



**SHARING
BEAUTY**
WITH ALL

OUR "CARBON BALANCED" AMBITION FOR 2020

L'ORÉAL

SEPTEMBER 2015

INTRODUCTION



— BECOME A “*CARBON BALANCED*” COMPANY BY 2020

In 2013, we engaged in a profound transformation towards an increasingly sustainable and responsible business model, through our program *Sharing Beauty with All*. Our commitments on sustainable development for 2020, which cover our whole value chain, have become a strategic priority for L'Oréal.

We have succeeded in decoupling our growth from greenhouse gas emissions and in 2014, we reached a key milestone : successfully reducing carbon emissions from our production activities by 50 % in absolute terms compared to 2005, while production increased by 22 % over the same period. We are proud of our achievement, which was an ambitious goal and which required enormous commitment from L'Oréal staff on a daily basis.

However, given the challenges the world is facing, I felt it was our duty to go even further. In recognizing the urgency of taking action and successfully transforming our societies into low-carbon economies, L'Oréal is demonstrating its commitment to respond to the challenges we face by playing its part in fighting climate change to the very best of its abilities.

That is the thinking behind the new ambition we want to achieve by 2020, and which is accelerating our transition towards becoming a low-carbon business : we are setting ourselves the challenge of capturing as many emissions as we produce, to become a “carbon-balanced” company.

JEAN-PAUL AGON

Chairman and Chief Executive Officer
L'Oréal Group

1. CONTINUE TO REDUCE EMISSIONS



Continue to reduce CO₂ emissions from our plants and distribution centers.
Target 2020 : 60 % reduction in absolute terms compared to 2005.



Reduce the environmental footprint of our transport.
Target 2020 : reduce CO₂ emissions generated by transporting products by 20 % per unit of finished product compared to 2011.



Zero-deforestation commitment.
Target 2020 : ensure that none of our products is associated with deforestation.

2. DEPLOY AN INNOVATIVE INSETTING* STRATEGY



Identify opportunities for reducing CO₂ emissions that local producers could take in sourcing our raw materials.



Implement additional solutions with our suppliers to generate carbon gains in our raw materials sourcing projects.



Define an accounting methodology for the carbon gains generated, supported by leading experts in carbon schemes, and inspired by recognized international standards.

* “Insetting”, as opposed to “offsetting”, consists of generating carbon gains within our own value chain.

WHAT WE HAVE *ALREADY DONE*

-50%

50 % REDUCTION IN GREENHOUSE GAS EMISSIONS FROM PRODUCTION
IN ABSOLUTE TERMS COMPARED TO 2005

Two strategic priorities have helped us achieve this result :

- a committed energy efficiency policy,
- use of renewable energy sources.

— ENERGY EFFICIENCY

Our success has been based on implementing plans to optimize our activity and infrastructure, such as continuous process improvement, installing LEDs, building insulation, heat recovery, improving production facilities and so on.

Nine manufacturing sites have already achieved carbon neutrality or are on course to do so by the end of 2015 :

- Burgos in Spain
- Libramont in Belgium
- Rambouillet in France
- Settimo in Italy
- Yichang in China
- Victoria in Australia
- Mexico City in Mexico
- South Brunswick and Cranbury in the USA

— RENEWABLE ENERGY SOURCES

Major renewable energy production projects have been deployed at our sites, helping to bring about a significant reduction in greenhouse gas emissions and including biomass and cogeneration, geothermal, solar wall and photovoltaic technologies. The share of renewable energy sources in our consumption reached 34 % in 2014, an increase of over 30 % compared with 2013.

A flagship plant in Burgos, Spain

In September 2014, L'Oréal inaugurated a new biomass plant in Burgos (Spain), which will allow the factory there - which specializes in producing professional hair products - to achieve a neutral carbon footprint in 2015. The initiative combines a range of energy sources, including biomass, photovoltaic technologies and tri-generation systems. For the first time, a tri-generation system is providing a factory with steam, hot water, cold water and electricity, covering 100% of its energy needs for product manufacturing and packaging. The biomass plant is also equipped with photovoltaic panels.

WHAT WE ARE GOING TO DO

DEPLOY AN INNOVATIVE INSETTING* STRATEGY IN OUR RAW MATERIALS SUPPLY CHAIN

and in so doing generate carbon gains in quantities equivalent to the greenhouse gas emissions generated by our industrial and logistics activities, i.e. all of scopes 1 and 2 and emissions related to downstream transport in scope 3, representing 400,000 tonnes of CO₂ equivalent each year.

Three types of project will be implemented to generate carbon gains :

- projects to increase the energy efficiency of raw materials production

We are committed to calculating the carbon emissions of our sourcing projects, in particular energy consumption associated with the early stages of processing raw materials.

In order to reduce emissions, we will be implementing projects to provide easier access to more sustainable energy, for example using improved cookstoves or installing biogas units.

- projects to improve agricultural practices to make them more efficient and sustainable

In partnership with our suppliers, we are committed to promoting innovative solutions in low-carbon agriculture – such as agroforestry* or sustainable soil management – in our sustainable sourcing projects of raw materials, while ensuring we also improve the living conditions of small producers, in particular in areas that are already exposed to the consequences of climate change.

- sustainable forest management projects

In supply areas that are facing deforestation problems, we will be developing projects designed to fight deforestation, limit the spread of agricultural land or promote sustainable use of forestry products.

* "Insetting", as opposed to "offsetting", consists of generating carbon gains within our own value chain.

* Agroforestry consists of involving the simultaneous cultivation of farm crops and trees to optimize productivity and economic return of land management, and avoid soil, water and biodiversity degradation.

A NEW ACCOUNTING METHODOLOGY FOR CARBON GAINS

We are working with leading international experts to develop a methodology to estimate the carbon gains generated by our sourcing projects, which we will be making public.

The methodology is inspired by recognized international carbon standards and is based on three essential points :

- guidelines on evaluating carbon emissions related to our current supply-chain activities. These are based on the methodology used for calculating carbon footprints (particularly the GHG Protocol, ISO 14064 and UNFCCC), applied to three types of activity : agricultural production, forest management and energy efficiency.
- identification of the most pertinent potential carbon reduction or sequestration activities to implement with our stakeholders, along with tools to measure all three kinds of activity.
- project implementation, monitoring and validation of the carbon gains generated by an external, independent third party.

The methodology is not designed to generate carbon credits on a financial market but to enable the company to record equivalent gains in CO₂, in order to achieve a balance between carbon emissions and capture.

A panel of international experts

In order to ensure the robustness of the approach and to guide our teams in developing the project, we have created a committee of international experts chaired by Christian de Perthuis, Professor at Paris Dauphine University and Founder of the Chair in Climate Economics. The committee will meet regularly to evaluate the *ad hoc* methodology implemented and will comment on the reliability of the results published each year.

IN BURKINA FASO *AN ENERGY EFFICIENCY IMPROVEMENT PROJECT*

We are running a program in villages in Burkina Faso where almost 22,000 women are collecting shea nuts used to manufacture shea butter, which is used in cosmetics for its emollient properties. The various stages of processing the raw material may have an impact on the environment.

In particular, boiling the nuts on traditional "three-stone" cookstoves at home means consuming a great deal of wood.

In partnership with our supplier Olvea, we have taken measurements in the villages to calculate that a traditional cookstove consumes almost a tonne of wood every year.

By offering the women who collect and boil the nuts the option of working with improved cookstoves, which consume half the amount of wood needed for the traditional ones, we are helping to improve the energy efficiency of their activities, reduce the amount of wood they need to purchase and so generate carbon gains.



IN INDIA

A PROJECT TO INTRODUCE SUSTAINABLE FARMING PRACTICES

We source our Guar gum from Rajasthan in India, through the *Sustainable Guar Initiative* run in partnership with the Solvay Group. Guar – one of the few species that can cope with the local hydro-climatic conditions – is the only source of income for people living in a desert region that is already very exposed to the consequences of climate change.

With local support from the organization Technoserve, we will be helping 1,500 farmers to adopt more productive, low-carbon agricultural practices.

As part of the project we will be examining and implementing low-emission agricultural practices, such as soil preparation, bio-fertilization and integrated pest management, adapted to the region's economic and environmental constraints.

The program will help to ensure that the farmers have a viable income stream that incorporates a response to the challenges of climate change.

IN BOLIVIA

A PROJECT TO IMPROVE SOIL MANAGEMENT, AIMED AT CAPTURING AND STORING GREENHOUSE GASES

We source quinoa husk – a by-product of the food industry – from farmers in the Uyuni and Potosi regions of Bolivia. Quinoa husk extract is a new cosmetic active ingredient used for its skin exfoliating properties. In partnership with our suppliers Ecoterra and Andean Valley, and with the support of the Proinpa Foundation, we are working on quinoa farms to plant leguminous shrubs and herbaceous plants that are native to the region, for example q'illa q'illa.

The initiative is designed to fight the impact of more intensive farming by naturally enriching the soil, helping to address the problem of erosion and therefore optimizing its role as a carbon sink.



IN INDONESIA *A CO-CULTIVATION PROJECT TO FIGHT DEFORESTATION*

We source the patchouli used in our perfumes from Indonesia, which produces 90 % of the world's supply. We are working in partnership with our supplier Firmenich on the island of Sumatra in Jambi province, to develop an innovative, certified, sustainable co-cultivation project that combines patchouli and cinnamon production. The aim is to optimize the use of agricultural land by providing a regular source of additional income for the 300 producers concerned and in so doing, avoid increasing the amount of land used for arable farming and therefore limit further deforestation.

IN BRAZIL *A COMMUNITY DEVELOPMENT PROJECT TO GENERATE SUSTAINABLE VALUE FROM FORESTRY PRODUCTS*

We source murumuru butter, which is used to care for hair and keep it shiny, from Brazil, home to 30 % of the world's plant species. We are working in Pará state with 240 families in the Amazonian region of Bragançã, to promote sustainable ways of collecting the raw material and develop their technical skills to optimize the economic value of the resource. By generating value from non-ligneous forestry products such as murumuru fruits, we are offering a sustainable alternative to logging and therefore helping to fight deforestation and protect the trees that act as carbon sinks.





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