income levels have increased.** Today the middle class comprises 560 million people, or roughly twice the population of the United States. At the same time, we are seeing **a tremendous consumer revolution.** On one hand, a revolution in consumers' mentalities and aspirations, and on the other, a revolution in their behaviour and modes of consumption.

**L'Oréal has taken full advantage of these far-reaching transformations** and is today a leading beauty group in China. With more than 8,000 employees and two factories producing goods solely for the Chinese and Asian markets. Why are we so successful

in the Chinese market? We have drawn on four key strengths, fully in tune with the changes taking place in Chinese society, which will continue to ensure our success in the future.

**First of all, a portfolio of major brands** with powerful consumer appeal. The Chinese love brands, and see them as synonymous with quality, safety and creativity. Our portfolio features more than 20 brands that are now established in China: selective and premium brands, medical and expert brands, and authentic brands with a strong legacy. The brands are aimed at both women and men, with products in all categories and at all price levels.

**The second major asset of L'Oréal China is cutting-edge research, focused on the specific needs of Chinese men and women.** Our knowledge of Chinese skin is so detailed that L'Oréal researchers were the first to successfully reconstruct models of Chinese skin. Today, about 70% of the products sold in China are specifically adapted at the Pudong Research Centre near Shanghai, in coordination with the Research Department in France, which has a staff of more than 400 beauty experts.

**Our third great strength is our ability to adapt quickly to sweeping changes in retailing.**

In particular, the meteoric rise of digital: China is already the number one market worldwide for online buyers of beauty products. But it is not only digital that is changing at lightning speed. The whole retailing sector is constantly being transformed in China, for example with brick-and-mortar stores skyrocketing in shopping malls. Today we have about 180 stores. All of them use digital to provide novel and immersive consumer experiences. We are thus combining the best of both worlds: physical distribution and digital.

**And the final asset we have in grasping the countless opportunities in China and building sustainable growth:** our "Sharing Beauty With All" commitments. In a country where pollution is a major cause for concern and one of the Chinese government's key priorities, our Group has proactively introduced policies to reduce our environmental footprint. Our plant at Yichang was the first Group factory in the Asia Pacific Zone to achieve carbon neutrality, as early as 2015. China is a major power whose rapid transformations are breathtaking. More than ever before, it is moving towards a very bright future, from which the Group can only benefit, through its ability to "seize up-and-coming trends" thanks to the entrepreneurial spirit of its teams.

# Highlights

## ALL THE RESOLUTIONS

### PUT TO THE VOTE WERE APPROVED

Approval of the 2017 parent company financial statements <b>99.8%</b>	Approval of the principles and criteria for the determination, allocation and distribution of the components of the total remuneration and the benefits of all kinds that may be granted to the executive officers <b>96.5%</b>	Authorisation granted to the Board of Directors to carry out free grants of existing shares and/or shares to be issued with cancellation of shareholders' preferential subscription right to employees and executive officers <b>91.6%</b>
Approval of the 2017 consolidated financial statements <b>99.7%</b>	Approval of the fixed and variable components of the total remuneration and benefits of all kinds paid or allocated to Mr Jean-Paul Agon for the 2017 financial year due to his mandate as Chairman and Chief Executive Officer <b>95.7%</b>	Delegation of authority to the Board of Directors for the purpose of carrying out a capital increase reserved for employees with cancellation of the shareholders' preferential subscription right <b>99.6%</b>
Allocation of the Company's net income for 2017 and setting of the dividend <b>99.7%</b>	Authorisation for the Company to buy back its own shares <b>99.3%</b>	Delegation of authority to the Board of Directors in order to enable it to carry out a capital increase reserved for categories of beneficiaries consisting of employees of foreign subsidiaries, with cancellation of the shareholders' preferential subscription right, within the scope of an employee share ownership programme <b>99.6%</b>
Appointment of Mr Axel Dumas as a Director <b>99.8%</b>	Authorisation granted to the Board of Directors to reduce the share capital through the cancellation of shares purchased by the Company within the scope of Articles L. 225-209 and L. 225-208 of the French Commercial Code <b>99.8%</b>	Amendment to the statutory provisions for declarations of threshold crossing <b>79.6%</b>
Appointment of Mr Patrice Caine as a Director <b>99.2%</b>	Delegation of authority granted to the Board of Directors for the purpose of increasing the share capital in order to remunerate the contributions in kind of equity securities or securities giving access to the share capital of third-party companies <b>99.4%</b>	Powers for formalities <b>99.9%</b>
Renewal of the tenure of Mr Jean-Paul Agon as a Director <b>91.8%</b>		
Renewal of the tenure of Mrs Belén Garijo as a Director <b>98.6%</b>		
Setting the amount of the annual attendance fees allocated to the members of the Board of Directors <b>99.6%</b>		
Approval of the application of the defined benefit pension plan provisions of the employment contract of Mr Jean-Paul Agon for the duration of the renewed corporate office <b>98.8%</b>		

# + 7.6 %

**Dividend increased to €3.55 per share, and to €3.90 for registered shares <sup>(1)</sup>**

(1) For shares held continuously in registered form for at least two years.

## APPOINTMENT OF TWO NEW DIRECTORS

**Mr Axel Dumas** has been the Executive Chairman of Hermès International since June 2013. His appointment for four years to the Board of Directors was approved by the Annual General Meeting. The international experience of Mr Axel Dumas, and his knowledge of the luxury universe, will be invaluable and beneficial for the Board as a whole.



**Mr Patrice Caine** is Chairman and Chief Executive Officer of the Thales group. His appointment for four years to the Board of Directors has been approved. Mr Patrice Caine will provide the L'Oréal Board with his strategic vision, his unique industrial expertise, and his experience and knowledge of new technologies and cybersecurity.

# Question & answer session



## SHAREHOLDERS EXPRESS THEIR VIEWS

*Once more this year, L'Oréal and its shareholders had substantial discussions.*

### What commitments is L'Oréal making to fight climate change and to the “Science Based Target”<sup>(1)</sup> initiative?

The “Science Based Target” scheme was launched by NGOs to implement the objectives of the Paris Climate Agreement (COP 21). Worldwide, 317 companies have signed the commitment. As part of this initiative, we have set ourselves extremely ambitious targets. Our commitments were validated in December 2017. A dedicated communication campaign is to be prepared shortly.

The 2017 “Sharing Beauty With All”<sup>(2)</sup> progress report, which reviews our efforts in the field of sustainable development, has been published, and announces our main targets, including a 25% reduction in the absolute value of all our greenhouse gas emissions, i.e. those directly emitted by L'Oréal and those generated indirectly. Our commitments include ensuring that all our sites are carbon neutral by 2025. And also by 2025, 100% of our plastic packing will be refillable, reusable, recyclable or compostable. This measure will have a direct impact on the use of fossil fuels and on the circular economy.

### You say that you have two growth boosters that are running full steam ahead: e-commerce and Travel Retail. What are you expecting from these two channels this year?

E-commerce and Travel Retail are two powerful jet engines. Furthermore, we have been trailblazers in both these channels.

E-commerce already accounts for more than 2 billion euros and is growing by about 33% each year. In China this year, it will represent some 40% of Consumer Products sales. And across all the Divisions in China, it represents more than 20%. It is a highly dynamic channel in growth terms and complements our in-store sales. Travel Retail also is growing very strongly, between 15% and 20%, thanks to the increase in air traffic each year, particularly with tourists from Asia.



Christian MULLIEZ

Jean-Paul AGON

### Is the L'Oréal group considering Marie Bochet as a brand ambassador to flag up its different approach to disability?

I am very happy to answer yes. I recently met Marie Bochet on a TV programme where she was also a guest. The L'Oréal Paris brand is now holding discussions with her. She is an extraordinary young woman, and would be a tremendous spokesperson for the L'Oréal Paris brand and "Because we're worth it". The values of the L'Oréal Paris brand are not only linked to beauty. There are also personal values, courage and surpassing oneself... Marie Bochet embodies them perfectly.

### I am wondering about the impact of exchange rate fluctuations on the company's results. When you see exchange rates change very substantially, you wonder whether the company will be directly impacted by them, or if you have set up hedging operations to offset the effect over time?

That's a very valid question. 75% of our sales are in non-euro currencies. Hedging against currencies is therefore essential.

There are two types of exchange rate effects: first, the effects of converting the profits of our subsidiaries into euros to obtain our consolidated financial statements. These effects are not covered. Secondly, the effects of exchange rates on transactions have been systematically covered over recent decades, to provide a secure basis for the operations of our entities.



### Are you focusing particularly on Millennials<sup>(3)</sup>?

The Millennials<sup>(3)</sup> are the new generations. We are doing everything we can to attract their interest and target them. But that does not mean we are only interested in them. Our brands and our products accompany women and men throughout their lives. We also have ambassadors such as Jane Fonda, Julia Roberts and Isabella Rossellini. L'Oréal's mission is Beauty for All, beauty for all age brackets and for all beauty desires.

(1) Programme launched by CDP, the UN Global Compact, the World Resources Institute (WRI) and the NGO WWF to assess companies' contributions to combating global warming.  
(2) The L'Oréal sustainable development programme.  
(3) Generation born between 1980 and 2000.

# L'Oréal and you

## GENERAL DATA PROTECTION REGULATION (GDPR)

Dear Shareholders,

In view of the recent coming into force (on 25 May 2018) of the general data protection regulation (GDPR) in all the countries of the European Union, we wish to state that L'Oréal has taken all the necessary steps to ensure the security of your personal data.

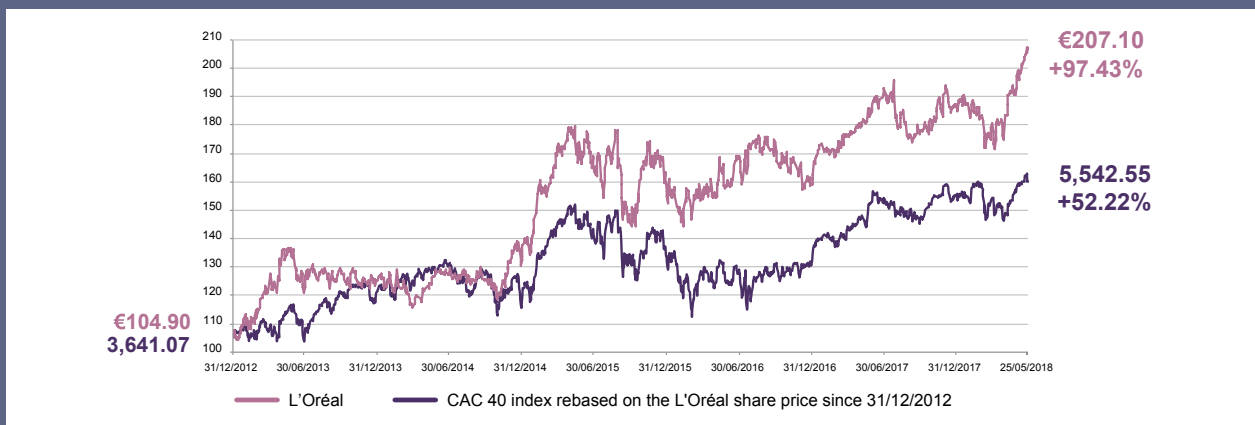
**Your data are known to L'Oréal only because of your capacity as a shareholder in the company, your registration as a recipient of our financial information or the professional relationship you have with the Financial Communication Department of L'Oréal.**

You are free to request access to and rectification of your data at any time, and to unsubscribe from our publications by sending your request to the following address:

L'Oréal Shareholder Relations Department,  
41 rue Martre, 92117 Clichy - France  
contact@loreal-finance.com

### SHARE PRICE

from end of 2012 to 25 May 2018<sup>(1)</sup>



(1) CAC 40 index rebased on the L'Oréal share price since 31/12/2012.  
Source: Thomson Reuters Eikon, share price on 25/05/2018.



## DIALOGUE AND A CLOSE RELATIONSHIP

DATES OF YOUR SHAREHOLDER MEETINGS

**LYON** - 2 October 2018

**LILLE** - 3 December 2018

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