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PRESENTATION

Olivia Wang *- **L'Occitane International SA - IR Director***

Good evening everyone and welcome to L'Occitane's annual results presentation for the full year ended March 31 2016. I'm Olivia Wang, Investor Relations Director. We have here today Mr. Andre Hoffmann, our Vice Chairman and MD for Asia-Pacific. Joining us with the teleconference today, we have Mr. Reinold Geiger, our Chairman and CEO and Mr. Thomas Levilion, our Group CFO. First, Thomas will walk us through the presentation to discuss annual results and we will open the floor for questions. With that, I would like to pass it on to Thomas.

Thomas Levilion *- **L'Occitane International SA - Group CFO***

Thank you Olivia. Hello to everyone. We are starting with the highlights. Our net sales in FY 2016 grew by 8.9% at actual rates and 5% at constant rates, reflecting a solid performance over the year but a softer Q4.

The environment remains very challenging for the year, with the softening economy in China, the MERS in Korea, the depressed economies in Hong Kong, Brazil and Russia and the soft retail environment in the US. At the same time, we continued our rapid expansion in China and we delivered solid performances in the other regions, despite flattish markets, particularly in Japan, Europe, Brazil and Russia. And our emerging brands accelerated again, delivering 25% growth at constant rates.

The own e-commerce sales remain dynamic and the total web activities, including market places and web partners, grew by 23%. The operating profit grew by 2.4% and the operating margin was down 0.8 points to 13.1%, primarily from investments in marketing and the emerging brands, partly offset by positive exchange rates effects, pricing and product mix, as well as efficiency and savings.

Due to FX losses in the amount of EUR6.9 million and higher income tax, the net profit was approximately EUR114 million, as compared to EUR126 million in FY15. With tight inventory and CapEx management, our free cash flow increased by EUR11 million to EUR148 million. So in this context, the Board is pleased to propose a stable dividend per share, thus showing its confidence in the resilience and the potential of our business model.

While looking at the net sales breakdown, first on the sales by segment, the growth in sell-in was primarily contributed by the distributors, wholesale and B2B activities, with the emerging brands notably contributing 58% to this growth. Travel retail was more challenged throughout the year, with the soft economy in Asia and America, the MERS issue in Korea, with weak markets in South America, but Q4 improved from the previous quarters thanks to a better month of March in Asia and a solid performance in Europe.

Our web channels continue to out-perform other channels and contributed 36% to the overall growth. So two points about this: the marketplace segments grew by 113%, driven by China and Korea; and, second, our own e-commerce continued to out-perform greatly our retail sales and grew by 14.5% at constant rates.

Among our key countries, the share of China increased to more than 10% of our total sales, as compared to 8.7% last year. The US also increased its share, but this was primarily due to the favorable currency effect. Also due to currency effects, but unfavorable this time, the share of Brazil and Russia decreased in our total sales. Hong Kong, 10.8% of our total sales, decreased its share as a consequence of the poor retail and travel retail contexts.

Moving to slide 4, with total net sales, the non-comparable stores first were the primary contributor to the overall growth, combined with other sell-out activities. The marketplace activities, as I said before, notably in China and Korea, are part of the other sales activities and they grew by almost 113%. So the marketplace activities contributed significantly to the non-comp stores and others.

The comp stores grew by 1.2%; we achieved very strong performances in several countries, particularly in Europe, but the overall same store sales growth was impacted by the challenging situation in Hong Kong, Taiwan and USA, combined with a softer performance in China.

The growth in sell-in was driven again by wholesale, B2B and the sales to our distributors. Finally, the weaker Euro, on average against most other currencies, contributed 3.9 points to the overall growth.

Sales growth by geography, first with the Americas and Europe, France first, despite softer sales in Q4, due to the terrorist attacks, France grew by 11% due to the dynamic growth in retail and e-commerce, driven by strong partnerships, efficient CRM and the success of our Christmas offerings. This combined with a significant contribution of the emerging brands Melvita, Erborian and Le Couvent Des Minimes.

The UK continued to deliver a strong performance in e-commerce, driven by an increase in conversion and benefitted from a solid contribution of sell-in, with good results in wholesale and department stores. Retail was softer, however, due to traffic and an impact of the strong Pound on the tourist shopping at the beginning of the year.

If we exclude the impact of the exit from Nordstrom, the US was almost flat. The retail environment remained soft, with negative same store sales growth, which was not fully offset by the development of non-comparable stores. The challenging results that we had are notably explained by the strong USD which impacted the touristic stores and the declining profit. This was balanced by the development of e-commerce, though on a softer pace than in previous quarters. Part of the softer sales in sell-out is also attributable to a lower level of discounting and promotions in order to protect the bottom line and the brand positioning.

Brazil grew by 12%, delivering a strong performance, given the Brazilian economic situation and also given the strong base last year. The growth was equally driven by L'Occitane au Bresil, both from the development of the franchise network and the own stores, and by L'Occitane en Provence, which also delivered a solid performance, notably due to the launches of new products, the Christmas offerings and advertising campaigns.

Russia, in the context of a drop in consumer spending and a decrease in traffic, Russia managed to grow by 10%, primarily due to sell-outs with a very strong growth of 49% in e-commerce and the success of the Christmas, Men's Day and Women's Day offerings. Sell-in also grew by 19%, driven by the successful development of the franchise network.

Now Asia and other countries; in Japan, the growth at close to 5% was softer in January and February, but due to the warm weather which impacted the sale of shea butter products, but March was much stronger with the success of the 40th anniversary promotion. We had some issues with the new e-commerce website and CRM systems that are being solved, but the conversion rate did not yet fully recover. Melvita confirmed its good results and contributed more than 30% to the growth in Japan.

Hong Kong retail continued to be impacted by the soft economy and also the lower number of PRC tourists and as a result, sell-out was down by 15% in Hong Kong. Travel retail improved slightly and was flat in Q4. Travel retail in China, Hong Kong and Macau remained weak, but the business was stronger in Japan and Southeast Asia.

China's strong performance, plus 17%, was driven primarily by the non-comparable stores and Tmall. The retail market turned very soft, particularly since the stock market turmoil last summer, but same store sales growth picked up again in Q4 and was back to the level of Q1. With the first eight stores opened, Melvita contributed 7% to the growth in China.

Taiwan, after a stronger Q3, the country struggled in Q4 in the context of a gloomy economy and the earthquake just before Chinese New Year. Over the full year, this resulted in a slight decrease in sales from the comparable stores, which was offset by an impressive growth in market place and solid developments of the spa and cafe activities. The other countries contributed a high 42% to our overall growth, with strong performances in countries like Australia, Canada, Germany, other Western European countries and Mexico.

Our total stores network reached 2,924 points of sales, that's an increase of 5% over March 2015 and within that, our own stores network now has 1,463 stores, an increase of 79 from March 2015. So this net opening of 79 stores during the year and that's slide 8, compared to 82 over the same period last year, excluding the acquisition of our distributor in Norway in July 2014.

The openings in Asia were primarily in China, Japan and Korea, with 26, 12 and nine stores respectively. In the Americas, seven stores were opened in Canada and 11 in Brazil and the openings in Europe and Africa should include eight stores in South Africa.

Out of the total 79 net store openings, 16 were Melvita stores, all in Asia and we have also opened six L'Occitane au Bresil stores and four Erborian stores in Paris, Seoul and Moscow. So at the end of the day, we had 26 store openings for the emerging brands, so that's 33% of the net openings.

We continued also upgrading our store network with 116 innovations or relocations, which compared to 108 during the same period last year.

Same store sales growth, at 1.2%, the same store sales growth remained challenged. The overall softer performance than last year was driven by Asia and the USA, despite strong performances across Europe and in Brazil. Hong Kong continued to suffer from the deeply depressed local retail environment and the reduction in traffic from PRC tourists.

In Taiwan, the same store sales growth was affected by the soft economy, the typhoons during the summer and the earthquake just before Chinese New Year, but showed an improvement in Q3 thanks to the Christmas offerings. The same store sales growth in China remained positive in the context of the decelerating economy and booming trend of shopping on-line or abroad, and showed its resilience with a stronger performance in Q4.

In the US, the negative same store sales growth is explained by a shortfall in sales in the touristic stores and the overall difficult retail environment. The growth in e-commerce sales was also softer than usual, partly due to a voluntary reduction in discounts in order to protect the bottom line and the brand equity.

Japan maintained a positive same store sales growth of 1.8% on a year-to-date basis. It was impacted by the warm weather during the Winter and the issues with the integration of the new website and CRM systems.

In France, despite the terrorist attacks in Paris in November, the country still delivered a high 6.8% same store sales growth, with strong results in e-commerce and in the stores. In the UK, the same store sales growth was driven by continuing e-commerce growth, supported by increased conversion rates, whereas the retail stores remained soft as a result of a declining traffic at retail in general.

Brazil, in a depressed market, accelerated with both brands, L'Occitane au Bresil and L'Occitane en Provence, thanks notably to successful product launches and advertising campaigns. And finally Russia, despite some slowdown in mall traffic, Russia continued to deliver a strong same store sales growth in a very challenging context, thanks to the recent price increases and fast growing e-commerce sales.

Now moving to profitability analysis, the operating margin, as was said before, was down 0.8 points to 13.1%, primarily from some deleveraging in our distribution expenses and investments in marketing and the emerging brands. This was partly offset by exchange rate effects, pricing and product mix, as well as efficiency in savings and this will be detailed in the following slides.

First with the gross margin, slide 11, so the gross profit margin rose by 1 point to 82.8% and this resulted from the following factors: favorable foreign exchange rate effects for 0.7 points; favorable pricing effects for 0.4 points, primarily from Western countries, Russia and Brazil; and tighter inventory management, which allowed for lower obsolescence for 0.3 points and savings in labelling and freight for 0.3 points, which was partially offset by higher duties in China and in Brazil.

The rise in gross profit margin was partly offset by higher spending in Mini products and pouches for 0.2 points. Production costs, this was related to the full year depreciation of SAP and some new equipment for 0.2 points and an unfavorable brand mix and a few others for 0.2 points.

Now, distribution expenses increased by 0.5 points to 46.7% and the increase was attributable first to the lower leverage on rental and personnel costs in stores for 0.6 points, and also investments in travel retail and wholesale activities and the international supply chain teams for 0.3 points and also development of emerging brands retail networks for 0.1 points.

This deterioration was partly offset by efficiency and savings for 0.2 points. This was mainly related to logistics and the rationalization of our store network. We also had a favorable channel mix for 0.2 points due the higher proportion of e-commerce and the lower proportion of retail and travel retail in our sales, which partly offsets the negative leverage. And favorable exchange rates for 0.1 points.

In terms of marketing expenses, this is where we had the highest increase. So the expenses marketing increased by 1.5 points to 12.5% of net sales and it was mainly attributable to investments, first with L'Occitane en Provence brand awareness investments in advertising and digital media, tools and resources for 1.1 points.

Out of this amount, 0.7 points were traditional and digital media spending and 0.2 points were CRM investments. And of course, investments were mainly focused in our key countries, the US, Japan, Korea, China, UK, France and Germany.

We also increased our investments in the emerging brands for 0.8 points and this of course notably in Melvita and L'Occitane au Bresil. And we also had a small impact of reclassifications for 0.2 points, primarily from the distribution expenses. This was mitigated, however, by leverage on sales level and savings in other advertising costs for 0.4 points, favorable exchange rates for 0.1 points and other factors for another 0.1 points.

Not in this slide, but worth mentioning, research and development expenses remained stable as a percentage of net sales, with increased investments dedicated to special projects for L'Occitane brand being offset by efficiency gains and leverage on high offsets.

General and administrative expenses decreased by 0.3 points, despite some investments which were primarily focused on some global projects and HR resources. The improvement was mainly due to leverage and favorable exchange rate impacts. That was also a one-off impact, essentially explained by non-recurring gains which were incurred last year.

Also not on this slide, we had other losses which represented minus 0.1 points of net sales, and they included EUR3 million losses related to the reassessment of the Company's legal profit-sharing in France in relation to the settlement of the tax audit. And the losses were partly offset by net gains, principally from the R&D tax credit of EUR1.2 million that was granted in France.

So as a summary, the operating profit margin decreased by 0.8 points of net sales to 13.1%, and this was explained by a) investments for future sales growth and increased efforts in R&D, digital and brand awareness for a total 1.5 points, and this was more targeted towards L'Occitane en Provence.

Also investments in the development of our emerging brands combined with brand mix effects for 1.3 points. And one-offs and other factors for 0.1 points. This was partly offset by significant favorable effects, leverage on higher sales, savings and efficiency gains for 0.6 points, positive prices and product mix for 0.2 points, favorable channel mix effects for 0.2 points, and exchange rate effects for 1.1 points.

A few words now about our capital expenditures. The net cash used in investing activities, excluding acquisition of subsidiaries and financial assets was EUR58 million in FY2016, as compared to EUR63 million in FY15, representing a decrease of EUR8.4 million. And the decrease was driven by lower store CapEx, which was explained a) by the selective opening policy and b) by the higher proportion of openings in Asia. And of course, the openings in Asia require less capital expenditures.

Working capital ratios. The inventory value reduced by EUR23 million, so that's 14% below FY15, and the inventory turnover days improved by 17 days, as the result of reduced turnover days of raw materials, components, and finished goods at the factories for 16 days.

This is in relation to the improvement in production forecast and inventory management, and reduced turnover days of finished goods for 15 days from countries such as the US, Brazil, Japan and the UK. The improvement was partly offset by unfavorable exchange rate impacts for 10 days and a reduction in inventory allowances for four days.

Our cash cycle decreased by five days of sales or approximately 10%, and this was particularly from the tighter inventory management. Overall, this resulted in EUR36 million reduction of the working capital with some contribution from the trade receivables and trade payables.

Our free cash flow increased by EUR11 million to EUR148 million as compared to EUR137 million in FY15, and the strong performance was achieved despite lower profit before tax and despite higher tax paid and is explained by the lower level of CapEx and other investing activities and the improvement in working capital.

Balance sheet ratios now. The return on capital employed slightly decreased by 0.2 points. The decrease in net operating profit after tax by 10.5% was almost entirely offset by a drop of 9.7% in capital employed, which was mainly contributed by the lower working capital.

The capital and reserves decreased EUR4.3 million from March 2015 to March 2016 due to of course a combination of the profit during this period being offset by the final and special dividend paid during the year and a little of unfavorable foreign currency translation effects. So as a result the return on equity decreased a little bit to 13%.

The Group remained in a high net cash position with favorable liquidity and capital adequacy ratio. The gearing ratio dropped to 7.5%, mainly due to a decrease in net borrowings for the financing needs at subsidiary level.

Now to conclude, we have a few words about our strategic review and outlook. First, the strategic review. So L'Occitane has achieved a quite good financial performance in FY2016, anchored by committed teams and investments which have delivered operational excellence.

First, the omni-channel expansion. We refined the store portfolio with selective store openings and upgrades while closing underperforming stores. We've opened more boutiques for Melvita, Erborian and L'Occitane au Bresil brands, bringing the total own stores of emerging brands to 66 locations, and we have increased our e-commerce outreach with own website and partners such as Tmall, of course.

We continue to deliver superior shopping experience as customer-centric is at the core of L'Occitane's success. We continue to roll out Click and Collect: order online, pick in store services, which further enhanced shopping experience at L'Occitane stores. And we continue to leverage on digitization which will continue to elevate customer service to the next level of excellence.

Our brand awareness and digital marketing investments were focused on the Skin Care Campaign to recruit new customers with innovative sampling. We spread true stories through powerful digital platforms like Line in Japan, Kakao Talk in Korea, WeChat in China, and word of mouth with emotional contents through bloggers and vloggers.

We also further developed our e-commerce business and CRM. Our own e-commerce was up by about 15%, representing roughly 10% to retail sales, and we continued our investments on platforms and CRM.

In terms of the brand portfolio and product offerings, Melvita achieved good performance in Japan, Hong Kong and France due to the new products and also focused marketing on these key products. The ramp-up of L'Occitane au Bresil is well on track, with SKU doubled in two years to over 130, and we had exciting product pipelines such as Reine Blanche and holiday offerings.

Under volatile conditions, our operations delivered strongly. Following our operations roadmap, we delivered material gains in our gross margin and operating expenses and we will continue on more process re-engineering projects to bring operational excellence.

In terms of outlook, our entrepreneurship and team spirit support our growth to become the most competitive brand in the natural space. We will have continued investment in omni-channel and digital, dedicated to stores rationalization, digital and innovative marketing approaches, customer-centric digital platforms and CRM integration. We will be launching more emotional marketing campaigns to enhance brand awareness and we will dedicate specific investments to the strategic segments Travel Retail and China.

The Group believes that the efforts to drive quality growth and improve efficiencies with focused investments will secure its position as a growing player in the premium natural cosmetics space, which in turn will create lasting value for its shareholders.

This concludes my presentation. Thank you very much for your attention.

QUESTION AND ANSWER

Olivia Wang - ***L'Occitane International SA - IR Director***

Thank you, Thomas. Now we would like to open the floor for questions, please.

Mariana Kou - ***CLSA - Analyst***

I'll take the first question. Thank you. This is Mariana from CLSA. I just wanted to ask a bit more on the gross margin. Could you actually share with us a bit on the pricing contributor? I'm just wondering if that's really a one-off.

I'm just trying to understand how the margins will be trending, like you are potentially trying to strip out the one-offs. I know FX should be one-off and there are a few items that you specifically mention as one-offs, but on the pricing contribution, on the GP margin, if you could just share a bit more color, because I think Thomas just now mentioned Western countries, Russia and Brazil contributing to that 0.4 points to the gross margin. Thank you.

Thomas Levilion *- L'Occitane International SA - Group CFO*

Hello, Mariana, this is Thomas speaking. You're right, we had the contributions from pricing and we believe that in the future we continue to use this lever and possibly even more than we have. We know that we have this pricing power thanks to the strength of our brand and also the further awareness that we are bringing with our investments in marketing.

So in terms of pricing, price increases, if we look at FY2016, I would say that overall we had an increase of our prices in average by 1.2%. This was contributed by mostly, as we said, the US, Europe in general with France notably by 3%, the UK and also other European countries.

Of course, we had significant price increases in Brazil and Russia to compensate for the depreciation of the currencies there, but we also had some -- more limited but some price increases in Asia, a little bit in Japan and a little bit in Hong Kong. For other countries not so much, but it's something we are working on with these countries. You know that today with the currencies and different factors we have some discrepancies and China notably is higher than other countries in terms of prices. So we are looking at the best way to handle this situation and protect our margins, of course, at the same time.

I think the other part of your question was about currencies. Well of course it's a bit too early to say how the currencies will evolve in this financial year. We will see, so as usual we are hedging a little part of -- a significant part of our risk to compensate for this, but it's too early to say at this stage.

Olivia Wang *- L'Occitane International SA - IR Director*

So the first question from the line, Mr. Jeff Liu of Buena Vista. Was the lower inventory to revenue ratio due to higher revenue contribution from e-commerce channels?

Thomas Levilion *- L'Occitane International SA - Group CFO*

I would say no. Most of this reduction in our inventories is -- can be attributed to better organization across the board, I mean from central organizations to countries, we have put in place a GRP process a couple years ago that is now fully at speed. You will remember that we have implemented CP as our ERP in our key countries and centrally and I think that what we are seeing today is the efforts that we have been working on and doing for a couple years, that are now paying off.

Olivia Wang *- L'Occitane International SA - IR Director*

The second question from him is where do you book the reversal of inventory write-down? Is it in the cost of sales?

Thomas Levilion *- L'Occitane International SA - Group CFO*

It is in the cost of sales. So as we decrease our inventory, we decrease also our obsolete inventories, so therefore we decrease the impact on our P&L and our gross margin of the obsolete products. So this contributed to the improved gross margin.

Olivia Wang *- L'Occitane International SA - IR Director*

Thank you. There's another question from Ms Jessica Hong from Haitong.

Jessica Hong *- Haitong Securities - Analyst*

Thank you for taking my question. I have two questions. The first one is on the marketing expenses, we note that there was an increase last year and what are you looking at in terms of percentage of sales going forward. The second question is on Japan. There was an interruption on the website. What the situation is right now and how long do you think it will take to normalize? Thank you.

Thomas Levilion *- L'Occitane International SA - Group CFO*

Maybe I can start answering your questions, Jessica. In terms of marketing, we have increased our level of marketing spending in FY16, that's correct. We believe that we will have, as I said in my presentation, next year we will also have -- possibly even higher level of marketing expenses because we are implementing new communication with a new campaign that will be more emotional, so we will have in this financial FY17 specific goals for the production of these new campaigns and at the same time as I said before, we believe that it's important for us to focus and invest specifically in two strategic segments, if I can say so, which are China which has been our main contributor to our growth in FY16 and should continue to be the same in the next few years if we invest what needs to be invested. Also the second strategic segment being travel retail. Travel retail has been through a tougher time this year but we are convinced the market will continue to be very important and very dynamic in the next few years and also a very profitable one.

So that's about marketing investments. For Japan, I don't know if Andre wants to take from me but just one word is that while the situation is improving and our sales on the web in Japan with our e-commerce website are now growing faster than retail and overall we are pretty satisfied with the performance in Japan in the first two months of the year. So there are positive signs. Most of the technical issues have been solved and you know, now it's like someone with a new car, you need to learn how to drive the car. This is what we are working at.

Reinold Geiger *- L'Occitane International SA - Chairman and CEO*

It's Reinold Geiger speaking. I would just like to make a comment concerning the marketing expenses. Today we believe the -- the retail environment is changing very much, maybe influenced through the internet and as a consequence, we consider starting by -- too difficult, you have to over-invest and this is why in -- we have increased our marketing expenses and we certainly will continue to have high expenses for another one or two years to go, but at the later stage we should reduce it again by about 2 points compared to now.

Olivia Wang *- L'Occitane International SA - IR Director*

So here's another question from the line, Erica Poon from UBS. Could you talk about your product pipeline for FY2017?

Thomas Levilion *- L'Occitane International SA - Group CFO*

Reinold or Andre, you want to address this question for Erica?

Andre Hoffmann *- L'Occitane International SA - Vice Chairman and MD, Asia-Pacific*

Well I think that as we've shared before, our focus is very much on the face care and fragrance category. We have a major launch with fragrances which will happen in Europe this fall. It's our most premium fragrance and it's quite unique for what L'Occitane has done in the past. A lighter eau de toilette version will be launched in Asia the following year. Face care categories, we have a very significant launch this fall with a very premium extension of the Divine range. It's actually called Divine Harmonie. It will be our most premium and most efficient face care range we've ever launched. We will have the new limited Christmas holiday collection range, so the product development continues.

Of course nothing will compare to what we have planned for 2018 when we will launch three new face care ranges, but for this year we continue with the development of Divine as well as with the Shea face care range which was launched last year but we continue to invest in it. So I think there's a very strong pipeline, but most of the new innovations will come in fiscal 2018.

Olivia Wang *- L'Occitane International SA - IR Director*

So another question from Tina Long from Merrill Lynch. Can I ask about the outlook for the margins for FY17, particularly the GPM from brands from channel mix and SG&A breakdown direction?

Thomas Levilion *- L'Occitane International SA - Group CFO*

Okay, so this is Thomas speaking. As I said before to Jessica I think, a lot will depend on the exchange rates. So it's difficult to guess, so that's why I would prefer to talk at constant exchange rates. So if exchange rates would remain constant, we'll probably see for next year a growth in the high single digits and incremental gain in profitability, let's say between 10 basis points to 40 basis points, again at constant exchange rates. What this would result from is slightly increased gross profit margin probably, better performance in distribution with the combination of a little bit of recovery in same store sales growth and strong e-commerce sales and we're convinced that we can deliver stronger growth in e-commerce than we did this year and also the rationalization of our store network as we close some underperforming locations.

So this would be an improvement whereas at the same time as Reinold said, we are in this process of -- where we need to over-invest in marketing in this transition to digital, so this could be a 30% higher again level of marketing spending until we can reduce it in the following years to better or lower levels and the rest, I mean R&D, G&A, these would probably not so much impact the bottom line or the operating margin at least.

Olivia Wang *- L'Occitane International SA - IR Director*

Thanks and the second question from her is can we get an update on emerging brands as a percentage of sales in FY16? Are we still on track to achieve our five year plan target?

Thomas Levilion *- L'Occitane International SA - Group CFO*

Our emerging brands were a little of both -- 5% of the total sales. We are doing pretty well with all of them. As I mentioned during my presentation, Melvita was a significant contribution to the growth in Japan and was not insignificant in China. Again, it was 30% of the growth in Japan and 7% for the first year in China with eight stores, and the brand did very well also in France. So I think we are in line with our targets for the emerging brands, at least for Melvita, and the other brands we are doing well also. Erborian is above its target and L'Occitane au Bresil is very promising with strong developments, interesting, very interesting product offering and by now very strong same store sales growth for instance and we are also expanding the franchise networks. So we are confident that our emerging brands are on track with the plan.

Olivia Wang *- L'Occitane International SA - IR Director*

Question from Li Shen.

Shen Li *- JP Morgan - Analyst*

Hi guys. Shen Li, JP Morgan. Just a couple of questions. Firstly you mentioned there were some price differences in China versus globally, so could you just elaborate on what you think the price differences are and how do you plan to manage that?

Andre Hoffmann *- L'Occitane International SA - Vice Chairman and MD, Asia-Pacific*

Well today the price gap between China and Hong Kong is between 25% and 35% on average depending on the category. This is pretty much standard for the premium segment. There's been a lot of talk about how the internet and all the non-authorized websites that sell L'Occitane impact our price, but we've still managed to deliver pretty strong growth last year with this price gap.

Now the big question is, does L'Occitane need to be a pioneer and try to find parity with China and the rest of the market or should we wait for the market to react first? Today we're very competitive in China with our competitors and we feel there's no real need to do something before them in terms of pricing.

Shen Li *- JP Morgan - Analyst*

Then secondly just to follow up, your increase in marketing spend -- so how are you essentially planning to fund that to get that --

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Andre Hoffmann - *L'Occitane International SA - Vice Chairman and MD, Asia-Pacific*

Being more efficient on our distribution costs which we know have a lot of room to improve. I mean there was a deleveraging effect last fiscal year, so this obviously made them slightly worse but we know that we can be improving that. I think that we can also improve on some of our administrative expenses. We've always said we wanted to fund marketing but not necessarily at the cost of margins, but with the downturn last year it was inevitable.

Reinold Geiger - *L'Occitane International SA - Chairman and CEO*

It's Reinold speaking and moving to long term, the increase of marketing will create higher sales.

Thomas Levilion - *L'Occitane International SA - Group CFO*

Maybe I can -- this is Thomas speaking -- I can share some elements of our long term plan. I think this will shed some light. So now we are let's say at the bottom of our profitability to say things as they are, but we are convinced that with a relatively sound sales target, we expect to reach about EUR1.7 million in 2020, so a CAGR of let's say 9, 10%, 11%. We have planned that we will increase our profitability from the growth, from the leverage and also as Reinold said because at some stage we will start decreasing our level of marketing investment and now we target for FY2020, so March 2020, to be above 16% operating margin for the Group.

Olivia Wang - *L'Occitane International SA - IR Director*

The next question from Erwan Rambourg from HSBC. Is the operating margin outlook of 13.1% in FY17 a tough one?

Thomas Levilion - *L'Occitane International SA - Group CFO*

Hi, Erwan. So what I said is it will depend on the constant -- on the exchange rates. At constant rates, we would see an improvement, a slight improvement. Again, I say something like 10 to 40 basis points. But, of course, it will depend on the exchange rates.

Olivia Wang - *L'Occitane International SA - IR Director*

The second question is, any appetite for acquisitions or disposals?

Thomas Levilion - *L'Occitane International SA - Group CFO*

I think I will let someone answer this question.

Andre Hoffmann - *L'Occitane International SA - Vice Chairman and MD, Asia-Pacific*

I think we are not going to comment on that.

Olivia Wang - *L'Occitane International SA - IR Director*

Yes. So --

Reinold Geiger - *L'Occitane International SA - Chairman and CEO*

There's a big appetite for acquisition, but, I mean, we would have loved to have concluded already one, but first of all, there are not very many companies which are interesting to us, because they're not -- I mean, we look only for cosmetic companies. There's not the interesting, strong brands here, and we have with our emerging brands, small companies, so if you do make another acquisition, it would only be for a company which is of a significant size and there are not many on the market.

Olivia Wang *- L'Occitane International SA - IR Director*

Third question from Erwan is the -- regarding the third party platform about e-commerce. What contribution to total sales is coming from the third party platform?

Thomas Levilion *- L'Occitane International SA - Group CFO*

So the third party platforms are essentially Tmall in China of course, but also in Korea with the department stores. So this represents about -- yes, it's very limited still, 1% to 2% of our total sales. So when we say again our own e-commerce does not include the third party websites, which we call marketplace.

Anne Ling - Deutsche Bank *- Analyst*

Hi, everyone. Would you talk about the -- in terms of FY17, about the performance or the potential performance by market, which are the markets that dictate the small potential or you think that there is in some markets some turn in terms of like operational outlook. Because one of the key questions I would like to check is on the -- in Europe, which was, last year, one of the key growth drivers. Are we seeing some slowdown or is there anything that, no, we can handle this kind of like of macro uncertain thing? Thanks.

Andre Hoffmann *- L'Occitane International SA - Vice Chairman and MD, Asia-Pacific*

Thomas, do you want to cover Europe and I'll talk about Asia?

Thomas Levilion *- L'Occitane International SA - Group CFO*

Yes, sure. Hi, so, well, you're right. We are seeing a slowdown in Europe, after this very strong performance in FY2016. This is probably largely explained by the general feeling, sentiments about Europe and notably after the terrorist attacks. So it's true that the touristic stores in those countries are very soft. The travel retail in Europe, since the beginning of our financial year, has been soft as well. So for the time being, yes, this is soft, but we believe that we continue -- we certainly have a stronger possibilities in Europe for the next few months, even weeks and we have countries like Germany, where we continue to grow, and even some countries in the south of Europe are performing not so bad. So I think they are good signs and even more so when we'll have the new products that will arrive in the second part of the year.

So we remain confident for Europe, even if there is a short term softness, I would say.

Andre Hoffmann *- L'Occitane International SA - Vice Chairman and MD, Asia-Pacific*

Yes. Just concerning Asia, all I can say is so far for the start of the year and what we see forward. Japan has had a pretty good start to the year. I mean, overall sales and same store turned positive, which is a nice turnaround, because Q4 was very challenging, as we said, primarily linked to the implementation of the new website and the CRM program. Hong Kong remains challenging and I do expect it to remain challenging for the full year. Travel retail is off to a little bit of a slow start, but I think that it will pick up for the summer months. Korea is off to a pretty good start for the full year and Taiwan remains very challenging. So that mainly covers the main markets in Asia.

Reinold Geiger *- L'Occitane International SA - Chairman and CEO*

I would make a comment concerning Brazil and Russia, which are two countries which did grow significantly in the last financial year and they continue to do so. It is true, it is simply a surprise, because, I mean, those two countries face a very serious crisis. Now, we are very fortunate, because we managed to establish in those countries a very strong brand image and today we profit off this. This is the main explanation why we -- why we stand out, and I do believe we are continuing to do extremely well in those countries.

Anne Ling - Deutsche Bank - *Analyst*

Thank you. One more question from me regarding the FY16 number. I think the EUR114 million net profit includes a EUR14 million or EUR15 million one-off write-off from the tax dispute, which I think the market has not factored in -- so is it fair to say that FY17, we will -- this will be one-off, so we will no longer have this kind of cost involved? Also, Thomas, you just mentioned about this improvement of 10 to 40 basis points. Is it mainly come out from the absence of this EUR5 million to EUR6 million from the operating profit side regarding this tax payment? Thanks.

Thomas Levilion - *L'Occitane International SA - Group CFO*

Yes, you're right. The EUR114 million is impacted by this one-off in tax and also, by the way, the exchange rate loss that we don't forecast to occur again next year. Also, the EUR14 million overall impact of the tax settlement is one-off and will not occur next year. Well, at least -- there is no particular reason why it would happen. So we have particularly high tax rates -- effective tax rate this year of 28.3% and we expect it to be down in the range of 24% to 26% next year. So, yes, in that bottom line, then the net profits will benefit from the absence of these one-offs.

And when I mention the 10 to 40 basis points improvement at constant exchange rates, yes, there was a little bit of this that is -- there is a little bit of this that you explain by the absence of the operating part of this EUR14 million and maybe what I said during the presentation, the EUR3 million of our loss that we have, that is the reassessment of the legal profit sharing in France, that is also a one-off. So, yes, that is part of the improvements coming from this.

Olivia Wang - *L'Occitane International SA - IR Director*

The next question come from Dr Uwe Rathausky from GANE. Given the number of 66 stores for the small brands per FY2016, how many stores opening for these brands in FY17 and FY18?

Thomas Levilion - *L'Occitane International SA - Group CFO*

Yes. So this is Thomas speaking. Hello Dr Rathausky . I think that we plan to have -- for Melvita, we plan to have next year about 15 openings. That would be in Asia this year, in Japan and China. Three own stores for L'Occitane au Bresil but -- what is more important is actually the number of franchisees that will open. That's non-own stores but it would be more than these three stores. And for Erborian, we plan to open three stores. So that's -- all in all, I think it's 20, 21 stores that we plan to open for the emerging brands for FY18, I don't have the exact number here, but we will continue, certainly, to open stores for all three brands in the future and they will represent not the majority, of course, of the openings, but quite a significant amount.

So, say, if you look at it over our FY17, FY18, FY19, FY20, we should be at around one-third of the openings from the emerging brands.

Olivia Wang - *L'Occitane International SA - IR Director*

Next question from Tina, Merrill Lynch. How much more total tax price is the penalties and losses that will impact FY17?

Thomas Levilion - *L'Occitane International SA - Group CFO*

Well, Tina, I do hope that it would be zero. The reason why we have a higher tax rate than in the past is not because of penalties or tax reassessments as we unfortunately had this year. It's mainly because the tax authorities in each and every country are putting more pressure and we have to make sure that we face a little bit this pressure, so this year, results in some countries an increased tax rate and also the different reduction of share of our profits in the different countries. So this is something that will have an impact the next few years and then we may see, depending on how things turn out, if there is some optimization. I think there is.

Jamie Shen - *Bank of China International - Analyst*

Hi. This is Jamie from BOCI. I have a question around the net store openings for this year, because you talk about closing down underperforming stores for increased profitability, so I wonder what the new target would be for fiscal year 2017. Thanks.

Thomas Levilion - ***L'Occitane International SA - Group CFO***

This is Thomas speaking. The target is to open about, let's say, 45 to 55 stores net in FY2017.

Olivia Wang - ***L'Occitane International SA - IR Director***

So I trust we've already answered all of your questions and so now I announce the end of the presentation today. Thank you, everyone and goodbye.

Thomas Levilion - ***L'Occitane International SA - Group CFO***

Thank you, goodbye.

Andre Hoffmann - ***L'Occitane International SA - Vice Chairman and MD, Asia-Pacific***

Thank you very much. Goodbye.