

L'ORÉAL  
FINANCE

# *The letter*

TO SHAREHOLDERS

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SPECIAL EDITION  
2019 ANNUAL GENERAL MEETING

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Watch the video  
highlights on  
[loreal-finance.com](http://loreal-finance.com)

# L'ORÉAL



A photograph of Jean-Paul Agon, Chairman and Chief Executive Officer of L'Oréal, speaking at a podium. He is wearing a dark suit, a white shirt, and a patterned tie. He has glasses and is looking slightly to the right. The background is a blurred blue and white.

# Addresses

**JEAN-PAUL AGON**

*Chairman and Chief Executive Officer of L'Oréal*

EXCERPTS

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

“YOUR LOYALTY AND SUPPORT  
ARE KEY TO L'ORÉAL'S SUCCESS  
AND DURABILITY.”

**2018 was a great year for the cosmetics industry  
and for L'Oréal.**

We have taken advantage of a particularly strong beauty market. With estimated growth at about +5.5%<sup>(1)</sup>, 2018 was the best year in two decades.

Various growth drivers have led to this acceleration: Asia, particularly China, luxury, e-commerce, Travel Retail, and lastly skincare.

The steady market growth seen over recent years is also driven by underlying trends.

Firstly, and this is undoubtedly the most important, **the insatiable desire for beauty** in all countries and across all cultures. This is because beauty is synonymous with well-being, pleasure, confidence and self-esteem throughout life.

Secondly, **premiumisation**: consumers are prepared to spend more on products that offer additional benefits, improved performance and higher quality.

Thirdly, **global digitalisation**, because beauty and digital are a perfect match. Exploring beauty products and buying them online has never been easier. Digital is a key driver for our market.

Finally, **beauty is achieving further advances worldwide**. Initially, thanks to e-commerce, which extends coverage well beyond the confines of the traditional channels, particularly in emerging markets. Also due to the number of virgin territories in terms of categories and countries. Lastly, because there are always more consumers to reach.

In a market that is clearly expanding, the Group had its **best year in a decade, posting growth of +7.1%<sup>(2)</sup>**. We significantly outperformed the market in the most promising and strategic areas going forward.

The digital technologies amplify the power of our brands. In a world of algorithms, of almost unlimited choice, being a major brand is an advantage. In 2018, our top eight brands became even more powerful. They grew on average at +8.4%<sup>(2)</sup>.

**2018 was a record year financially.** The operating margin stood at 18.3% of sales. And this year we are proposing a dividend of €3.85, up 8.5%<sup>(3)</sup>. For those of you who have had your shares registered for over two years, this dividend will be topped up by a 10% loyalty bonus. I am delighted to report that close to 40,000 of you chose to register your shares, demonstrating your confidence for the long-term.

These excellent results are naturally reflected in share price growth. In 2018, the Group's share rose 8.79%, at a time when the CAC 40 fell 10.95%. And L'Oréal became the second largest company by market capitalisation in Paris.

L'Oréal is also a share that shareholders particularly want to keep in their portfolios as seen from a recent study by Opinionway, which found that 97% of the shareholders surveyed said they would stay with L'Oréal.

This loyalty empowers us by enriching our relationship with you in increasingly personalised ways. The better we know you, the better we can fulfil your expectations. We are pursuing this goal through a range of events including shareholders meetings throughout France to give you the opportunity to meet us. These are special occasions. They allow us to build a close relationship based on trust and engagement.

**The Annual Report is also an example of our desire to share rich and transparent information with you.**

Over 3 million people viewed it last year. I am sure you will enjoy the 2018 version just as much, with some 40 exclusive videos waiting for you. This content will give you great insights into how the company operates.

I would also like to thank the members of the Individual Shareholders Consultative Committee who are here today who recently had an opportunity to chat with our new Chief Financial Officer Christophe Babule. Their insights will allow us to **improve our financial communications** to keep you fully updated with development of the company and, on top of that, to enhance our relationship.

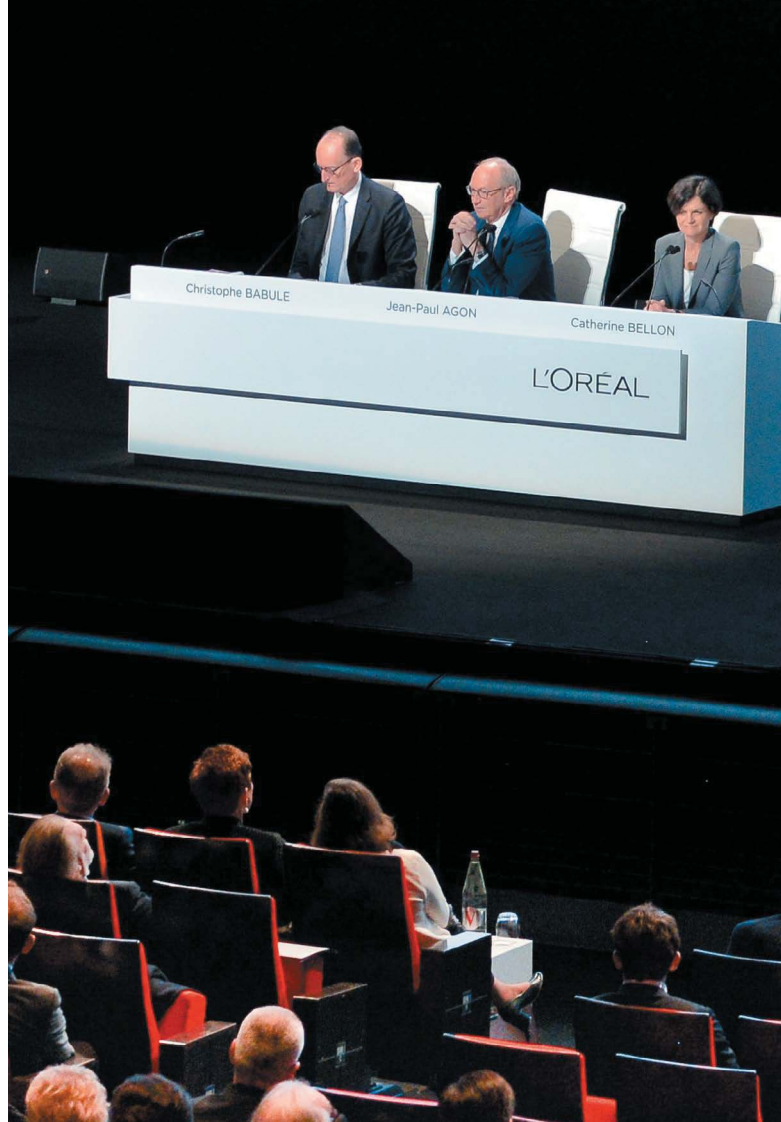
Your loyalty and support are key to L'Oréal's success and durability. This review of 2018 will have shown you that, once again, you have good reason to be proud of the company.

Lastly, **at L'Oréal, we always work at contributing to make the world a more beautiful place.** And it is our responsibility to take steps to preserve it. We were particularly touched by the disaster at Notre-Dame Cathedral in Paris.

The Bettencourt Meyers family and L'Oréal group decided to jointly help with the reconstruction by donating 100 million euros. In addition, the Fondation Bettencourt Schueller also announced that it would be giving €100 million. We are thus playing our part in the collective effort to meet the incredible challenge of restoring this emblematic French monument and our shared past.

This is because **L'Oréal does not just want to be a successful Group, but also a committed company that uses its success to serve the interests of the City.**

A different and unique company that is perfectly in tune with the changing world.



In what is still a volatile and uncertain economic climate, we have greater confidence than ever in our ability to outperform the market, thanks to **the high quality of the teams working worldwide.**

The sales figures just published for the first quarter 2019, up a sharp +7.7%<sup>(2)</sup>, reaffirm our strong momentum.

Dear shareholders, thank you for joining us on this wonderful journey. That of offering women and men across the planet the best of beauty products in terms of quality, efficacy, safety and responsibility.

<sup>(1)</sup> Source: L'Oréal estimate of the global cosmetics market in 2018 based on manufacturers' net prices. Excluding soap, oral hygiene, razors and blades. Excluding currency effects.

<sup>(2)</sup> Like-for-like: based on a comparable structure and identical exchange rates.

<sup>(3)</sup> On the basis of a €3.85 dividend approved by the Annual General Meeting of 18 April 2019.



# Addresses

**BARBARA LAVERNOS**

*Executive Vice-President*

*Chief Technology and Operations Officer*

## EXCERPTS

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

## “L'ORÉAL'S HISTORY IS ONE OF AN AMAZING MANUFACTURING JOURNEY.”

L'Oréal has 40 factories worldwide, spread across five continents and with each one having specialist equipment as well as the expertise of **11,340 L'Oréal manufacturing employees**.

Each year, our manufacturing teams across the world place **over seven billion products** on the market.

In France, we currently have 11 factories. **Not only does this anchor the business locally, but it also contributes to employment and the economic activities of different regions.**

From the moment L'Oréal was founded, it decided to be a beauty manufacturer. It did so for three fundamental reasons, three strategic advantages: quality control and product safety; agility and competitiveness; and environmental and social commitment.

The first reason why being a Beauty manufacturer is a tremendous advantage is **our absolute obsession with the quality and safety of our products.**

We enjoy 100 years of manufacturing experience and have put in place a quality system that means we work to the strictest international standards. This system is constantly inspected, and each factory is regularly audited and accredited by the relevant national authorities and independent international organisations.

Our quality management system is unique and used across all our factories, meaning we use the same procedures everywhere, adhere to the same norms in manufacturing excellence, and have the same traceability across the world.

The second reason why being a Beauty manufacturer is a tremendous advantage is **our ability to develop optimum agility and to be competitive.**

With manufacturing being central to our business, we can respond in a unique way that allows us to adapt production very quickly, in view of sales.

Agility is also about our ability to adapt our manufacturing tools to all needs: manufacturing large quantities of major product ranges, such as Elvive shampoo with over 10 million units produced per week, but also smaller product volumes, such as the stunning Lancôme Trésor La Nuit Musc Diamant fragrance.

Agility is also about fulfilling all beauty aspirations by, for example, offering extensive makeup ranges. Take, for instance, Absolu de Lancôme lipstick with its 212 different shades, something that presents a huge technical challenge.

And to be this agile, we need to be at the **cutting edge of technology.** Indeed, we have now entered the era of industry 4.0. Each year for the past five years, we have invested, on average, over €200 million in technology and staff training.

Finally, the third major responsibility assumed by our factory teams is **our environmental and social commitment.**

Our factories play a key role in the Group's major sustainability programme, “Sharing Beauty With All”. Our manufacturing teams are protecting our planet and sharing our growth on a daily basis.

Take CO<sub>2</sub> emissions, for example.

**Since 2005, we've reduced CO<sub>2</sub> emissions at our manufacturing sites by 77%, while production has increased 38%! To achieve this, we invested in energy efficiency and renewable energy solutions. 12 of our factories are already carbon neutral.**

Water conservation is another major concern for the planet. There again, since 2005, we have seen a 48% reduction in our water consumption per end product at L'Oréal's manufacturing sites.

**Our commitment has been recognised by the CDP**, a leading independent international organisation promoting sustainability. For the third year running, it has given L'Oréal an A score in three areas: climate, water management and combating deforestation. L'Oréal is the only company globally to have been so recognised three years in a row.

But for the manufacturing teams, our responsibility does not stop there. Employees have been involved in a number of local activities in the areas around our factories, and many have worked with schools, universities, non-profit organisations and other regional organisations to promote learning, access to education, and working with people who have disabilities.

In revealing what goes on behind the scenes at L'Oréal in terms of manufacturing, I have provided an insight into the work of our teams. **And I really want to pay tribute to the women and men working in L'Oréal manufacturing for their commitment and pride in shaping the beauty products of the future.**

# Highlights

## ALL RESOLUTIONS VOTED UPON WERE ACCEPTED BY LARGE MAJORITIES

### ORDINARY RESOLUTIONS

Approval of the 2018 parent company financial statements **99.92%**

Approval of the 2018 consolidated financial statement **99.86%**

Allocation of the Company's net income for 2018 and setting of the dividend **99.91%**

Appointment of Fabienne Dulac as a Director **99.80%**

Renewal of the tenure of Sophie Bellon as a Director **96.55%**

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 **89.96%**

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 2018 financial year due to his mandate as Chairman and Chief Executive Officer **94.75%**

Authorisation for the Company to buy back its own shares **99.52%**

### EXTRAORDINARY RESOLUTIONS

Authorisation to the Board of Directors to carry out a capital increase by issuing ordinary shares with preferential subscription rights for existing shareholder **96.99%**

Authorisation to the Board of Directors to carry out a capital increase through the capitalisation of additional paid-in capital, reserves, earnings or other items **99.94%**

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 **99.68%**

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 **99.82%**

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 **99.82%**

Powers for formalities **99.90%**

# +8.5%

**Dividend increased to €3.85 per share, and to €4.23 for registered shares<sup>(1)</sup>**

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

## APPOINTMENT OF A NEW DIRECTOR

**Fabienne Dulac** is Deputy CEO of Orange Group and CEO of Orange France. Her four-year appointment to the Board of Directors was approved at the Annual General Meeting. She will offer the Board her experience in Digital and the ongoing digital revolution, business and corporate social responsibility.



## STAKEHOLDERS EXPRESS THEIR VIEWS

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

### **L'Oréal Group, which operates on all continents, is exposed to foreign currency fluctuations. How do you hedge these foreign currency risks?**

You are absolutely right: the eurozone only accounts for 23% of sales. By definition, 77% of L'Oréal's sales are exposed to foreign currency risk. We have a very simple policy in this field: each year, we hedge all foreign currency requirements for the following year. But only for a year because we don't want to speculate either.

Why do we hedge? To safeguard our earnings and also to prevent operational managers in our subsidiaries from having to worry throughout the year about whether their currency will rise, fall; etc. They should focus on their business, increase market share, work on the top and bottom lines.

Lastly, one of the best hedges is being highly global. As we speak, Group sales come from every corner of the planet. Since not all currencies get hit at the same time, except perhaps when the euro rises or falls sharply, this offers a certain financial stability.

### **How do you retain talents?**

Young people are increasingly attracted to new industries, either technology or they decide to set up startups. That is a real challenge. For us, it is still relatively easy because L'Oréal has great appeal among young people worldwide. I already mentioned this but it remains true:

every year we have over 1.5 million speculative applications worldwide.

The Universum ranking, which ranks all companies, puts L'Oréal as the top French company. It goes without saying that we do not just hire French people, but also people from China, the US, Brazil, Japan and so on. We have not yet had any trouble finding talents, but it is a major subject.

It is true that the fact that L'Oréal makes beauty products, consumer products but that are also cutting edge, and looks to champion technology, is very appealing and important in attracting young talents. Young people today want to work in the companies of the future and our transformation into *beauty tech*<sup>(1)</sup> is also helping to make L'Oréal very attractive.

### **You launched the BOLD investment fund. What do you expect in terms of additional sales and innovations that will likely set you apart from your competitors?**

BOLD, Business Opportunities for L'Oréal Development, is a fund we set up last year, designed to take minority stakes in small companies, young startups.

Why did we do this? Startups often came to us saying: "We would love L'Oréal to invest in our company and help us grow". These startups obviously do not want to be bought out because they also want some upside to their development. There were a couple of opportunities that we were not able to take.





So we set up BOLD last year and started with a small startup called Sillages, which makes customised fragrance online. We took a very small stake but we are right by their side, we have our investment and are ready to help them grow. If they grow, then we will decide what to do. It is a new opportunity.

**Could you give us an initial assessment of the new digital tools launched in partnership with ModiFace, such as the StyleMyHair application?**

In my view, artificial intelligence is the natural next step for the digital sphere. We took our first steps in the digital revolution almost ten years ago. Since then, we are clearly the outstanding leaders in the beauty industry in the digital sphere, but also in consumer products.

It is clear that the next step is artificial intelligence, which will be instrumental in many aspects of the company. We also want to champion this area, hence the idea of becoming a champion of *beauty tech*<sup>(1)</sup>.

**What are your thoughts on the 2018 launch and performance of the organic product range, La Provençale? What role do organic products play in your plans?**

We took a series of organic initiatives at the same time. Firstly, La Provençale, a brand launched by our business in France, 100% organic and which has got off to a great start.



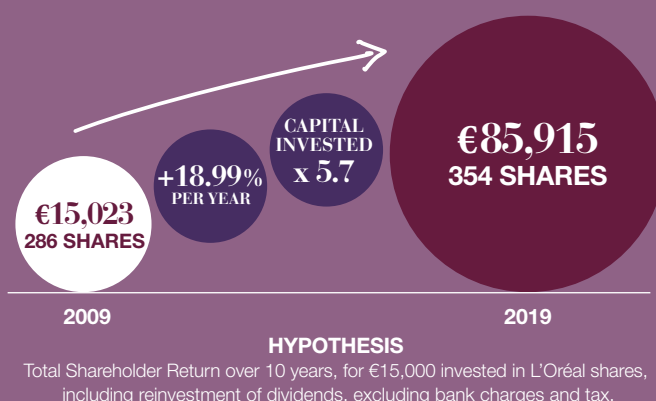
Secondly, the big brand Garnier, a brand specialised in natural products, launched a Garnier Bio skincare product line six months ago in Europe. The feedback is also very positive. Last year, we acquired the German organic company Logocos, which has two brands: Logona and Sante. We feel we also have things to learn from these brands whether in terms of formulation, production or even harvesting. Let's not forget the Sanoflore brand, which we bought a decade ago and which has seen very positive growth in the French market.

<sup>(1)</sup> *Beauty augmented by new technology.*

# L'Oréal and you

## TOTAL SHAREHOLDER RETURN<sup>(1)</sup>

Amongst the various economic and financial measures of value creation, L'Oréal prefers Total Shareholder Return (TSR). This indicator is based on a range of criteria, including the share price and revenue received in the form of dividends (excluding taxes on capital gains and dividends, based on the closing share price on 17 April 2019, the day before the Annual General Meeting).



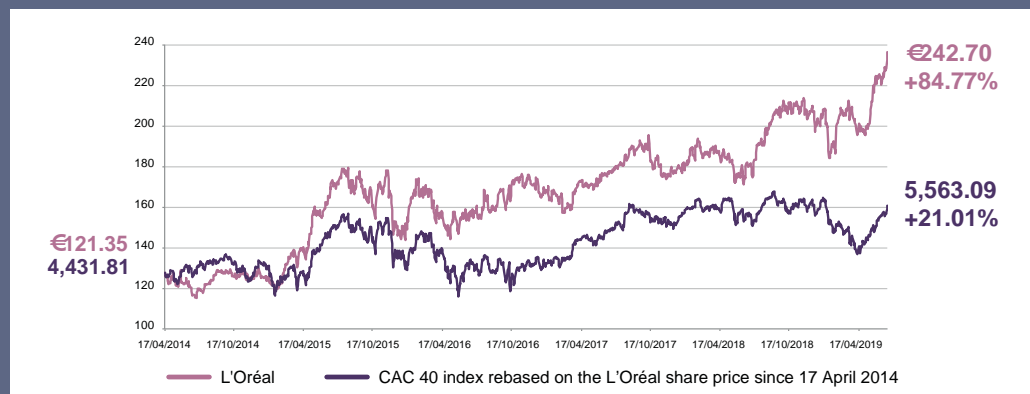
(1) Total Shareholder Return of the investment, assuming that the shares are sold at the closing price on 17 April 2019.

## TOTAL ANNUAL RETURN

<b>+16.94%</b> Over 5 years	<b>+18.99%</b> Over 10 years	<b>+9.10%</b> Over 20 years
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## OVER 5 YEARS, THE L'ORÉAL SHARE HAS OUTPERFORMED THE CAC 40 INDEX

L'Oréal vs. CAC 40 from 31 December 2013 until 17 April 2019, the day before the Annual General Meeting.<sup>(1)</sup>



**+84.77%**  
Change in the L'Oréal share price from April 2017 until 17 April 2019

**+21.01%**  
Change in the CAC 40 index from April 2017 until 17 April 2019

(1) CAC 40 index rebased on the L'Oréal share price since 17/04/2019 // Source: Thomson Reuters Eikon, share price on 17 April 2014.

## A TEAM THAT IS ALWAYS ATTENTIVE TO SHAREHOLDERS' VIEWS

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## NEXT SHAREHOLDERS EVENT

<b>30 July 2019</b>	Half-Year Sales and Results
<b>19 Sept. 2019</b>	Shareholders meeting in Nice, France
<b>8 Oct. 2019</b>	Shareholders meeting in Lyon, France
<b>4 Dec. 2019</b>	Shareholders meeting in Strasbourg, France

## THE CONNECTED SHAREHOLDER

Download the L'Oréal Finance app<sup>(1)</sup> and keep up to date with live news about your company.



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