

L'ORÉAL
FINANCE

The letter

TO SHAREHOLDERS

No. 72 - SPRING 2019

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L'ORÉAL

Message from the Chairman



JEAN-PAUL AGON
Chairman and Chief Executive Officer of L'Oréal

“THE POWER OF BEAUTY”

EXCERPTS
FROM THE
FINANCIAL
INFORMATION
MEETING OF THE
8 FEBRUARY 2019

To discover the
full speech, please
visit the website
loreal-finance.com



At the beginning of 2019, L'Oréal is stronger than ever with a winning strategy and a pretty unique business model based on five simple but very powerful founding principles.

Our absolute faith in the quality of our products and, therefore, a continuous strategic focus on Research & Innovation. Our success today and tomorrow will be driven by our permanent obsession with innovation and superior quality.

Our belief that top line growth is clearly the best route to value creation for our shareholders. Our results are once again proof of L'Oréal's very powerful business model, which is focused on top line growth plus operational discipline. Hence, our strategic choice in 2018 to sustain our investments in business drivers and in Research & Innovation is critical for innovation.

Our unique conviction that victories are won on the battlefield. The very special thing about L'Oréal is our unique culture, organisation and, of course, the incredible quality of our people. What has really tipped the balance has been the commitment, creativity and determination of our teams. Local teams are critical not only for execution but also to ensure that in every country, we are close and relevant to our consumers. This strategically concentrated yet operationally decentralised model, combined with the empowerment of local teams, is what brings agility and excellence in the field.

Our fourth distinguishing element is our ability to catch the growth wherever it emerges, thanks to our absolute coverage of the market. The fact that we are covering all channels, all categories, all countries, all prices, all types of consumers allows us to identify, grasp and maximise all opportunities, and to seize the growth wherever it is.

And finally, our fifth element of differentiation is our lead in sustainability and ethics. Delivering financial performance while being a committed corporate citizen is probably our biggest source of pride. Once again, in 2018, L'Oréal was recognised by renowned external institutions as a global leader across all industries, in environmental protection, gender equality and ethics.

For the first time ever, the CDP, the most respected authority in sustainability, awarded us, for the third year running, 3 A ratings for our actions in fighting climate change, ensuring water security and combatting deforestation.

In terms of diversity, we were ranked as the top gender-balanced company in Europe by Equileap, as well as the second company worldwide out of 3,000 companies.

And in terms of ethics, we are very happy and proud that for the first time in 2018, we were ranked as the leading company worldwide across all industries by Covalence EthicalQuote.

So these five founding principles make L'Oréal a very different and unique company in this industry and perfectly adapted and in tune with the evolution of the world.

Performance

2018

ANNUAL RESULTS

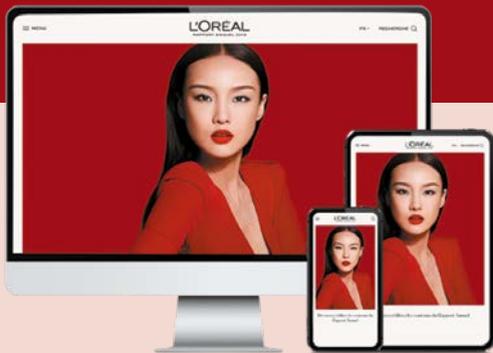
Sales at 31 December 2018

€26.9 Bn

+7.1%
like-for-like⁽¹⁾

+8.0%
at constant exchange rates

+3.5%
based on reported figures



Operating profit €4.92 Bn	Record operating margin 18.3%	Net profit after non-controlling interests €3.89 Bn, an increase of +8.8%
Earnings per share⁽²⁾ +6.5%	Dividend⁽³⁾ €3.85, an increase of +8.5%	Sales exceeding in the New Markets > €11 Bn

3A scores by the CDP⁽⁴⁾:

for carbon emissions, managing water consumption in a sustainable way and protecting forests in its supply chain.

Weight of digital in sales⁽⁵⁾

€3 Bn
of sales in e-commerce

11%
of consolidated sales in e-commerce

+40.6%
of growth in e-commerce in 2018

(1) Like-for-like sales growth: based on a comparable scope of consolidation and identical exchange rates.
(2) Diluted earnings per share, based on net profit, excluding non-recurring items, after non-controlling interests, from continuing operations. (3) Proposed at the Annual General Meeting of 18 April 2019.
(4) CDP is an independent global organisation that evaluates companies' achievements in terms of their environmental performance. (5) Sales achieved on our brands' own websites + estimated sales achieved on our brands corresponding to sales through our retailers' websites (non-audited data).

To discover all the Group's results, visit the 2018 Annual Report, on www.lorealannualreport2018.com



E-COMMERCE: A NEW GROWTH PHASE

Online sales have earned their seat at the table and now account for 11% of the Group consolidated sales. This distribution channel is growing faster than ever before and is already changing, to provide consumers with more services and flexibility.

EXCERPTS
FROM THE 2018
ANNUAL REPORT
OF L'ORÉAL

Find out more on
lorealannualreport2018.com



New e-commerce practices and services

E-commerce is changing, to offer new distribution methods and services. **Influencer-driven sales** are growing increasingly fast. L'Oréal has partnered with Boutiquaat, a multi-brand e-commerce site in the Middle East that hosts more than 200 beauty influencers. Consumers receive recommendations for products via the platform, where they can also buy them directly.

The services available online are also growing. **The augmented reality technologies** provided by ModiFace allow customers to virtually **try out products and simulate different looks**. This incredible solution helps consumers feel more certain about their choices, leading to increased purchases.

Voice ordering has become increasingly effective on e-commerce websites and will be the next big challenge for the Group's brands.

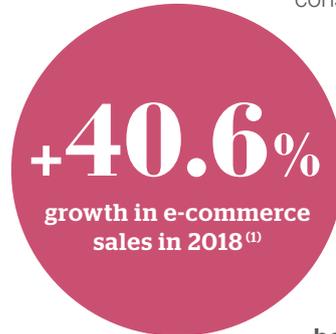
Fluid and complementary experiences in-store and online

The **convergence of the online and offline worlds** is also changing e-commerce. The goal is to provide customers with a **fluid experience** in terms of information, offers and services, regardless of the distribution channel. To do this, the Group needs to **know its consumers** well enough, to offer the same services (product tests, recommendations, etc.) and products thanks to an adapted logistics chain, and provide the same prices, discounts and product information.

The online and offline experiences should be complementary. While in-store sales have the advantage of human relations, online sales also have a number of advantages: unlimited information on the product and **customer reviews**, which are particularly important for skincare, hair colour and makeup products. Freed from the confines of space, e-commerce websites can also sell **an infinite number of products**. Finally, thanks to worldwide delivery, online sales reach more people. In India, for example, Amazon delivers to a great part of the country, and online

consumers – who often do not have a point of sale nearby – join those who purchase products in stores.

The complementarity of on- and offline sales also applies to promotion. In China, when you walk past a Lancôme store, you receive a notification with a promotional offer thanks to a partnership with WeChat. The in-store experience is also enhanced by the possibilities of digital technologies and consumer data.



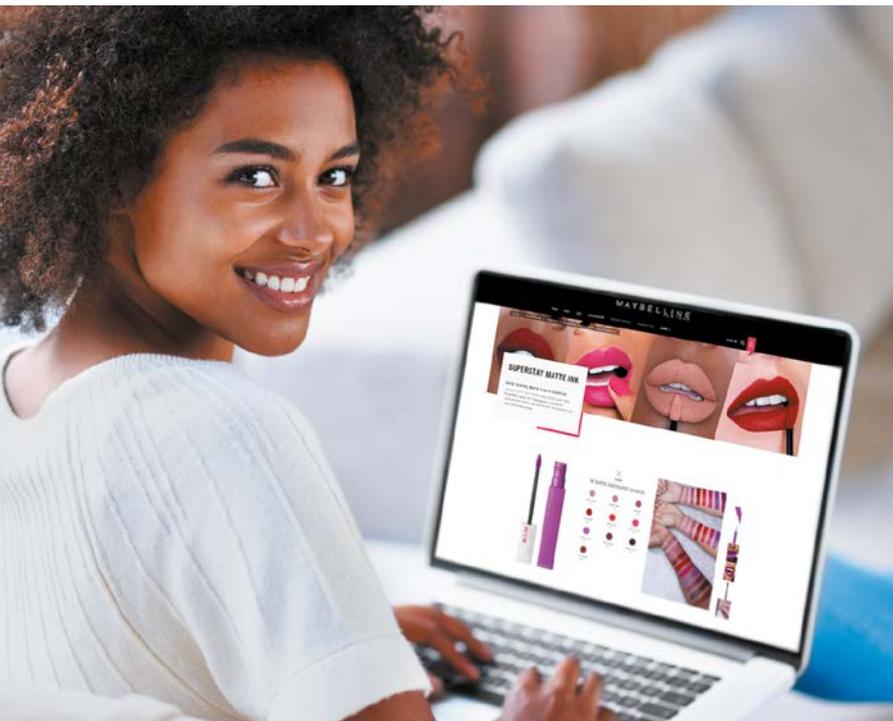
Partnerships with major digital players

Partnerships with GAFA (Google, Apple, Facebook and Amazon) and BAT (Baidu, Alibaba and Tencent) are crucial for L'Oréal brands. For example, L'Oréal Paris men's range, Men Expert, has met with great success on Tmall and was **the bestselling men's skincare brand in China** on 11/11. ModiFace signed a long-term partnership with Facebook to create **new augmented reality experiences** integrated with the Facebook Camera. The direct connection between ModiFace and Facebook allows users worldwide to virtually try out makeup brands, like NYX Professional Makeup, for the first time.

The e-commerce main event: 11/11 in China

11/11 is Singles' Day in China – a holiday during which brands and e-commerce websites offer exceptional promotions. It is an extraordinary e-commerce event, which involves the distribution channel, production, inventory management, IT, marketing services, delivery and after-sale service. The Group's brands rose to this incredible challenge with remarkable success!

(1) Sales achieved on our brands' own websites + estimated sales achieved on our brands corresponding to sales through our retailers' websites (non-audited data).



Behind the scenes of Beauty

STAKEHOLDERS EXPRESS THEIR VIEWS

This year the L'Oréal Annual Report lets stakeholders express their views: employees, brand ambassadors, shareholders, experts... See the faces behind the job titles and find out more about the diversity of expertise that L'Oréal brings together.



From barber shops to professional hair salons

It is now 25 years since L'Oréal moved into India, with one objective in mind: to train the hairdressers of the future and give them access to professional haircare products. Today, hairdressers in the country have bright prospects in a profession that is being radically transformed. India is a key market which is at the heart of L'Oréal's Universalisation strategy.

"When the L'Oréal Professional Products Division branched out into the Indian market, professional haircare services were almost non-existent. There were no training schemes and no professional products accessible for hairdressers. By helping to modernise and transform the sector from the ground up, L'Oréal has made hairdressing an attractive profession in India."

D P Sharma,
General Manager
Professional
Products Division,
L'Oréal India



Artificial intelligence

Artificial intelligence technologies, such as augmented reality for instance, have enabled companies like ModiFace to create apps that allow customers to virtually try on beauty products. These technologies have developed significantly over the last few years and have now become a bridge between the online and offline experience.

"We are perhaps not far from Snow White's mirror: an assistant that can advise us on our personal beauty. To achieve this L'Oréal has prepared itself perfectly by hiring or putting together unique skill-sets and knowledge bases which have helped us take on this challenge."

Michael Haddad,
Head of Augmented
Beauty Invention,
L'Oréal United States



Beauty in the Middle Kingdom

In China, the Y generations, born from 1980 to 2000, and the Z generations (born after 2000) like to stand out from the crowd and express their personality. They want to be original, set their sights on aspirational brands, and travel all over the world. The makeup category is making the most of these profound generational changes, thanks to the boom in connected beauty.

"They are always in search of the optimal user experience: this means high quality products, effective ingredients, latest technologies and the best sensorial experience all in one attractive pack!"

Jenny Wang,
Business Intelligence
Director, L'Oréal China



BECOME A REGISTERED SHAREHOLDER

and take advantage of the loyalty bonus on your dividend

+10%



Industrial innovation

In our factories, our technicians and operators know their packaging line systems inside out. One such operator, Vincent Grégoire, helped create a mobile app to optimise the functioning of his packaging line.

“To meet the challenges of today’s world, it is important to involve more and more operators in the ways in which our work can be optimised and digitalised and use simple tools to come up with a good solution. If they don’t work, it’s ok, but if we don’t try, we’ll never know!”

Vincent Grégoire,
Operator in the Libramont factory, Belgium



Individual shareholders, committed alongside L’Oréal

The L’Oréal Financial Communication team was present at the 21st Actionaria shareholder fair in Paris. During Actionaria, we talked to individual investors Marie-Paule Descamps and Michel Guérillot about the reasons behind their investment, and their loyalty to the Group.

“I feel a strong affinity for L’Oréal, both for its business model and its model for society, which are embodied in its commitment to environmental protection, equality for women and men in the workplace and initiatives for the employment of the differently abled.”

Marie-Paule Descamps,
Individual L’Oréal shareholder



TO DISCOVER ALL THE VIDEO INTERVIEWS, PLEASE VISIT THE 2018 ANNUAL REPORT AT:

www.lorealannualreport2018.com

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%**⁽¹⁾.

(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 2019

Register your shares.

2020 / 2021

Hold your registered shares continuously for two full calendar years.

FROM 2022

For the financial year 2021, receive for the first time the +10% loyalty bonus for your shares continuously held in registered form since 2019.

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

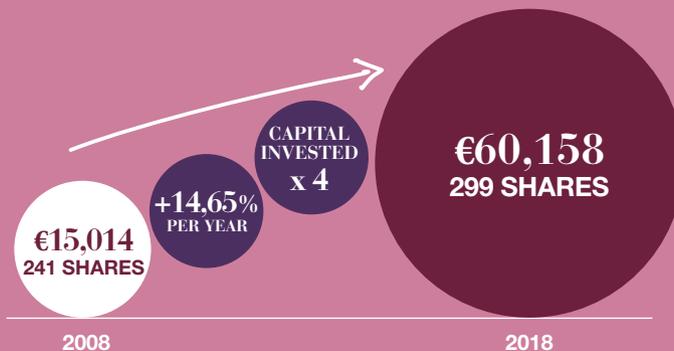
TO BECOME A REGISTERED SHAREHOLDER
consult the Shareholders section at

www.loreal-finance.com

L'Oréal and you

TOTAL SHAREHOLDER RETURN⁽¹⁾

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 31 December 2018).



HYPOTHESIS

Total Shareholder Return over 10 years, for €15,000 invested in L'Oréal shares, including reinvestment of dividends, excluding bank charges and tax.

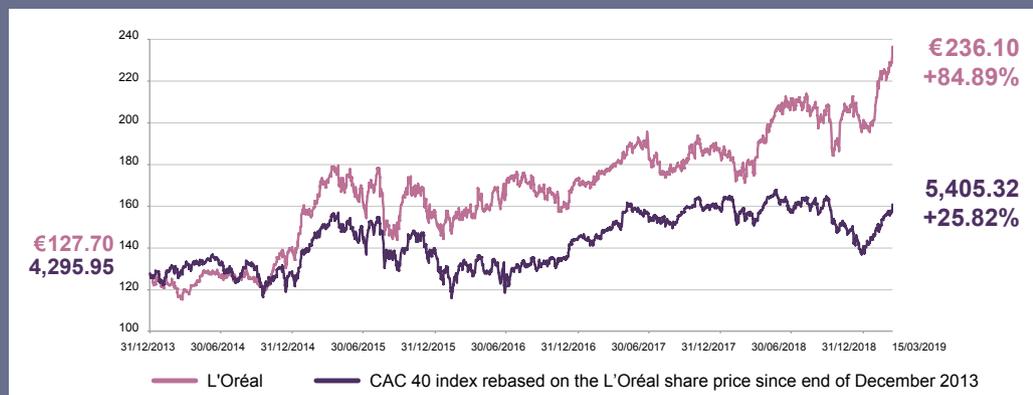
TOTAL ANNUAL RETURN

+11.51% Over 5 years	+14.65% Over 10 years	+7.70% Over 20 years
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⁽¹⁾ Total Shareholder Return of the investment, assuming that the shares are sold at the closing price on 31 December 2018.

OVER 5 YEARS, THE L'ORÉAL SHARE HAS OUTPERFORMED THE CAC 40 INDEX

L'Oréal vs. CAC 40 from 31 December 2013 until 15 March 2019⁽¹⁾



+84.89%
Change in the L'Oréal share price from the end of December 2013 until 15 March 2019

+25.82%
Change in the CAC 40 index from the end of December 2013 until 15 March 2019

⁽¹⁾ CAC 40 index rebased on the L'Oréal share price since 31/12/2013 // Source: Thomson Reuters Eikon, share price on 15/03/2019.

A TEAM THAT IS ALWAYS ATTENTIVE TO SHAREHOLDERS' VIEWS

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NEXT SHAREHOLDER EVENT

18 April 2019: Annual General Meeting at Palais des Congrès, Paris

19 June 2019: Shareholder meeting in Annecy, France

26 June 2019: Shareholder meeting in Lille, France

INDIVIDUAL SHAREHOLDER CONSULTATION COMMITTEE

Each year, one-third of the members of the Individual Shareholder Consultation Committee is renewed.

If you would like to join the committee, please apply on our website:
loreal-finance.com/eng/consultation-committee

THE CONNECTED SHAREHOLDER

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



To receive the Letter to Shareholders directly by e-mail, fill in your e-mail address at: loreal-finance.com/eng/keep-informed

⁽¹⁾ Available for free on the App Store and Google Play.