

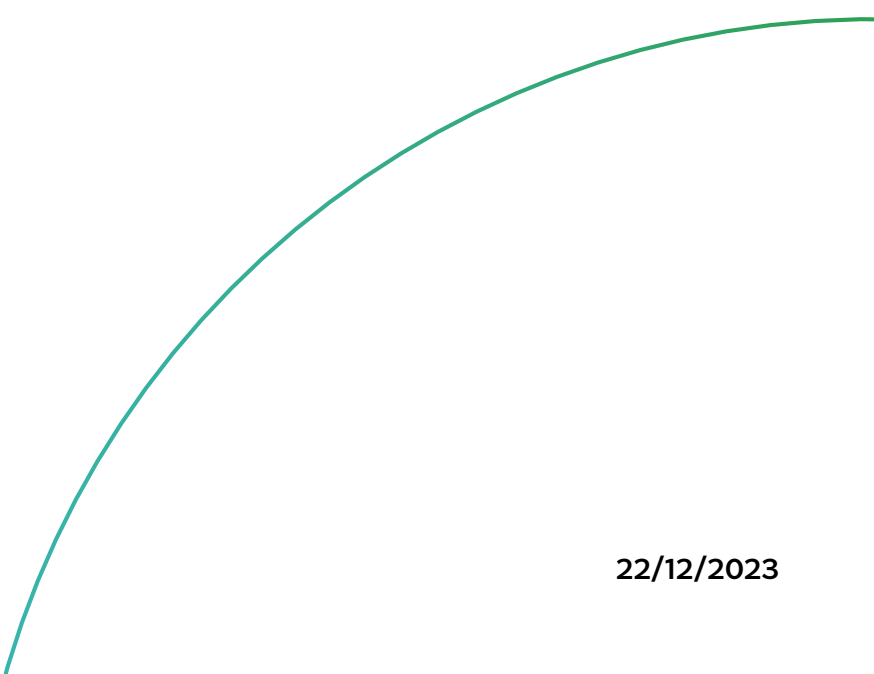


# L'ORÉAL

G R O U P E

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## CLIMATE TRANSITION PLAN



22/12/2023

**T**he world is not on track to reach the Paris Agreement goals, and global temperatures could reach a 2.5-2.9°C average increase by the end of the century - the window to limit the global temperatures rise to 1.5°C is closing<sup>(1)</sup>. Urgent action and a system-wide transformation are needed to deliver the enormous cuts in emissions necessary to limit greenhouse gas (GHG) emissions by 2030.

For many years now, L'Oréal has made addressing climate change a strategic priority. The Group established its first science-based targets in 2017 and has a strong track record of emissions reduction in its own operations.

It aims to continue leading the beauty industry on the transition to a Net-Zero future, and this Transition Plan<sup>(2)</sup> sets out its commitments and strategy for the period to 2030 and beyond.

(1) Source United Nations Environment Programme, Emissions Gap Report 2023 (<https://www.unep.org/resources/emissions-gap-report-2023>)

(2) The purpose of this climate transition plan is to communicate L'Oréal's orientations in renewing its targets to align with the latest rules of the Science Based Targets initiative (SBTi) considering both its near term goals and the long term pathway to Net Zero. It has been submitted to the SBTi and, as of end of 2023, is currently pending SBTi validation. This plan is without prejudice to the work underway as part of the L'Oréal for the Future programme and the CSRD compliance work for URD 2024. The ambition and progress of the plan is intended to be published in the 2024 Universal Registration Document ("URD").

# The Group's GHG emissions

**L'Oréal's scopes 1 & 2 emissions primarily arise at its production, distribution, administrative, stores and research sites. Emissions result from the combustion of fuel (e.g. for process heating) and the use of electricity (e.g. for manufacturing equipment, lighting) as well as leakage of small amounts of greenhouse gases used for cooling. To date, scopes 1 & 2 emissions represent a very small proportion (<2%) of the Group's overall footprint and L'Oréal has already taken extensive action to reduce its direct footprint.**

Its Scope 3 emissions, representing the majority of its footprint, primarily arise from the activities of its upstream supply chain required to produce the ingredients and packaging used in its products. Other key emissions sources include other purchased goods and services (including advertising and digital services)

and emissions associated with both inbound logistics and the distribution of its finished products to its customers. In addition, some of its products (primarily aerosols) produce emissions "in-use".

Beyond its mandatory footprint, L'Oréal also measures and reports the 'indirect' use-phase emissions associated with the use of its personal care products (e.g. the Group estimates the emissions associated with water heating for rinsed products).

L'Oréal has disclosed its GHG balance in its URD<sup>(1)</sup> since 2016. Its disclosure includes all mandatory footprint categories according to the GHG Protocol and in addition it includes the optional emissions from the indirect use of its products (i.e. emissions associated with water heating for its rinsed products). See 2022 URD for more details.

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# The Group's Commitments

**L'Oréal is actively working on decarbonizing all areas of its GHG emission footprint. In 2022, its overall emissions, including its optional indirect use phase emissions, have declined by 5% compared to 2016.**

Building on its first achievements, yet recognizing the urgency of addressing climate change and the importance of limiting the global temperature rise to 1.5°C, the Group has established a new Net-Zero commitment covering all its mandatory scopes 1, 2 & 3 emissions (i.e. excluding indirect use in order to focus on emissions sources that are closer to its direct control). To reaffirm its commitment to Climate Action, the Group aims to reduce its full scopes 1, 2 & 3 emission by 90% by 2050, with any residual emissions fully compensated at that date. Its decarbonization plan covers actions across its full value chain.

In addition, the Group is in process of renewing its targets to align with the latest rules of the Science Based Targets initiative (SBTi) considering both its near term goals and

the long-term pathway to Net-Zero. Its near-term target will focus on the decarbonization of scopes 1 & 2 and key categories within scope 3: the Group's Purchased Goods & Services, its Business Travel and Downstream Transportation.

Renewing the Group's target was the opportunity to update to a more recent baseline (2019) which aligns with the baseline for its other sustainability goals under its "L'Oréal for the Future" (L4TF) program. Its new set of targets, currently pending SBTi validation, are the following:

- Near term (2030) reducing Scope 1 & 2 by -56% and -28% for Scope 3 on the Group's Purchased Goods & Services, its Business Travel and Downstream transportation in absolute terms versus the 2019 baseline.
- Reducing overall emissions long-term (2050) by 90% in absolute terms versus the 2019 baseline, with residual emissions compensated so as to achieve Net-Zero.

(1) The Universal Registration Document ("URD") is published annually on [loreal-finance.com](https://www.loreal-finance.com) in the section "Regulated information".

# Reducing Scope 1 & 2

**Since 2017 the Group committed to reducing greenhouse gas emissions from operated sites to zero by 2025. It has made strong progress on this goal due to its focus on renewable energy sourcing, its use of bio-energy for process heat and through its program of energy efficiency.**

The Group's Scope 1 & 2 decarbonization plan for 2030 builds on this strong progress and focuses mainly on:

- Completing its building improvement and energy-efficiency program.
- Transitioning to renewable energy for its operated sites and operated stores.
- Continuing the migration of its car fleet towards hybrid and electric vehicles.

# Reducing Scope 3

**L'Oréal has been engaged since 2013 to mitigate the impacts associated with its value chain, from production to distribution, as well as those related to the sourcing, or the use of products by consumers.**

In 2023, as part of establishing its new decarbonization goals, the Group has continued the work of specifying concretely the detailed steps of the path to decarbonize. The Group has undertaken this planning with its metiers (business functions) including R&I, Operations (Manufacturing, Sourcing, Packaging, Supply Chain, ...) and Digital as well as through an extensive period of consultation and planning with its Divisions and Zones. Through this work, the Group has a clear understanding of the levers required to deliver its 2030 goals.

The revised 2030 trajectory builds on the momentum and progress from the past work done as part of the Sharing Beauty with All and L'Oréal for the Future programs.

# Main decarbonization levers towards 2030

L'Oréal carries out Life Cycle Analysis on its products in order to identify, evaluate and improve their environmental impact, including the carbon footprint. Since 2017, a dedicated tool, SPOT, based on a rigorous scientific methodology for assessing environmental impacts has been rolled out to all Group brands (except recent acquisitions). This tool calculates the environmental footprint of a product in accordance with the European Commission recommendation. SPOT is an important part of L'Oréal's product launch processes, putting sustainable innovation at the very heart of product development.



## Packaging

**Packaging represents a significant part of the GHG footprint of cosmetic products. Reducing the footprint of packaging is therefore a key focus of L'Oréal's path to decarbonize. Over the past years, the Group has been focusing on reducing its packaging intensity through packaging optimization initiatives (e.g. developing refill and reuse options, lightweighting, upsizing) as well as driving up the share of recycled content.**

Going forward, the Group's decarbonization plan will focus on 5 main priorities:

- Continuing with the implementation of packaging intensity reductions (e.g. through right-sizing, light-weighting).
- Increasing the share and availability of reusable and refillable formats.
- Increasing the share of recycled content in its products (particularly plastics and aluminium) where the recycled content has a significantly lower carbon footprint than the virgin equivalent.
- Working with its suppliers on the sourcing of packaging materials produced at lower carbon intensity (e.g. low-carbon aluminium).
- Investigating ways to reduce the impact of finishing techniques (e.g. metallization) and working with its suppliers to adopt the lowest impact approaches at scale.



## Formulas

**Since 1995, L'Oréal has been working on the impact of its cosmetic products on the environment, opening its first environmental research laboratory to evaluate and reduce the environmental footprint of its formulas. Right from the design stage, raw materials used in the formulation of products are evaluated as part of a strict ingredient selection process.**

Over the past years L'Oréal has been focusing its decarbonization on ingredient removals and ingredient switches as part of its overarching target of 95% of ingredients in formulas to be biobased, derived from abundant minerals or from circular processes.

Going forward, achieving its 2030 target will require L'Oréal to accelerate on raw material decarbonization in 4 main areas:

- Product reformulation – switching petrochemicals to biobased ingredients and replacing high carbon intensive ingredients.
- Investigating ways to reduce the impact linked to the gases in its aerosols, in particular the high Global Warming Potential gas in its portfolio (either by replacement with other propellants or through shifts in product format).
- Reducing the impact of palm and soy derivatives used as feedstock in its product ingredients by continuing its work against deforestation and encouraging its upstream suppliers to adopt sustainable and regenerative agricultural practices.
- Working with its suppliers on the sourcing of lower carbon raw materials and on their own production efficiency and use of renewable power where possible.



## Digital Marketing

L'Oréal's digital marketing footprint is derived from the emissions linked to the production of its advertising content and the transmission of this content. The Group has done significant work to measure its baseline linked to content production, the activation of digital media and to incorporate further as a priority the footprint of its paid influencers. To achieve its 2030 target, the Group will need to work on a range of reduction opportunities including:

- Producing advertising content more sustainably, reducing the emissions linked to travel and filming spaces.

- Increasing the utilization rate of the content produced and reducing content waste.
- Reducing the impact of the transmission of its advertising content, by implementing optimization levers in digital media, such as adapting creative resolution based on device type, length of the asset by platform, and media planning.
- More broadly, working with its suppliers (including its influencers) to reduce their emissions.



## Display and promotional materials

**As part of the L'Oréal for the Future programme, L'Oréal has been working on improving the environmental footprint of its advertising displays at points of sale, increasing gradually the share that is following eco-design guidelines.**

To reach its 2030 target, the Group's main focus areas will be to:

- Continue to redesign its display materials, implementing its eco-design guidelines to lightweight its designs, switch

to mono-material content and to avoid waste.

- Switch further display materials to recycled content.
- Continue to reduce the electricity consumption linked to permanent displays at point of sales by optimizing its displays and by benefiting from the positive impact of its retail partners shifting towards renewable sources of electricity.



## Logistics

**L'Oréal has a long-standing commitment to reduce the emissions generated by the transportation and warehousing of its products.**

Going forward the main pillars of its 2030 program will be:

- Continuing with the reduction of air transport – favoring local production when possible and implementing multi-sourcing approaches in the Divisions and through enhanced planning, including switching air to rail/ocean freight.
- Continuing to implement new solutions to use multimodal transports where possible (e.g. switch from road to sea, road to rail).
- Optimizing its fill rate (particularly on road freight in Europe and North America).
- Using fuels with a lower emissions impact (e.g. biogas, biofuel vehicles, SAF or low carbon fuels for Sea Freight, and electric vehicles & cargo-bike for the last mile).
- Working with its suppliers to reduce further their emissions linked to the transportation of its products upstream and downstream, including through the pilot and adoption of long distance battery-electric vehicles.



## Suppliers

**Across the Group's footprint, the majority of impact is associated with activities at its suppliers. Working with its suppliers to support the overall decarbonization of the value chain will continue to be key. Since 2007 the Group has involved its strategic suppliers in the process of measuring and reducing their greenhouse gas emissions and encouraged them to participate in the CDP Supply Chain program.**

Going forward, the Group's main focus will be to continue to work with its strategic suppliers, not only on reducing emissions linked to their Scope 1 & 2, but also their Scope 3. The Group's main areas of work will be to:

- Continue training and supporting its strategic suppliers to understand the challenges of climate change.
- Continue supporting its strategic suppliers on the identification of the main drivers of decarbonization in their industry, exploring options to accelerate progress and taking action to drive reduction.
- Setting new expectations towards its suppliers to develop their own Climate Transition Plans including Science Based Targets (or equivalent emissions reduction strategies).
- Working towards increasing the transparency and tracking of supplier and product specific emissions as a means to track progress and drive change.



## Other areas of decarbonization

L'Oréal will continue to address all its emissions, and has also developed plans to decarbonize:

- Emissions associated with the production of machinery the Group purchases, both by working with its suppliers to decarbonize their activities and by encouraging circular economy models including through the remanufacturing and reuse of equipment.

• The footprint linked to the construction of its Real Estate, including through the lease of certified low-carbon buildings, optimizing its space, reducing areas occupied in new buildings.

- Its Business Travel through the implementation of strengthened travel policy.

# Beyond 2030

**Beyond 2030, to reach its Net-Zero Commitment, the Group will need to reduce its absolute scopes 1, 2 & 3 GHG emissions by at least 90% in 2050 from the 2019 base year. L'Oréal plans to compensate residual emissions with carbon removals in line with the SBTi "Corporate Net-Zero Standard".**

The Group will aim to capitalize on the solid foundations put in place by 2030, which will be reinforced by additional actions. Beyond 2030, the Group also anticipates that technology advances (and more supportive policies) will mean that a wider range of decarbonization options will become cost-effective to adopt at scale. Some of the drivers of its decarbonization beyond 2030, to be further detailed in the future as technology maturity and low-carbon options advance, could include:

- Zero-carbon logistics driven by the increased use of the most advanced solutions.
- New technologies to reduce the impact of its products, including advanced recycling and the use of carbon-capture technologies to provide feedstocks for packaging and ingredients.
- Further innovation across each of its business functions: product/ format innovation in packaging, optimized content utilization in Digital, further work in reshaping Promotion to reduce impact.

Meeting its Net-Zero ambition will depend on the wider transformation of the energy system in all the countries where the Group operates and on its suppliers and value-chain partners also moving with the same pace and ambition. L'Oréal cannot be successful alone and relies on a supportive policy environment and systems change. The Group will continue to engage positively with its industry and policymakers to promote the wider transition to a Net-Zero economy.

## Compensation

The Group will prioritize emissions reductions within its value chain on the journey towards Net-Zero. In addition to reduction actions, L'Oréal plans to compensate its residual emissions by 2050 at the latest using carbon removals only, with a progressive ramp up over the period.

# Ways of working

## Investment

Delivering its decarbonization goals will require important investment by L'Oréal directly and by its suppliers in order to put in place the low-carbon technologies required. The Group also anticipates facing additional costs as some low-carbon materials and products may be more expensive to purchase than their equivalent.

As the Group managed investing over the last years, notably in its own decarbonization journey, L'Oréal will continue to commit financial resources to the Net-Zero transition. Such investments are usually not linear as large projects may take a few years to mature, and opportunities at a given time depend on the technology available, the local economic and regulatory context.

The Group's finance team is tasked with managing L'Oréal's financial exposure from its decarbonization plan and integrating the required investments and additional costs into its financial plan, through its annual Strategic Planning process. Each metier, division and zone undertakes its own analysis on the financial implications, considering the phasing of adoption of different decarbonization options.

This information will be published progressively in accordance with the Corporate Sustainability Reporting Directive (CSRD).

# Governance

Sustainability is integrated into L'Oréal's overall business strategy and governance at the highest level and throughout the organization. Every year, the Board of Directors determines L'Oréal's strategic directions, which integrate the challenges of climate change and, more generally, the issues of sustainable development, as well as the Group's sense of purpose to "Create the Beauty that moves the world". The Board receives information and training on sustainability topics and considers environmental impacts in its decision-making processes.

The Board can rely on four Board Committees that are responsible for investigating the issues within their area of expertise. For climate change specifically, the Strategy and Sustainability Committee (SSC) of the Board is in charge. The Chairman and President of L'Oréal is the chairperson of the SCC and the Chief Sustainability Officer reports on the Group's activities and gives a status update on the L'Oréal for the Future program at every meeting of the SSC. The committee ensures that L'Oréal's sustainability and climate commitments are duly taken into account, considering the challenges specific to the company's business activities, market, development, and objectives.

In order to implement the sustainability strategy of the Group, the Chief Executive Officer can rely on the commitment of every member of the Executive Committee within the respective scope of the member. More specifically, the Chief Sustainability Officer ensures strategic consistency between the measures the Group takes to integrate sustainable development across its entire value chain and its charitable contributions. She is responsible for the formulation and implementation of the sustainable development strategy, assesses and manages climate-related risks and opportunities through the action plans of the Group's sustainability programs.

Under her direction, different internal committees related to sustainable development, composed of the experts responsible

for the deployment of the sustainability programs, define the roadmaps for each of the entities represented (Operations, Research, Divisions and Zones). The experts responsible for the rollout of the sustainability agenda participate in these Committees. Each of the internal Committees defines annual objectives to reach the Group's targets and directs their deployment throughout the L'Oréal value chain. Twice a year, the Chief Sustainability Officer brings together some members of the Executive Committee in the L'Oréal for the Future Executive Committee to make strategic decisions about the program, which includes the Group's climate goals.

Moreover, sustainable development must be driven by all teams. All L'Oréal employees are encouraged to receive training on the challenges of sustainable development. They have access to a comprehensive range of online training courses available in 15 languages as part of the L'Oréal for the Future program.

Remuneration structures have been adopted to ensure a strong correlation with L'Oréal's strategy for which economic and social performance go hand-in-hand. Non-financial objectives in line with the Group's goals for sustainability are included in the variable remuneration of the CEO, top management, including international brand managers and country managers. The same applies to long-term remuneration.

The Group's approach to governance, including details on remuneration structures linked to sustainability, and climate risk management are disclosed annually in its URD.

The Group's actions are part of an ongoing dialog with its stakeholders on its commitments, particularly with regard to Climate Change. This dialog also includes shareholders and investors, who periodically receive informations on the Group's Climate strategy in the URD and at the Annual General Meeting.

## Policy engagement and industry collaboration

At local, national and international level, L'Oréal maintains close relationships with public authorities, via professional associations and through direct engagement. The Group's public advocacy and policy engagement is conducted in accordance with its Responsible Lobbying Policy. The Group facilitates discussions with institutional representatives on the role that companies should play with regards to major sustainability issues, including on climate policy and decarbonization. In line with its own corporate commitments, L'Oréal supports public policy that aligns to a 1.5°C path and enables transition to Net-Zero. In 2019,

L'Oréal was one of the first companies to sign the Business Ambition for 1.5°C pledge of the UN Global Compact, thereby committing to reach "Net-Zero emissions" by 2050 over its entire value chain, in accordance with the 1.5°C path of the IPCC. Moreover, L'Oréal continues to engage positively with its industry and policymakers, for example through participation in major international institutional events such as Climate Week NYC and the World Economic Forum Davos Summit, and in industry consortiums, such as the EcoBeautyScore.



## Risks and opportunities

The Group has built a global risk map related to climate change and other sustainability risks, including short-term (1 to 3 years), mid-term (3 to 15 years) and long-term (15 to 30 years) risks. Input is collected from key global operational managers and domain experts, representing all Group activities, geographies, and business areas. The Sustainable Finance Department, in coordination with the Group Risk Management Department is in charge of organizing this work, which is updated annually, allowing the Group to identify emerging risks and review existing risks.

The Group's risk review includes physical risks and transition risks associated with the company's own

operations as well as changes in its value chain and ecosystem, and are carried out according to the RCP 1.9 and RCP8.5 scenarios of the IPCC. The analyses include a diverse array of risks such as the effects of extreme weather events on the Group's infrastructures, scarcity of resources, carbon pricing (taxes, emissions trading schemes) and financial impacts of such risks related to the Group's reputation and consumer expectations. They lead to impact assessment procedures as part of the scenarios created and contribute to defining strategic orientations. Every year, the main risks and opportunities are described in the URD.

## Ongoing data and strategy review, and reporting

The current work is based on the latest and best estimate of the Group GHG footprint to date. It is important to note that this baseline has evolved historically as the Group gathers more accurate estimates of emissions and improve data on its scope 3 footprint. L'Oréal restates its baseline to incorporate improvements in emissions reporting methodology and data availability. Scope 3 reporting remains dependent on a mix of spend-based emissions estimation and standard emissions factors (e.g. from Ecoinvent) where specific data is not available from its suppliers. L'Oréal is working to improve data availability and quality where possible. In addition, the Group reflects changes in its organization structure. These restatements are disclosed in its annual reporting (URD).

The Group anticipates continued improvement in its emissions data as it is able to gather more accurate

estimates of upstream impact as its suppliers improve their own emissions data and start to provide material and product-specific footprint data to the Group. L'Oréal anticipates refining its emissions reduction plan as it learns more about impacts across the value chain. Future data restatement are to be expected, either from measurement or methodology changes (e.g. from spend based to activity based data), from the incorporation of new assets into the business (e.g. M&A) or from refining the emissions factors associated to what it purchases.

L'Oréal will review this Climate Transition plan regularly to take into account its evolving business strategy, the progress on its emissions footprint and the changing landscape for decarbonization technology. The Group's progress towards its goals, and its updated view on risks & opportunities, will be disclosed annually through its URD.

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