June 2022

The Inclusive Sourcing Methodology - *Appendix*

In addition to the examples integrated in the guide, the following document will provide you with further illustrations and tools.

Business for Inclusive Growth

STEP 1.2

Set your overall ambition and main objectives

Sustainability Commitments, L'Oréal Solidarity Sourcing Toolkit

VISION | PRE-REQUISITES | IDENTIFY BENEFICIARIES | EVALUATE, REPORT & MANAGE | CASCADING TIPS | WHO DOES WHAT | MANAGE PROJECT & FOLLOW-UP | GET INSPIRATION AND SCALE

OUR SUSTAINABILITY COMMITMENTS FOR 2030

L'ORÉAL FOR THE FUTURE

VISION

In June 2020, we launched the **L'Oréal For The Future program**, our sustainability commitments for 2030. Thanks to this new program, we can make it possible to go further.

Sharing its growth has long been a priority for L'Oréal.
We are working to **build a more sustainable and inclusive world** through multiple programs.

One of the pillars in achieving our ambition is the **empowerment of our business ecosystem,** including our consumers, our suppliers and the communities we work with.

More specifically, we have committed by 2030 :

- to help an additional **100,000 people(*)** in social and economically vulnerable situation gain **access to employment.**
- 100% of our strategic suppliers' employees will be paid at least a **living wage(**)** covering their basic needs and those of their dependents, calculated in line with the best practices.

(*) **including additional 80,000 beneficiaries from the Solidarity Sourcing program,**
compared to its 81,138 beneficiaries baseline achieved in 2020.
Solidarity Sourcing accounts for 80% of the global +100,000 social and societal L'Oréal major commitment, completed with other Programs (The L'Oréal Foundation Beauty for a Better Life vocational training Program + the internal HR Diversity & Inclusion on handicap)
(**) Solidarity Sourcing projects must be exemplary

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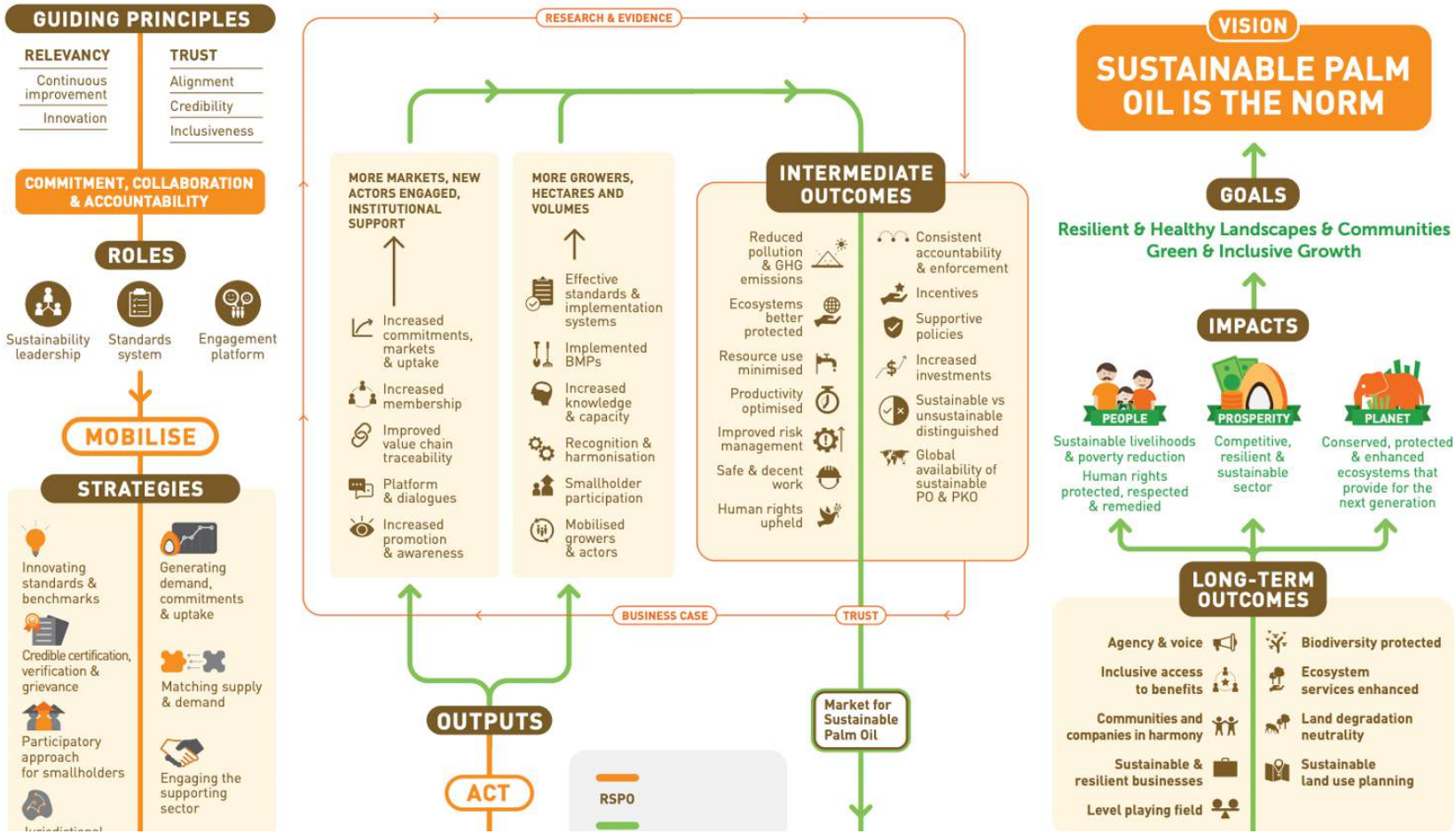
L'ORÉAL OPERATIONS

STEP 1.2

Set your overall ambition and main objectives

Theory of Change, RSPO Roadmap for Sustainable Palm Oil



STEP 2.1

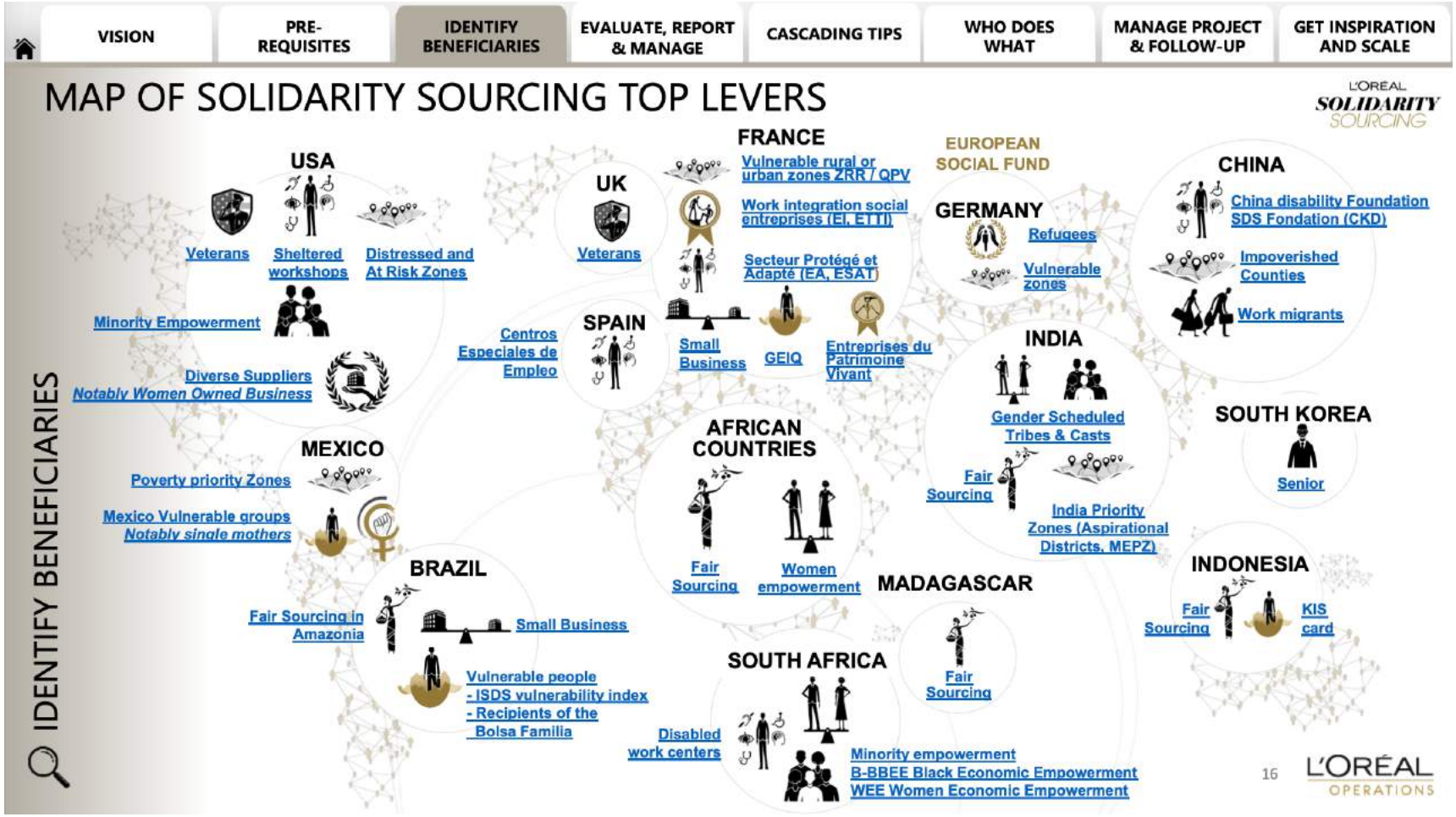
Set your Inclusive Sourcing impact priorities

The Beneficiary communities, L'Oréal Solidarity Sourcing Toolkit

STEP 2.1

Set your Inclusive Sourcing impact priorities

Map of Solidarity Sourcing top levers, L'Oréal Solidarity Sourcing Toolkit



STEP 2.4

Deploy the first pilots and build an overall roadmap

Template example to structure project, Veolia (1/2)

SOCIAL PERFORMANCE

Industrial Uniform - Indigenous Supply

BUSINESS UNIT / SCOPE
Veolia Australia

Veolia (Tick the box)	Energy	Water	Waste
	X	X	X

Projet / solution description

Veolia Australia's current national industrial workwear supplier is a 100% Indigenous owned and operated supplier and looking at whole of life (WOL) solutions for garment recycling will:

- Contribute directly to government Indigenous Procurement Targets ($)
- Support circular economy opportunities
- Drive social,environmental and safety outcomes through supply chain
- Consolidate vendors - maximise commercial value
- Consolidate and reduce number of garments - increase uniformity and improved brand

Multi-faceted performance contribution

Eco & Fin	Profitability Indicator: Profitability savings related to vendor and catalogue consolidation
HR	Safety at Work Indicator: through having a National uniform policy
Env	Explore textile recycling opportunities, reduce Veolia's garment wastage and GHGs emissions
Comm	Innovative solutions: New business model developed to support an Indigenous business
Soc	Job and wealth creation + socio-economic footprint (refer Note)

Target Suppliers	Target clients (internal)	Co-innovation partners
	All Veolia AU departments Site leaders & Operational staff	Sustainability Safety, Health, Environment and Quality

PURCHASE AMOUNT POTENTIAL

Predicted quantities :

Project impact on the balance sheet :

Cost optimized :

Environmental gains : Textile recycling

Social gains : Supporting Indigenous suppliers - create jobs in marginalised communities and donation of repurposed goods.

Territorial value creation : Standardised and consistent uniforms across all business units.

Available resources / assets / means

- Bunzl Safety
- Cole Supplies
- Veolia COO endorsement and sponsorship
- Sustainability
- Safety, Health and Quality Stakeholders

Missing resources / assets / means

- Change Management Plan currently under development with interns business partners.
- Supplier's business model and related logistics infrastructure (underway)

Next Steps

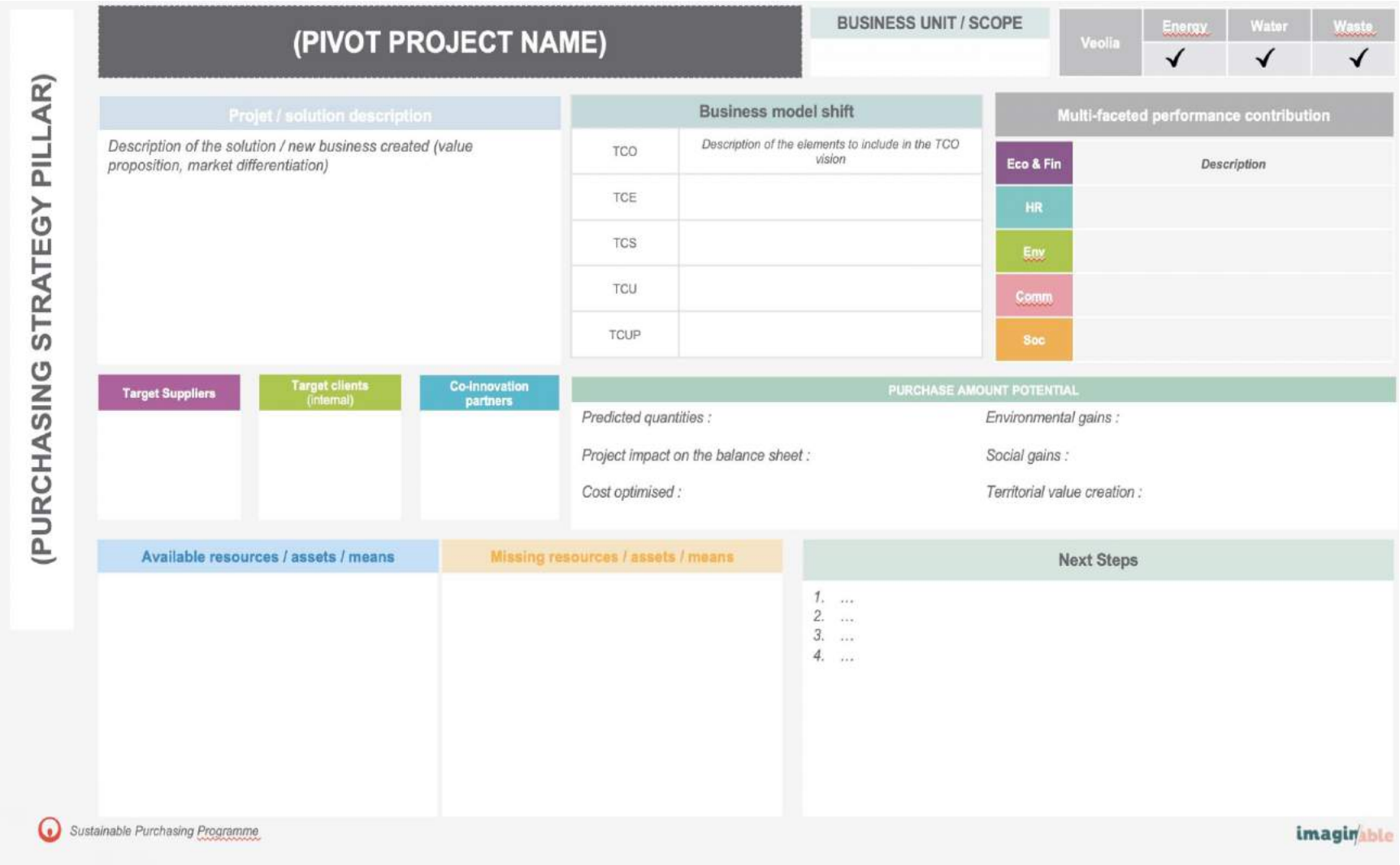
1. Measure savings related to vendor and catalogue consolidation (today onwards)
2. HR to develop national uniform policy (Q4 2021)
3. Explore Textile Recycling Opportunities (commence now - 2022)
4. Explore the opportunity of similar business models with other suppliers (Q3 2021)

Note : Job and Wealth creation: Opportunity to donate repurposed materials or workwear through recycling. Supports socio-economic footprint by contracting a marginalised supplier (Indigneous) and enabling indirect jobs in a community that has 46.6% employment rate compared to 72% in the non-indigenous community

STEP 2.4

Deploy the first pilots and build an overall roadmap

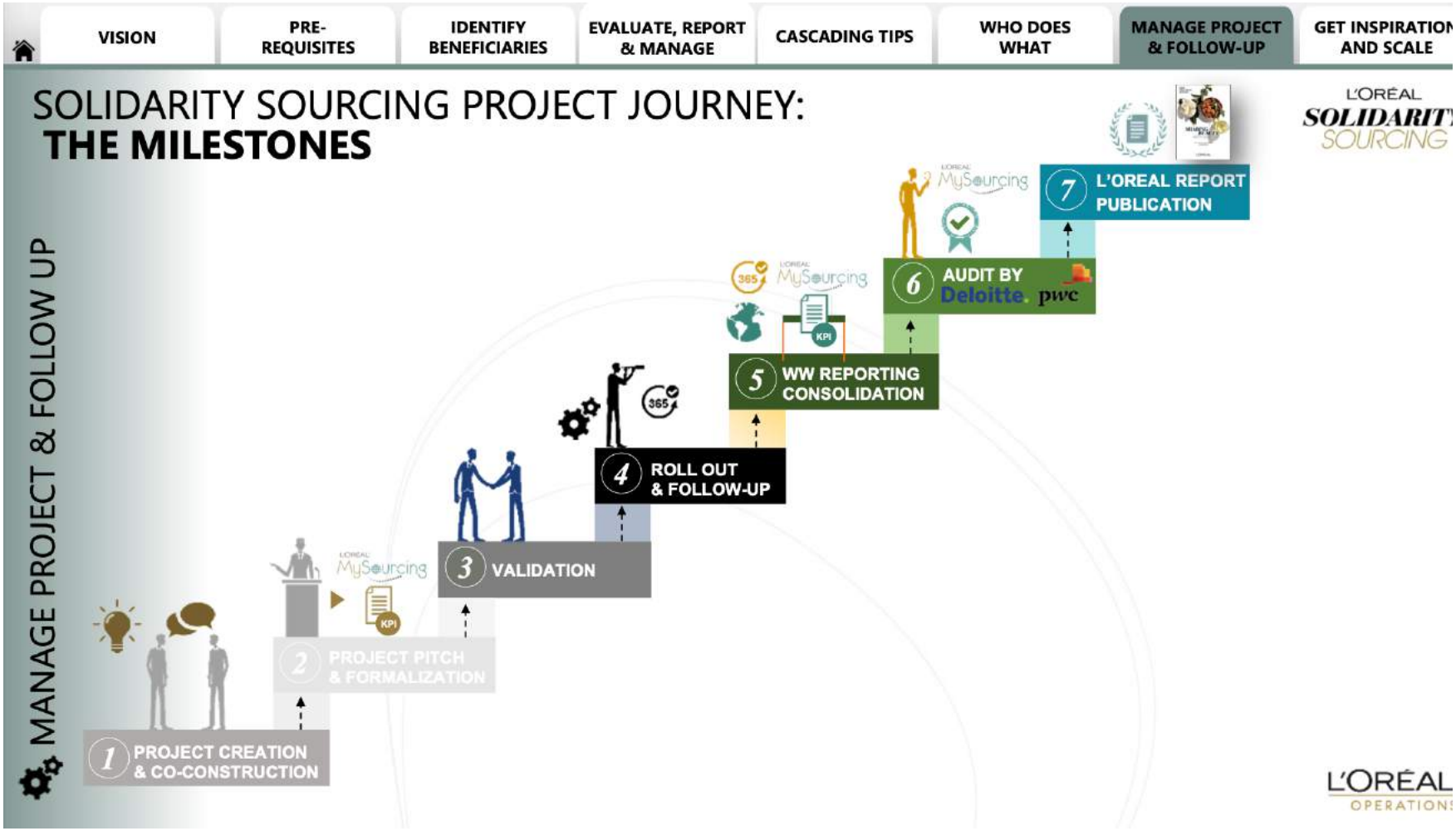
Template example to structure project, Veolia (2/2)



STEP 2.4

Deploy the first pilots and build an overall roadmap

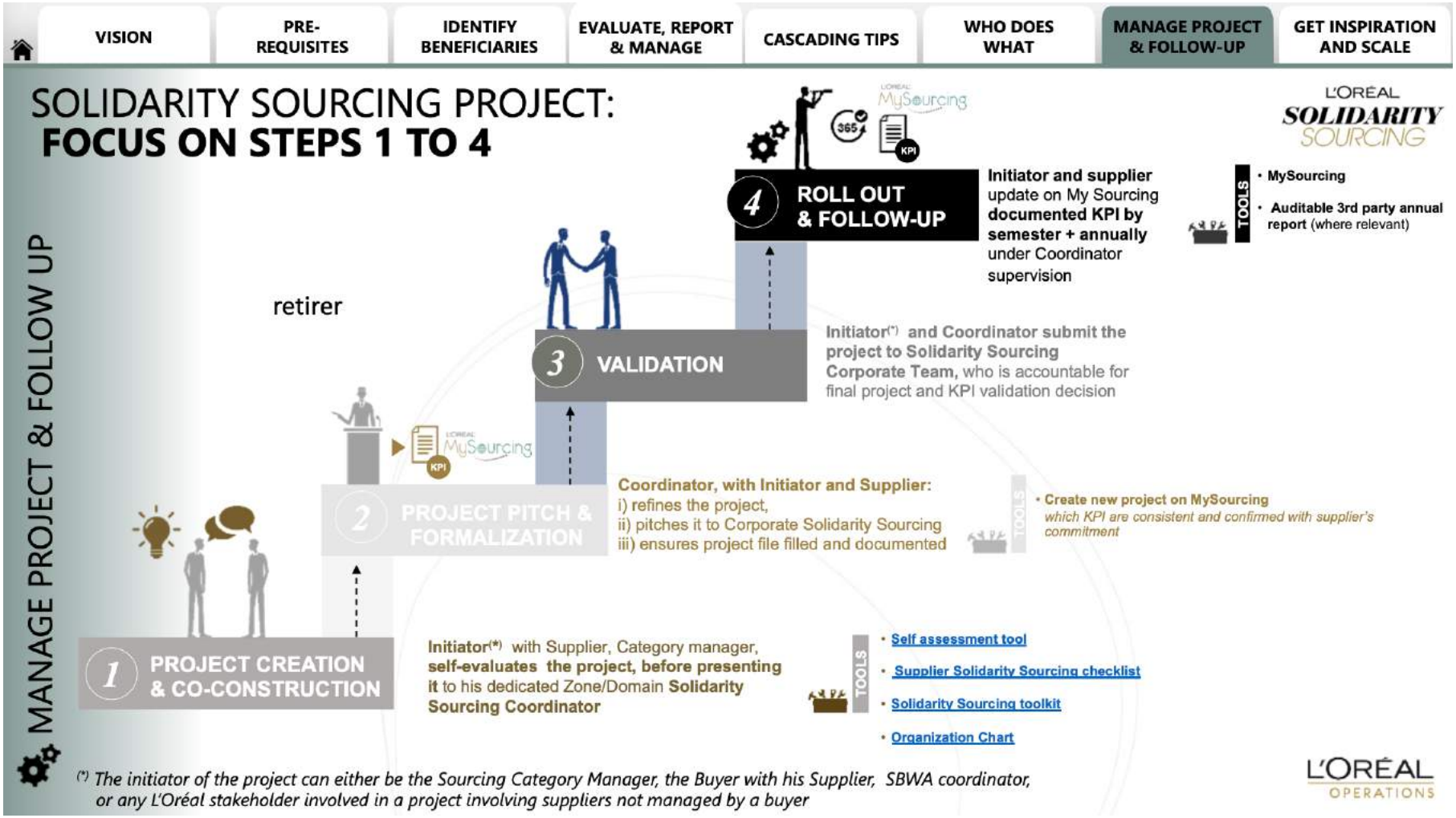
Solidarity Sourcing Project Journey: the Milestones, L'Oréal Solidarity Sourcing Toolkit



STEP 2.4

Deploy the first pilots and build an overall roadmap

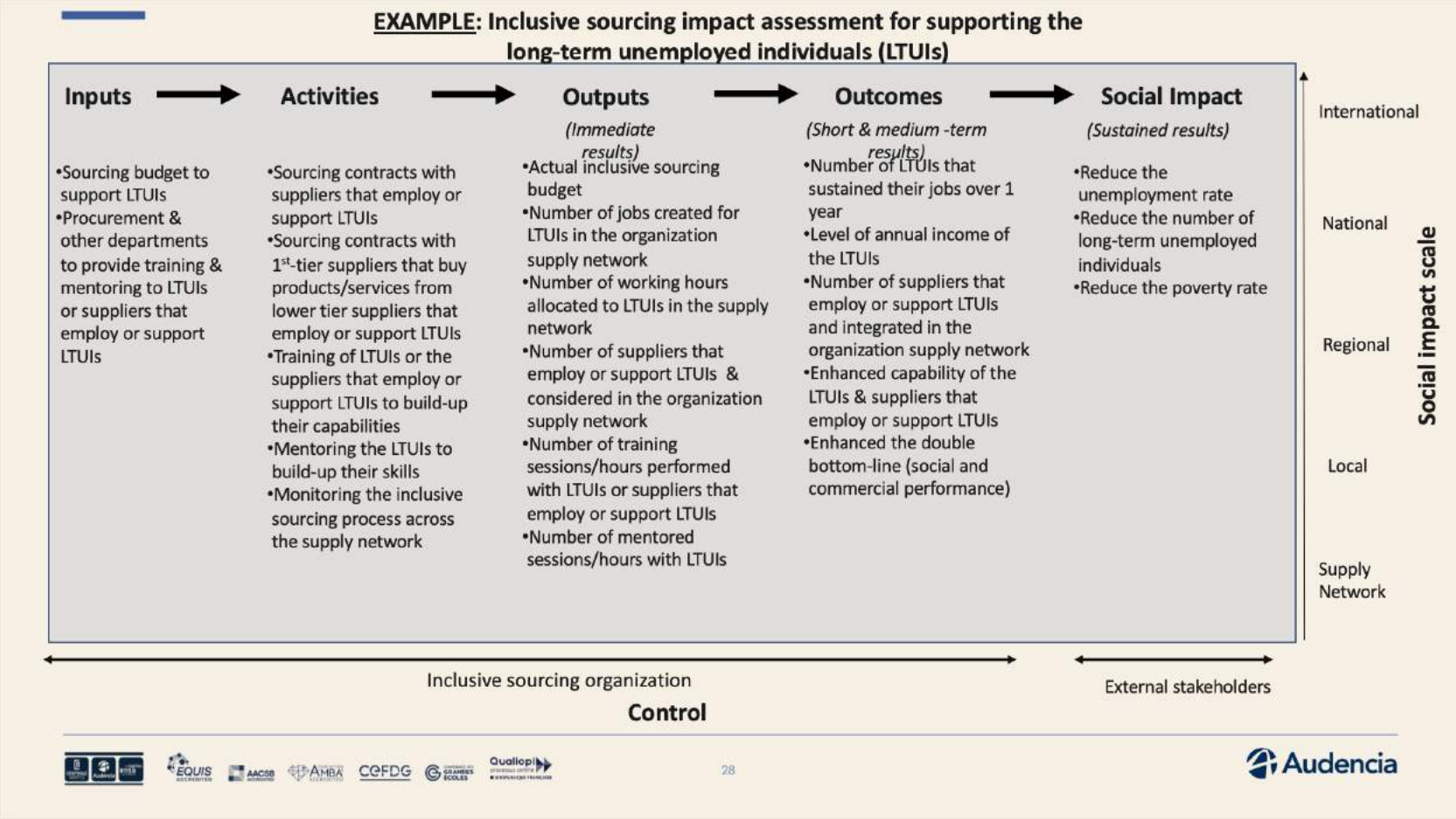
Solidarity Sourcing Project: Focus on Steps 1 to 4, L'Oréal Solidarity Sourcing Toolkit



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

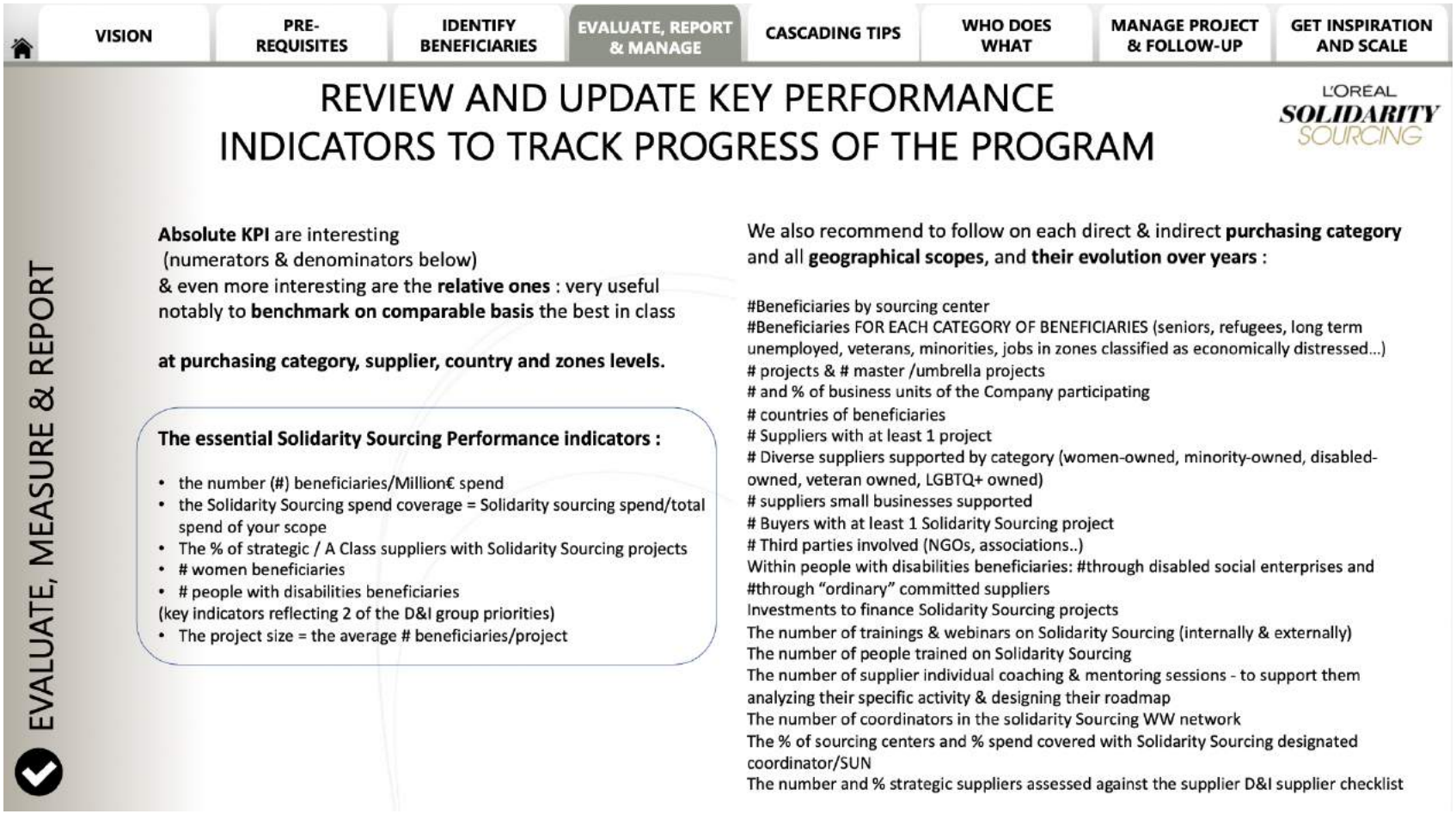
Inclusive sourcing impact assessment for supporting the long-term unemployed individuals (LTUIs), Audencia Business School



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

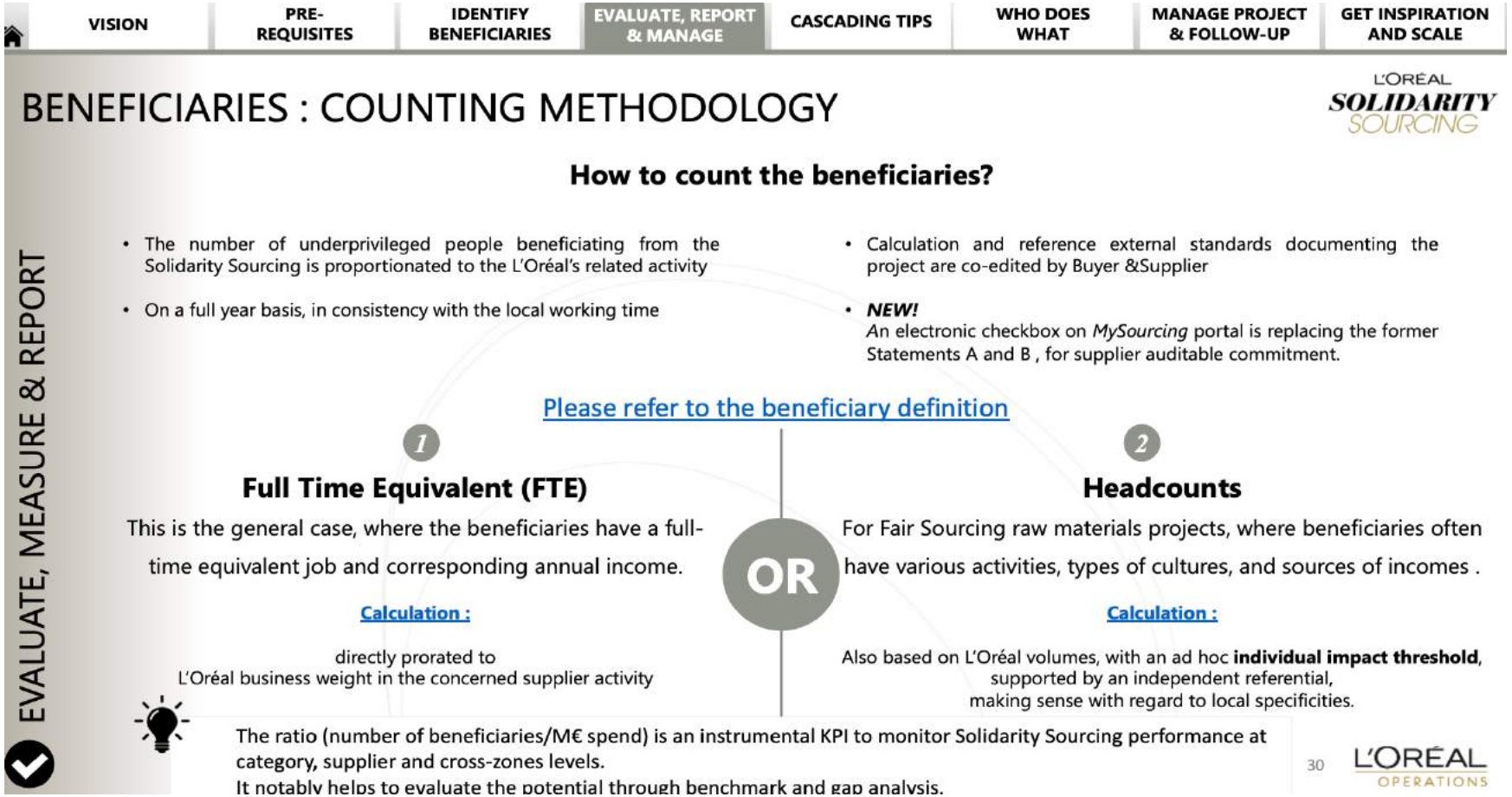
Review and update Key Performance Indicators to track progress of the program, L'Oréal Solidarity Sourcing Toolkit



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

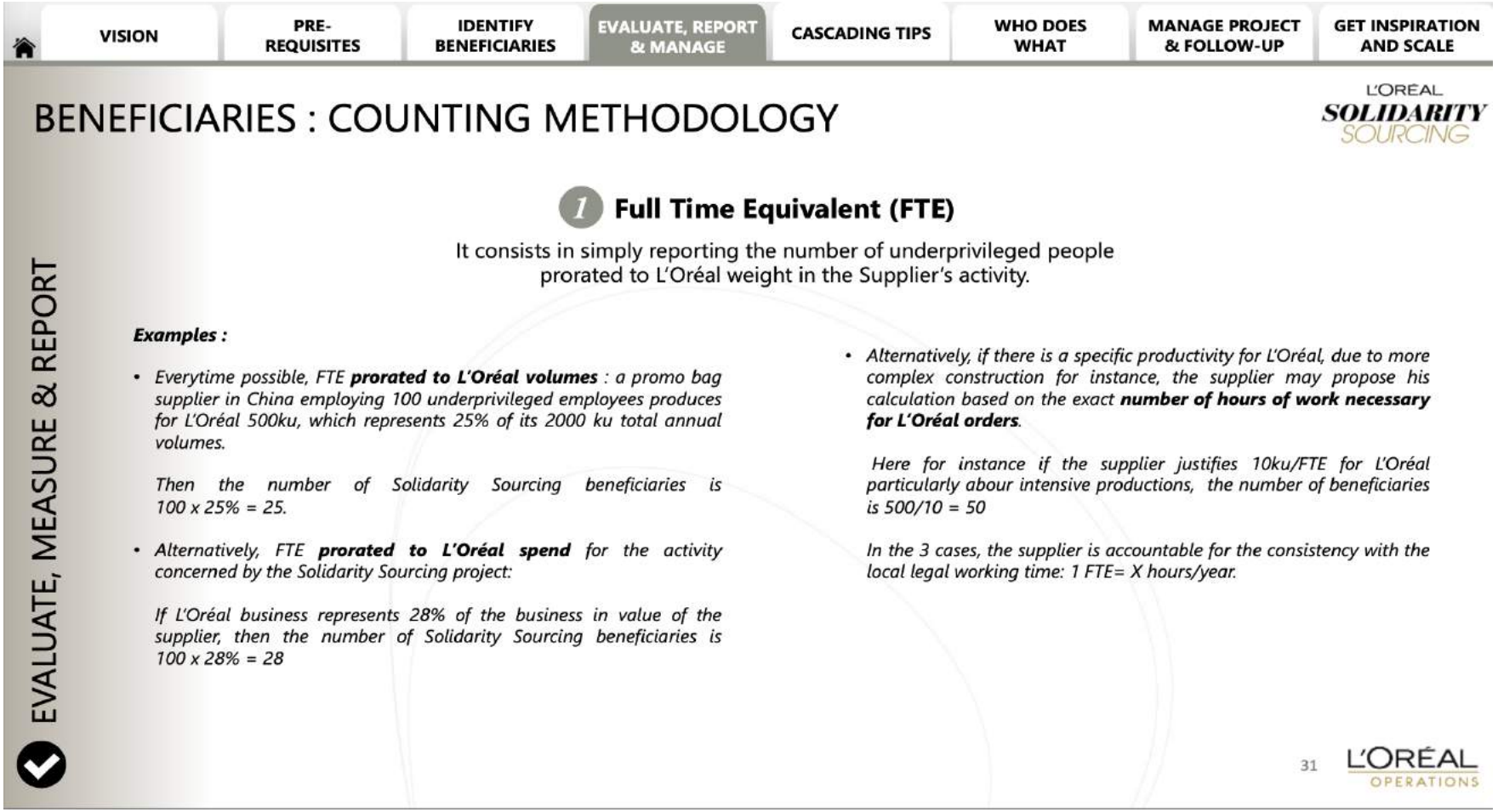
Beneficiaries : Counting Methodology, L'Oréal Solidarity Sourcing Toolkit (1/3)



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Beneficiaries : Counting Methodology, L'Oréal Solidarity Sourcing Toolkit (2/3)



VISION | PRE-REQUISITES | IDENTIFY BENEFICIARIES | EVALUATE, REPORT & MANAGE | CASCADING TIPS | WHO DOES WHAT | MANAGE PROJECT & FOLLOW-UP | GET INSPIRATION AND SCALE

L'ORÉAL SOLIDARITY SOURCING

EVALUATE, MEASURE & REPORT

BENEFICIARIES : COUNTING METHODOLOGY

1 Full Time Equivalent (FTE)

It consists in simply reporting the number of underprivileged people prorated to L'Oréal weight in the Supplier's activity.

Examples :

- *Everytime possible, FTE **prorated to L'Oréal volumes** : a promo bag supplier in China employing 100 underprivileged employees produces for L'Oréal 500ku, which represents 25% of its 2000 ku total annual volumes.*

  Then the number of Solidarity Sourcing beneficiaries is 100 x 25% = 25.

- *Alternatively, FTE **prorated to L'Oréal spend** for the activity concerned by the Solidarity Sourcing project:*

  If L'Oréal business represents 28% of the business in value of the supplier, then the number of Solidarity Sourcing beneficiaries is 100 x 28% = 28

- *Alternatively, if there is a specific productivity for L'Oréal, due to more complex construction for instance, the supplier may propose his calculation based on the exact **number of hours of work necessary for L'Oréal orders**.*

  Here for instance if the supplier justifies 10ku/FTE for L'Oréal particularly abour intensive productions, the number of beneficiaries is 500/10 = 50

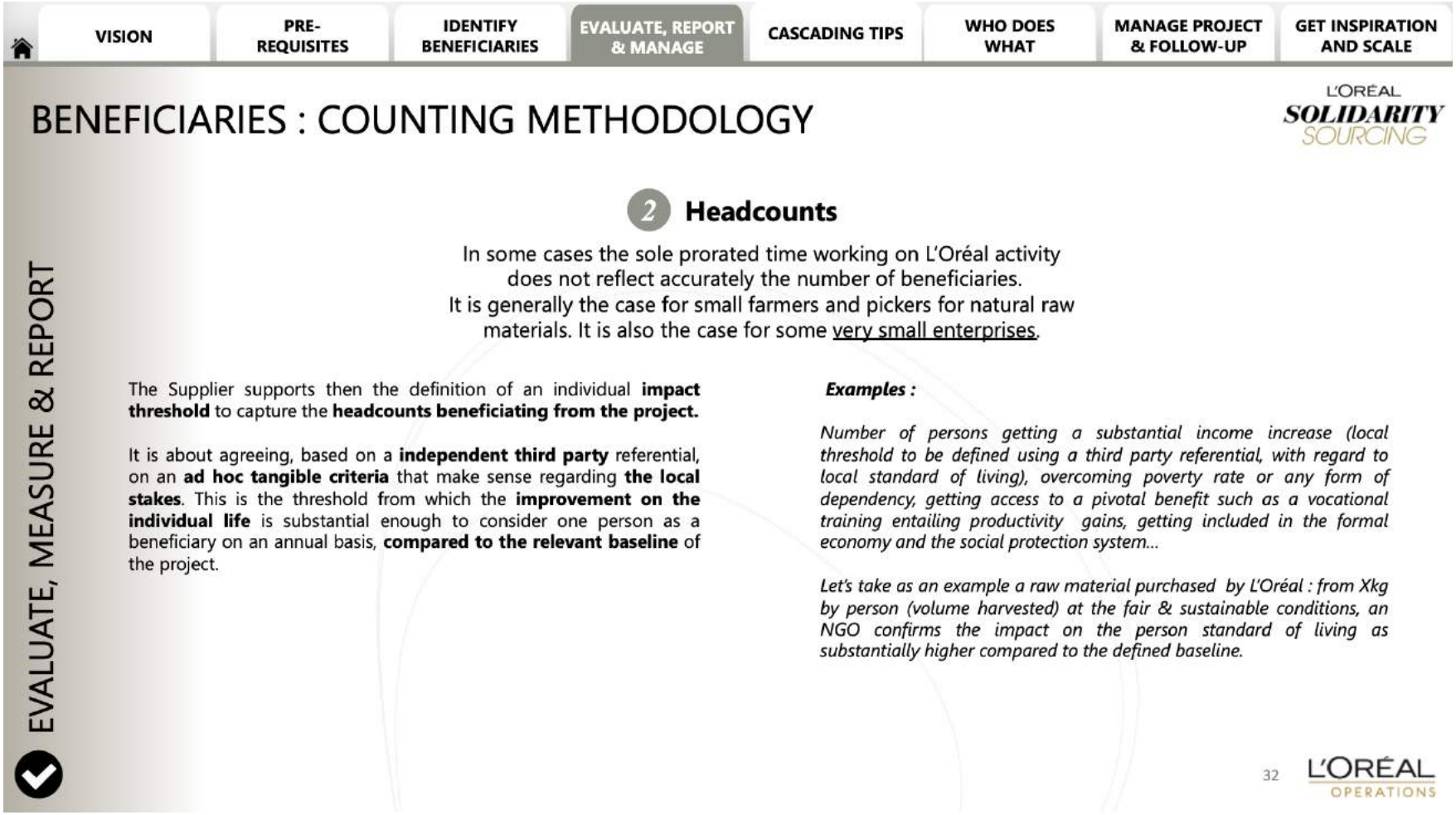
  In the 3 cases, the supplier is accountable for the consistency with the local legal working time: 1 FTE= X hours/year.

31 L'ORÉAL OPERATIONS

STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Beneficiaries : Counting Methodology, L'Oréal Solidarity Sourcing Toolkit (3/3)



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L'ORÉAL SOLIDARITY SOURCING

BENEFICIARIES : COUNTING METHODOLOGY

EVALUATE, MEASURE & REPORT

2 Headcounts

In some cases the sole prorated time working on L'Oréal activity does not reflect accurately the number of beneficiaries.
It is generally the case for small farmers and pickers for natural raw materials. It is also the case for some very small enterprises.

The Supplier supports then the definition of an individual **impact threshold** to capture the **headcounts beneficiating from the project.**

It is about agreeing, based on a **independent third party** referential, on an **ad hoc tangible criteria** that make sense regarding **the local stakes**. This is the threshold from which the **improvement on the individual life** is substantial enough to consider one person as a beneficiary on an annual basis, **compared to the relevant baseline** of the project.

Examples :

Number of persons getting a substantial income increase (local threshold to be defined using a third party referential, with regard to local standard of living), overcoming poverty rate or any form of dependency, getting access to a pivotal benefit such as a vocational training entailing productivity gains, getting included in the formal economy and the social protection system...

Let's take as an example a raw material purchased by L'Oréal : from Xkg by person (volume harvested) at the fair & sustainable conditions, an NGO confirms the impact on the person standard of living as substantially higher compared to the defined baseline.

32 L'ORÉAL OPERATIONS

STEP 3.1

Formalize overall Inclusive Sourcing commitment to communicate internally and externally.

Materiality Matrix, Keurig Dr Pepper

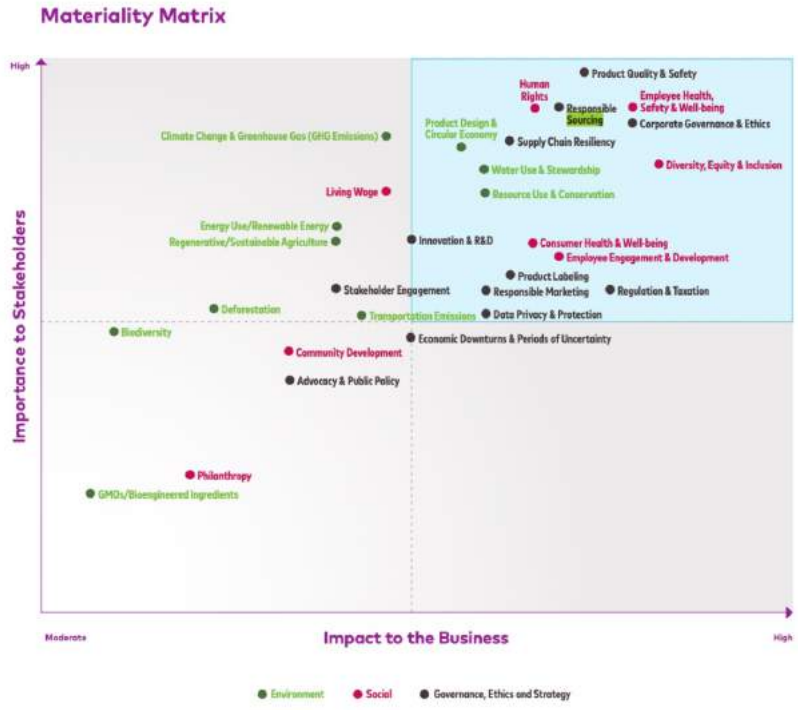
KDP | OVERVIEW | ENVIRONMENT | SUPPLY CHAIN | HEALTH & WELL-BEING | PEOPLE & COMMUNITIES | GOVERNANCE | APPENDIX

Stakeholder Engagement & Materiality

We engage a broad range of stakeholders, including suppliers, partners, customers, regulatory agencies, non-governmental organizations (NGOs), consumers, employees, investors and others. We maintain ongoing dialogue through collaboration and leverage their expertise, insights, influence and energy to elevate our performance and find new solutions to common challenges. These engagements occur at the staff and executive leadership levels to ensure integration of new and innovative ideas across our organization. Learn more about our approach to **Stakeholder Engagement** in our Appendix.

Understanding our priority Environmental, Social and Governance (ESG) issues informs how we develop our corporate strategy, invest our resources and report on our business and corporate responsibility efforts. In early 2021, we conducted our first formal materiality assessment as KDP, to ensure that we are focused on the issues in which we can have the greatest impact across our value chain.

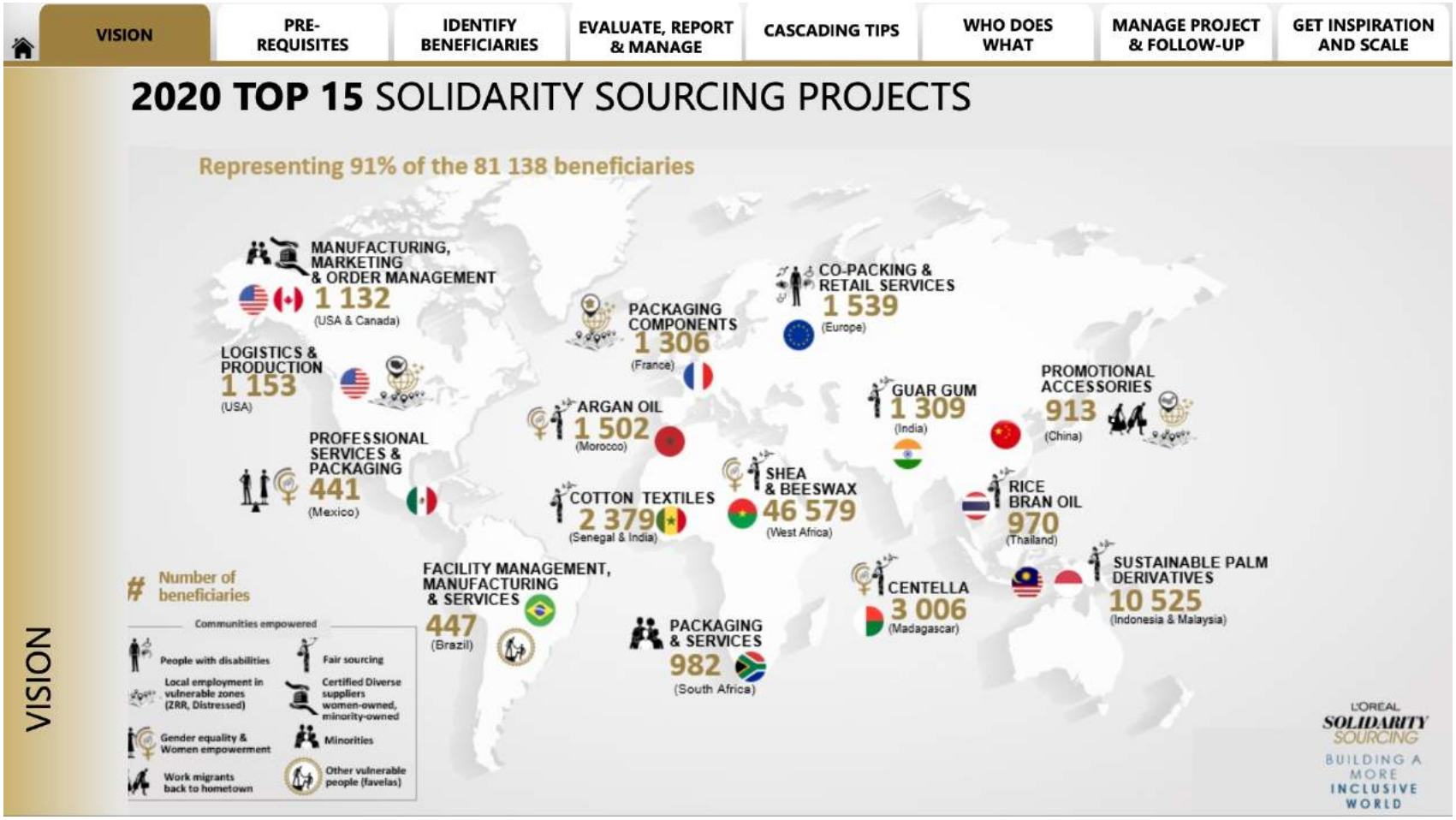
The materiality analysis included an evaluation of emerging trends and internal and external stakeholder input. The outcome of this process was our new materiality matrix, which outlines a total of 30 non-financial issues ranked in relation to most important to stakeholders and most impactful to the business. A total of 15 issues were identified as being our highest priority. Moving forward, we plan to conduct a materiality analysis on a regular basis to ensure we take into consideration the evolving ESG landscape. We describe information about our approach to and progress on these issues throughout this report and in the **Reporting Framework Indices** in this report.



STEP 3.5

Communicate on your Inclusive Sourcing strategy and achievements, both internally and externally

2020 Top 15 Solidarity Sourcing Projects, L'Oréal Solidarity Sourcing Tookit



Additional sources and tools

L'Oréal Speak Up policy and website:
https://www.loreal.com/en/articles/commitments/speak-up-policy/
https://www.lorealspeakup.com/

Keurig Dr Pepper's Commitments to the UN Sustainable Development Goals:
https://www.keurigdrpepper.com/content/dam/keurig-brand-sites/kdp/files/KDP-CR-Report-2020.pdf (p. 7)

Keurig Dr Pepper's 2020 Social Impact Projects:
https://www.keurigdrpepper.com/content/dam/keurig-brand-sites/kdp/files/KDP-CR-Report-2020.pdf (p. 25)

Acknowledgements

BNP Paribas, Danone, Keurig Dr Pepper, L'Oréal, Mars, Pret A Manger, Veolia

The Innovation Studio Team – Jean-Christophe Laugée (InclusEO Consulting) Mareike Burkert (InclusEO Consulting), Marie Basso (B4IG) and Marie Fleischmann (Hystra Consulting).

Audencia Business School – François Constant, Thomas Johnsen, Osama Meqdadi and Andre Sobczac.

Business for Inclusive Growth

Création graphique : www.debutdecembre.com