

A diver in a black and white wetsuit is swimming horizontally over a dense field of green seagrass. The diver's wetsuit has 'ISDIN LOVE YOUR SKIN' on the right sleeve and 'FLEXA' on the chest. The background is a clear blue sea.

Climate transition plan

 **ISDIN**

Certified



Corporation

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de las personas
mientras nos
preocupamos
por el planeta

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“Together, we can make a difference for ourselves, for our planet, and for future generations. We are the ones we have been waiting for”

CEO Address

Dear ISDINLOVER,

ISDIN has a rich history of almost 50 years of innovation and excellence. As we face the challenges of the next century, we are determined to play a leading role in tackling one of the most urgent issues of our time: climate change. We know that this is not just an environmental problem, but a social and economic one that affects the well-being and prosperity of millions of people around the world. Climate change threatens our food security, our access to clean water, and our safety from extreme weather events. It also jeopardizes our mission to make sustainable living commonplace for everyone. That is why we have taken bold and decisive action to address this crisis head-on.

In December 2021, the ISDIN Board approved the ESG strategic plan 2030 that includes 16 ambitious objectives, two of which are focused on climate: Emissions reduction and Net Zero emissions. Since then, we have been working hard with all our internal and external stakeholders to develop and implement an action plan to achieve these goals. We will report on our progress every year and update our plan every quarter to reflect any changes we have made or plan to make. Our Climate Transition Action Plan outlines how we will reach a Net Zero situation by 2050, covering both our own operations and those of our value chain partners. The plan also shows how we will enhance our climate performance by minimizing the impact of our activity, balancing the residual emissions through carbon removals, collaborating with our key stakeholders to lower their emissions (Insetting), and creating a positive ripple effect towards a low-carbon economy.

We invite you to join us on this journey of transformation and hope. Together, we can make a difference for ourselves, for our planet, and for future generations. We are the ones we have been waiting for.

Juan Naya
Chief Executive Officer



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water

5★
DAILY
PROTECTION

SPF 50 UVB (UVA)

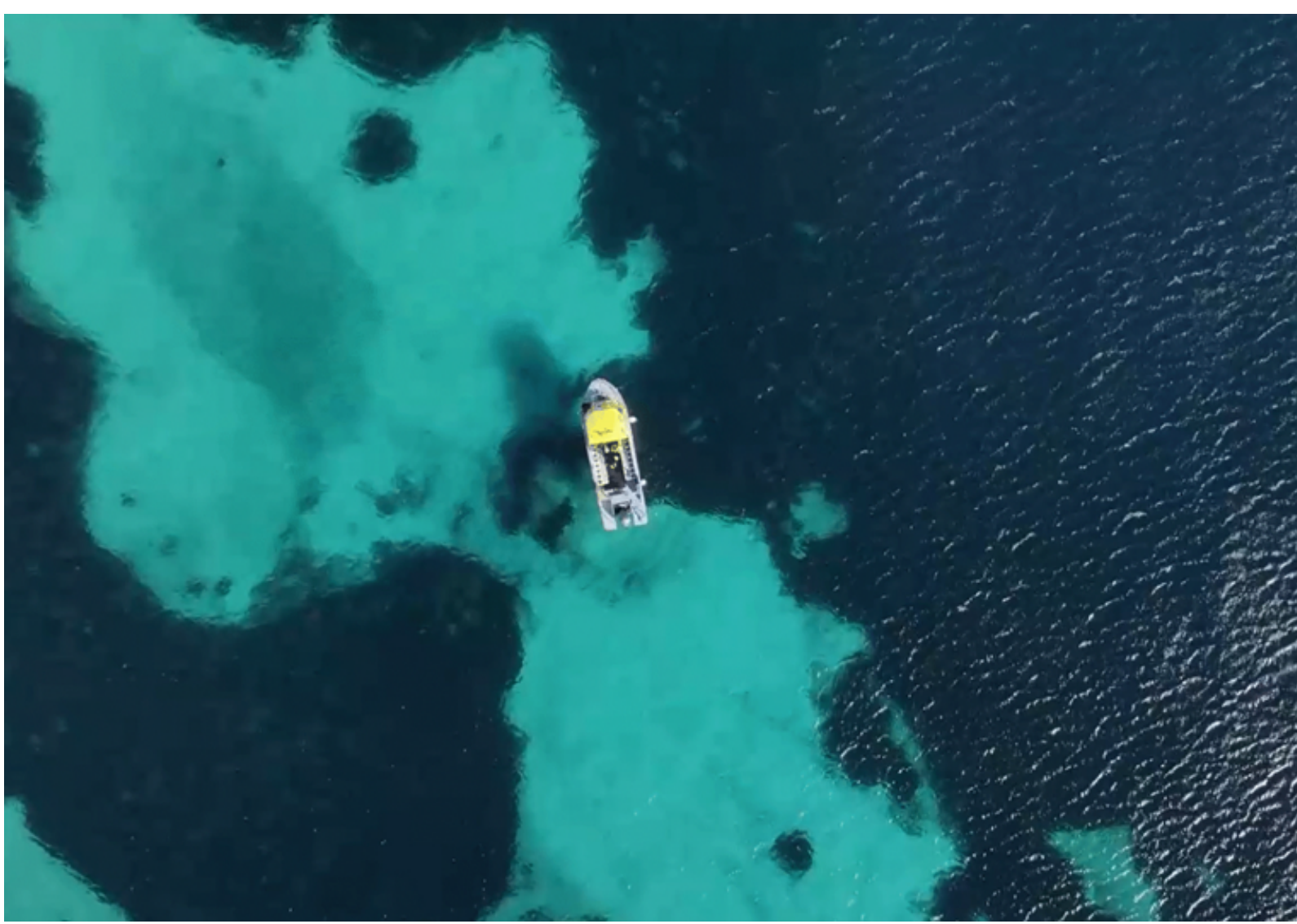
ALTA PROTECCIÓN | HIGH PROTECTION



ISDIN
Love your skin

Our plan in a nutshell

1. Halve our direct emissions (Scopes 1 & 2) by 2030 against a 2021 Baseline
2. Halve our value chain (Scope 3) carbon intensity (tn CO₂ eq / Mn € of value added) by 2030 against a 2021 Baseline
3. Net Zero by 2050 across all scopes (1,2 & 3) and all geographies where we work
4. 1,5° C aligned Science Based Targets
5. Working on the whole ecosystem of stakeholders is key to make the solution systemic



Our Understanding of Net Zero

According to The United Nations Intergovernmental Panel on Climate Change net zero is the point where “anthropogenic emissions of greenhouse gasses to the atmosphere are balanced by anthropogenic removals over a specified period.” For ISDIN, this means firstly reducing or eliminating both our direct (Scope 1) or indirect (Scopes 2 and 3) emissions as far as possible, and secondly, balancing residual emissions by carbon removals, adequately verified, through carbon sequestration (e.g. carbon capture and storage, reforestations, etc.), thus achieving a Net Zero situation

In other words, until 2030, ISDIN’s plans to reduce drastically its carbon footprint through carbon reduction initiatives and insetting investments. Neutralization will be implemented only to balance residual emissions through carbon removals from 2030 onwards, once all of the major carbon footprint reduction initiatives have been implemented

External validation of our targets

Both of our near term targets of halving our direct emissions (Scopes 1 & 2) by 2030 against a 2021 Baseline and halving our value chain carbon intensity (Scope 3) by 2030 against a 2021 Baseline have been formally approved by the Science Based Targets initiative (SBTi), a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) that aims to limit global warming to 1.5°C and prevent the worst effects of climate change.

This means that they have assessed the targets against the emissions reduction pathways necessary for the world to limit global average temperature rise 1.5 degrees above pre industrial levels and found them to be consistent with that outcome.

Finally, and as a consequence of the SBTi targets, ISDIN has the objective to reach Net Zero. More specifically, ISDIN is planning to achieve Net Zero by 2050 the latest. The emission reduction targets have been established based on our GHG inventory that is calculated for scope 1,2 and 3 each year, while constantly improving calculations each year. The inventory is verified by an independent third party (EQA) each year to assure its completeness, accuracy, transparency, consistency and relevance and made publicly available in our mainstream reports (Non-financial report (EINF) and the CDP Climate Change questionnaire answer.

Overview of our plan

The objectives that we have designed to ultimately reach Net Zero in 2050 have been designed to guide our initiatives orderly towards that end following a 3 layered approach:

1. During the current decade and until 2030, our primary focus will be emissions reduction of both our own operations and across our value chain, through initiatives consistent with the 1.5-degree ambition of the Paris Agreement.
2. We will not seek to meet our emissions reduction targets through the practice of purchasing and retiring carbon credits, known as offsetting
3. By 2030, and from then onwards, we will ensure that any residual emissions are balanced with carbon removals, reaching carbon neutrality, although Net Zero will be reached by 2050 and onwards as we believe that despite reaching carbon neutrality by 2030, full Net Zero won't be reached until 2050 as several long-term initiatives may not be fully deployed by 2030



Carbon footprint reduction plan

Our efforts to decarbonize our business comprise three overarching elements:

- 1) value chain engagement
- 2) increase our share of revenue from low-carbon products, i.e., decarbonize our own products
- 3) implement emission reduction initiatives in our direct and indirect operations.

To achieve this, we have developed the following time-bound and detailed actions:

1. Own operations

Current remaining scope 1 emissions are originated by natural gas consumption, company cars and fugitive emissions from warehouse refrigeration and air conditioning of office spaces

In the case of natural gas, we are considering the substitution in Spain (only in central warehouse), Italy and Portugal which account for the totality of gas consumed, by alternative heating systems

Company vehicles account for close to 90% of our own operations emissions and thus reducing them is key to achieve our near term objectives.

In this sense, we have started the implementation of different electrified vehicles in key European and American markets.

It is expected that, by 2030, at least 70% of company cars distance driven in the US is 100% “0” or near zero emissions vehicles (EVs for the commercial fleet and, at least PHEV for office vehicles) emissions. For European affiliates including Spain, the aspiration is even more ambitious, with the objective to reach 85% of electrified distance done by “0” or near zero emissions vehicles.

The efforts in fact have already started. In 2022, “0” emissions kilometers grew 5 fold and kilometers driven by HEV tripled. This meant that, despite growing 23% in the total number of kilometers driven, the emissions from mobile sources fell by 2,5%

Moreover, the ambition is expected to ramp-up rapidly, with several countries implementing full-electric vehicles pilots, with the clear intention to fully

implement in the following fleet renovation.

Regarding fugitive emissions, we expect to fully eliminate high global warming potential (GWP) HFC refrigerants from our cooling systems by 2030. Although our current consumption of refrigerants is limited to our central warehouse and office spaces and our consumption is considerably limited, we believe there is still room to improve at a relatively fast pace if needed.

Regarding scope 2 emissions, it comes from the electricity consumption of our central warehouse in Spain and our several office facilities around the world which sum up to 18 locations in 14 countries. As well as with natural gas consumption, in electricity we are shifting towards renewable energy consumption. This has already happened for >85% of our energy consumption and we invest in renewable energy certificates for the remaining facilities to reach 100% renewable energy in 2025 already.

2. Digitalization

ISDIN has been transitioning to a highly digitalized company for several years now and several initiatives both internal and external have been implemented and are planned to further digitalize our materials, and thus, reduce considerably our carbon footprint without compromising our performance. Below some non-exhaustive examples of process digitalization that are having a considerable positive impact in our carbon footprint:

- a. Love ISDIN is ISDINs fidelity program for its main stakeholders. The main objective is to deliver more targeted communications and materials, avoiding unwanted communications. As well as an improved customer experience, It is also affecting the purchases of goods and services, specifically purchases of promotional materials, displays, flyers and printed advertising. More tailored materials means not sending redundant promotional material to customers, thus, less emissions for generating those materials. We expect all these items to drop by 15% in intensity by 2025 and up to 30% by 2030.
- b. Office Digitalization and end of single-use consumables. Several areas with high intensity paper use are digitizing its processes:
 - i. In 2022 ISDIN implemented digital signatures for all internal and external documents with legal validity: NDAs, contracts, etc.
 - ii. In 2022 ISDIN implemented the Qumas project. A System that enables full digitalization of all formulas, production methods, safety and quality control procedures, production and liberation scorecards, customer complaints and consultation reports,

resolution reports, etc. More than 200.000 pages were eliminated

- iii. Digital invoicing and delivery notes. By far, our greatest generator of printed paper is currently operations that generate physical invoices and delivery notes. Both of them are avoidable with the planned project of substituting physical delivery notes and invoices by digital ones as long as the receiver accepts it. The project is expected to be implemented in 2024
- iv. Single-use consumables. In 2022 all single use cups were eliminated in several ISDIN facilities (saving >1mn disposable paper/plastic single use glasses). Early on, in 2020, all paper dispensers (toilet paper, drying paper, paper napkins, etc) were substituted by single piece dispensers, generating a paper saving of 35%). Next in line are food containers from nearby restaurants with whom we are currently working on reusable containers, sugar and sweeteners containers, plastic water bottles, etc. Even the internal store for employees already incorporated box filling made of discarded cardboard and is working on a reusable box (or substitute box by bag, much less impact)

Digitalization is bringing drops in intensity for the coming years to be even more considerable: 50% and 80% respectively in the Waste item of office paper and 15% to 30% respectively in offline media, point of sale promotional materials, flyers and displays, etc.

3. Product logistics

There are several on-going projects to reduce the carbon intensity of our product logistics. Being the single element with the highest carbon footprint share of our whole scope (by year end 2022, components and products transportation upstream and downstream accounted for 14% of our global footprint), Successful initiatives in this area may have a significant impact in reducing the overall footprint. Some of the on-going projects are:

- a. Optimize our current shipments: Most of our shipments are sent through FTL shipping in order to avoid cross contamination or delays due to tariffs in destination. This means that most of the shipments and truckloads are dedicated transports so we send a container or a truck independently if it is full or not. Despite having a growing staffing rate, there is still much room for improvement. part of this improvement has been including bonuses for increasing average staffing rate for logistics personnel and the recent pilots for pallet pile up that are being

executed on several routes

- b. Intermodal routes to use less carbon intensive modes of transport. Gradually substituting truck by ship or train as the main mode of transport within Europe is helping us reduce the carbon intensity of our intra-european transport
- c. Air shipment reduction. Through an internal carbon price for air shipment, we have been reducing air shipments both in frequency and, in the near future, also in carbon intensity as we plan to purchase Sustainable Aviation Fuel (SAF) with the collected carbon price from affiliates.
- d. Direct routes vs intermediate routes. Currently routes to a given destination are chosen by several factors, including price and availability. Nonetheless, intermediate stops are normally not taken into account. Considering carbon footprint as a new key decision element, the fact that a route makes less (or none at all) intermediate stops, reduces the carbon footprint considerably
- e. Electrificación. Truck electrification is a tricky matter. Chiefly because it is not guaranteed that electricity will be the future of freight mobility, and investments in this matter are amortized in several years (e.g. Average life of a freight truck is around 7-11 years). Additionally, the relation distance vs weight is key to understand if an electric truck can make the expected routes successfully. In ISDIN case, two segments of the transportation are being considered for implementing full-electric vehicles:
 - i. Product Pick-up: for transporting product components from our central or satellite warehouse to our main factories and finished products from our main factories to our main warehouse we use dedicated trucks. One of this trucks is due to change by the end of 2023 and ISDIN is preparing a pilot drive to consider the feasibility of adopting an electric truck to make the route
 - ii. Last mile: last mile is sometimes done with small vans. As the electrification of small vans is reaching maturity and several commercial models with extensive autonomy are reaching the market, ISDIN is confident to significantly reduce the footprint of the last-mile distribution of its products during the coming years. On-going conversations with both current and potential suppliers in this field are promising

All of the combined projects together are expected to reduce the carbon intensity of transportation by 15% in 2025 and by 40% in 2030, although

specifically for aerial transportation, it is expected that intensity will fall by 30% in 2025 and by 80% in 2030

4. Corporate travel

As well as air shipment for final product transportation, ISDIN is planning to incorporate Sustainable Aviation Fuel (SAF) whenever an employee of ISDIN travels for work. By 2025, 10% of corporate travel will be done with SAF and by 2030, 20%. Additionally, for short flights, we have implemented a train-to-plane substitution policy whenever there is an option. We aim to fully execute this policy by 2025 and reach full-compliance by 2030 reducing its carbon intensity 10% and 20% respectively for corporate flights.

Finally, COVID-19 pandemic has largely increased our call-conference infrastructure allowing us to avoid unnecessary corporate travels. With an appropriate policy in place, a significant amount of corporate travels could be avoided and it is contemplated in that way

5. Packaging Ecodesign

By 2030, ISDIN aims for at least 95% of its packaging to have been ecodesigned.

For ISDIN, ecodesign is defined by the “3+1 Rs”: that it has reduced its weight by at least 10% or that it is reusable or refillable or that it is recyclable and, in addition to one of the previous three, that at least 25% the weight of our packaging will have to be recycled. This measure will have a direct impact on the purchase of packaging as well as on the end-of-life impact of products. Specifically, we expect it to reduce the intensity of packaging emissions for all materials by 15% in 2025 and by 40% in 2030.

Regarding end-of-life, we expect intensity to be reduced by 5% in 2025 and by 15% in 2030 due to size reductions and refillable and reusable packaging

6. Sustainable raw materials

Since late 2021, ISDIN has initiated a project to reduce the social and environmental impact of its raw materials. This project evaluates all raw materials purchased by ISDIN from a social and environmental perspective and then are verified documentarily by EQA, an independent verifying body. After verification, ISDIN commits to always buying the most sustainable option of the raw materials that fulfill the same purpose. Once this process has passed its current pilot phase, it intends to reduce substantially the intensity of

its carbon footprint among others. Specifically, we expect carbon intensity of our raw materials to be reduced by 10% in 2025 and by 30% in 2030.

7. Reusable congress facilities and product displays

At ISDIN we are strongly committed to creating modular and reusable stands and exhibitors. This will have a direct impact on reducing the intensity of some components of goods and services procurement. Specifically, we expect congress facilities and exhibitors items to be reduced by 30% in 2025 and by 70% in 2030.

8. Waste “0” and product donations

Thanks to our zero waste policy in offices, we expect that the generation of unclassified waste will be radically reduced, reducing its carbon intensity by 70% in 2025 and 100% in 2030. In addition, the elimination of consumables will have an impact on reducing the generation of plastics whose intensity will decrease by 50% in 2025 and 80% in 2030.

Since 2018, ISDIN has initiated a program to boost product donations to reach 1% of our sales by 2030. This initiative has had a positive collateral impact on reducing emissions from waste management, since the amount of product to be destroyed decreases significantly. We estimate that in 2025, the impact on reducing carbon intensity will be 5% in 2025 and 15% in 2030 for emissions related to industrial waste

9. Employee commuting

Employee commuting Initiatives are aimed at improving employee transportation to the office. From free parking and charging of electric vehicles, through fiscal incentives for the use of public transport or company negotiations for electric vehicles (scooters, motorcycles), all of which are included in a sustainable mobility plan that is being drafted, although some of the above mentioned initiatives are already in place. We expect to reduce the emissions intensity of daily transportation of ISDIN employees to their workplace by 10% in 2025 and 30% in 2030.

10. Other collateral emissions reductions

Some of the reductions mentioned above, especially those related with fuel and gas consumption, will have a collateral effect in reducing the emissions generated to supply these consumables

Additionally, installing solar panels in our central warehouse will further diminish the energy related activities emissions (despite the fact that the energy consumed is already renewable, some emissions are generated in the supply of that energy to the point of consumption

The reduction of the intensity of those activities is expected to be 20% in 2025 and 60% in 2030



Board Oversight

The Board takes overall accountability for the management of all risks and opportunities, including climate change. The individual member of the board with the highest level of responsibility in climate related matters at ISDIN is the CEO. Apart from the business related responsibilities, the CEO has direct responsibility on climate change issues such as validating and approving strategies, objectives which also includes setting the Company's emission targets. This position is the primary Sponsor of ISDIN's program which has a fundamental pillar devoted entirely to climate change related issues and therefore has a direct and continuous oversight (bi-weekly interaction with the implementation team) of the project's evolution.

Additionally, since 2019, ISDIN included ESG as a transversal axis into the ISDINs strategic plan 2019-2024, which meant an elevation of the program to one of core strategic importance for the company as a whole and expanded the oversight of the project not only to all the Board of directors but also to the Company council.

The climate related risks and opportunities is a top-down exercise proposed by the ESG area, validated and approved by the Board of directors and annually revised and updated by the General Audit within the process of corporate risks and opportunities assessment done in coordination with the Board of directors.

Apart from the CEO, there are several members of the board with specific responsibilities with climate related issues, including COO, CMO and CRDO

The board oversight and steering of ESG related matters include:

- Reviewing and guiding strategy
- Overseeing and guiding the development of a transition plan
- Reviewing and guiding the risk management process
- Reviewing and guiding annual budgets
- Overseeing major capital expenditures
- Overseeing the setting of corporate targets
- Monitoring progress towards corporate targets
- Monitoring the implementation of a transition plan
- Overseeing and guiding employee incentives

Board and council review

Board reviews are done bi-weekly with the CEO with a variable agenda on the evolution of specific topics related with ESG which includes climate related aspects and thus, the climate transition plan

With the rest of board members, interaction will be done at least bi-annually at board meetings but also more frequently for specific aspects on one-on-one sessions when needed

In addition, the company council reviews the climate transition plan KPI evolution once every quarter

External disclosure

Climate related issues are made public annually both at the Non-financial report (EINF) and the CDP

Additionally, the carbon reduction objectives in scopes 1,2 & 3 have been validated, approved and made public by SBTi

Finally, some other information is made public either on ISDIN's website or eventually on other communication means such as social media, or press releases

Together we multiply

Working on internal goals towards a climate transition is not enough to stop climate change. The goals and objectives need to be systemic. In order to do so, ISDIN has a triple approach:

- **Supply Chain.** Regarding its own supply chain, ISDIN requires every relevant supplier to disclose environmental (and climate) data through the Ecovadis platform. Today >55% of ISDIN's spend on purchases already reports through Ecovadis. Additionally, for top suppliers (50% of Spend) ISDIN requires carbon public disclosure through CDP and a firm commitment to attain Science based targets in the coming years. Moreover, with the above mentioned suppliers, ISDIN has co-created working groups to understand current climate-positive initiatives being developed by those suppliers in order to understand how to maximize their impact and scale-up as well as to co-develop initiatives to optimize the climate impact of our activity or that of similar players
- **Institutions.** ISDIN obtained the B CORP certification in 2020. With that certification ISDIN changes its legal bylaws to include social and environmental implications when making any relevant decision. This commitment has been elevated to the public through the petition to the national government to establish a "Purpose driven companies law". This law was approved in 2022 and now it is pending to be implemented. Additionally, ISDIN collaborates with several industry associations that work

on developing industry standards within several aspects, including climate change fight best practices. Such associations include Stampa and Farmaindustria, among others

- Society. As mentioned before, ISDIN is committed in its bylaws to take sustainability into account in all its decisions, including decisions that affect climate change. This empowers our customers to be part of this change by highlighting us whenever something is not working according to this public commitment.

Additionally, ISDIN is making great leaps in its transparency towards its customers. Together with BCORP, ISDIN has been disclosing climate change information through CDP since 2021 and the non-financial report (EINF) since 2018, publicly available on our website. Also there is an ad-hoc website section that outlines our strategy and sustainability agenda

Moreover, since 2022, ISDIN has a consumer community where our customers can participate in several initiatives, including climate action initiatives (e.g. Posidonia planting, plastic recovery from the seas, beach cleaning, etc.). The participation in these initiatives is done through the redemption of points obtained after purchasing products. With this, consumers not only are informed about what ISDIN is doing with regards to the climate change but they can also chose to boost this efforts and be part of the change. Finally, on our journey to reduce the climate impact of our activity, ISDIN is aware that the efforts must transcend our company and even our industry and that change must be systemic. That is why ISDIN has created the Blue Wave Alliance (BWA), a movement entirely aimed to regenerate our seas by promoting areas related to marine conservation and restoration, such as reducing plastic pollution, regenerating marine biodiversity and protecting and restoring key habitats like Posidonia, among others. Besides, the BWA also works to raise public awareness of the importance of caring for the seas and oceans.

We are facing a global challenge that requires teamwork. It is therefore necessary to join forces to multiply the reach of the project. The BWA protects and restores the Mediterranean Sea by bringing together three main actors: Dreamers (entrepreneurs working on practical solutions) , Scientists (to assess the impact of the initiatives proposed by dreamers) and Companies (to finance and promote the initiatives) Regenerating the sea means restoring our biggest carbon deposit, so initiatives in this sense may have a significant impact on minimizing the impact of climate change



Climate risks and opportunities

In order to accurately define our risks and opportunities, it is important that we first set the basis of how our risks are defined and classified

1. DEFINING CLIMATE CHANGE RISKS AND OPPORTUNITIES

Climate risks and opportunities were analyzed by ESG area, with the support of external consultancy, Internal Audit and the main responsible of ISDIN's business areas, to integrate relevant climate risks into the corporate strategic risk matrix. This is the first step to integrate them in the strategy of the company, including risk management, business strategy and financial planning. Both the transition risks and the physical risks related to climate change have been analyzed, as well as the opportunities related to climate change.

- **Transition risks:** risks associated with the transition to a low-carbon economy in response to climate change, arising from changes in legislation, the market, stakeholders, etc., to mitigate and address the requirements of climate change.
- **Physical risks:** risks stemming from climate change that may arise from increased frequency and severity of extreme weather events or long-term weather changes, and may lead to physical damage to business assets, supply chain disruptions or increased costs to address them.
- **Climate opportunities:** opportunities that arise mainly from the transition to a low-carbon economy, which creates new market niches to enhance or develop.

Process of identifying relevant risks and opportunities to follow up

In the process of identifying risks and opportunities according to the TCFD recommendations, 13 transition risks, 9 physical risks and 13 opportunities were identified with the representatives of the Executive Committee. After discarding the risks and opportunities considered irrelevant due to low probability or low impact, 9 transition risks, 4 physical and 5 opportunities were selected, quantifying the financial impact and defining the probability based on the scenario analysis. Finally, 4 risks were identified to mitigate (3 transition, 1 physical) and 2 to closely follow up (both transition), and 2 opportunities were identified to capture.

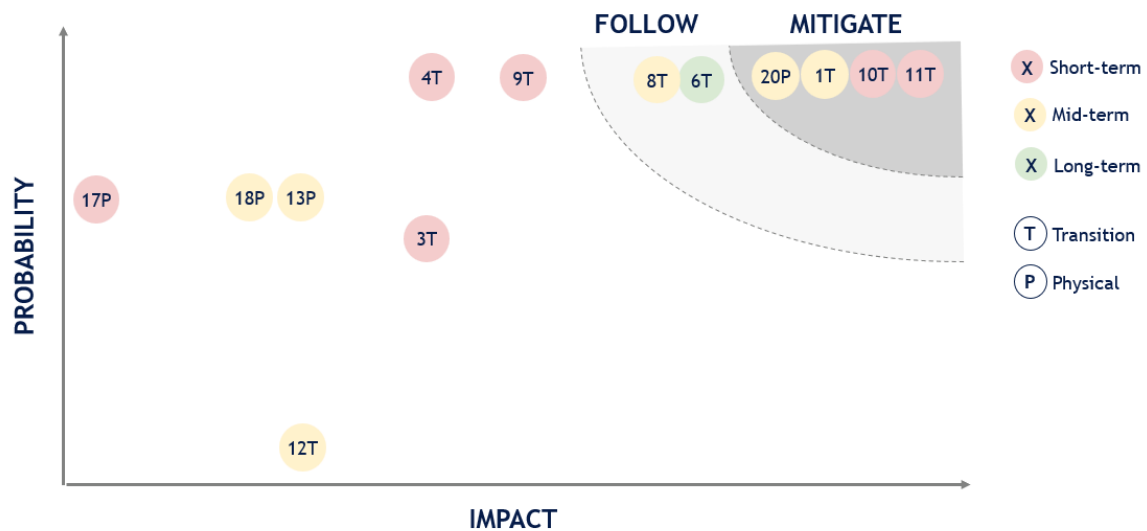


Figure 2 Map of relevant climate-related risks identified

Table 6 Description of the relevant climate-related risks identified in the previous map

RISK	DESCRIPTION
1T	Increased OPEX due to Carbon pricing policies
3T	Increased direct costs due to transport policies
4T	Increased direct costs due to packaging policies
6T	Increased costs due to transition to low carbon technologies
8T	Cost to invest in new packaging
9T	Increased cost of raw materials
10T	Reduced demand for products due to shift in consumer preferences (formula)
11T	Reduced demand for products due to shift in consumer preferences (packaging)
12T	Negative impact on employee attraction and retention and increased expenditure in marketing due to reputation
13P	Alteration of consumer behaviour and availability and cost of raw materials due to changes in precipitation patterns and extreme variability in weather patterns
17P	Increased operating costs for inadequate water supply and/or increasing cost of water due to droughts and desertification (especially in Spain)
18P	Disruption on shipping transport, Alteration of consumer behaviour due to coastal floods or storm surges
20P	Extratropical storm episodes affecting sales

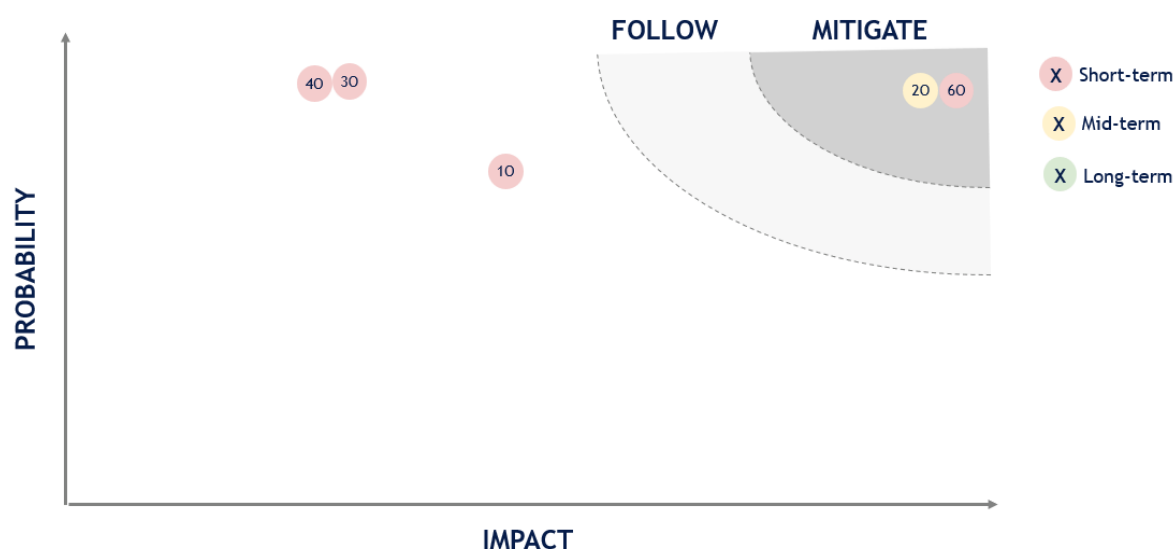


Figure 3 Map of relevant climate-related opportunities identified

Table 7 Description of the relevant climate-related opportunities identified in the previous map

OPP	DESCRIPTION
1O	Recycling and circular economy initiatives to reduce operating costs
2O	Use of more efficient modes of transport / distribution processes
3O	Move to more efficient buildings or improve efficiency in current ones to reduce operating costs
4O	Use of lower-emission sources of electric energy / Shift towards alternative fuel vehicles for company fleet
6O	Shift in consumer preferences

Table 8 Priority identified risks to mitigate and to closely follow up

RISK	DESCRIPTION	AREA OWNER	IMPACT (mn€)	PROBABILITY	TIME HORIZON
RISKS TO MITIGATE					
(1T) Increased OPEX due to Carbon pricing policies	Increased operating costs in order to comply with more restrictive ESG / Climate change legislation (e.g. carbon pricing schemes, zero waste to landfill, CO2	Purchases / Supply	2,3	5 (almost certain)	Medium-term (3-10yrs)

	reduction, banned refrigerant gases, etc.)				
(10T) Reduced demand for products due to shift in consumer preferences (formula)	Increasing consumer awareness about ingredients and its effects on the environment is shifting skincare demand towards products with organic or natural ingredients, cleaner label products and claims, "free from" claims, etc.	Marketing/ R&D	4,5	5 (almost certain)	Short-term (1-3 years)
(11T) Reduced demand for products due to shift in consumer preferences (packaging)	Demand is shifting towards products with minimal (or none) packaging, containing more recycled materials, reusable/refillable or more recyclable products with a key focus on reducing/eliminating plastic.	Marketing	3,9	5 (almost certain)	Short-term (1-3 years)
(20P) Extratropical storm episodes affecting sales	Bigger and more frequent extratropical storm episodes in developing economies (e.g. Peru in 2017) are expected to affect sales in Brasil, Colombia, Peru, Chile and Argentina	International / Sales	2,2	5 (almost certain)	Medium-term (3-10yrs)
RISKS TO CLOSELY FOLLOW UP					
(6T) Increased costs due to transition to low carbon technologies	In order to implement low carbon technologies in our decarbonization journey, operational costs may be affected (e.g. transportation technology, company vehicles, production technology, etc.)	Purchases / Supply	1,5	5 (almost certain)	Long-term (>10 years)
(8T) Cost to invest in new packaging	As requirements for packaging tightens and demand for those material increases. We expect that more sustainable materials will experience a rise in costs	Purchases / Supply	1,1	5 (almost certain)	Medium-term (3-10yrs)

Table 9 Priority identified opportunities to capture

OPPORTUNITY TO CAPTURE	DESCRIPTION	AREA OWNER	IMPACT	PROBABILITY	TIME HORIZON
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			(mn€)		
(2O) Use of more efficient modes of transport/distribution processes	Transport efficiency can significantly influence the emission factor at which goods travel around the world: depending on the means of transport; the fleet used (e.g. model, year, size, fuel, etc.) and how optimized the shipment is.	Purchases / Supply	3,7	5 (almost certain)	Short-term (1-3yrs)
(6O) Shift in consumer preferences	Increasing consumer awareness about ingredients and its effects on the environment is shifting skincare demand towards products with organic or natural ingredients, cleaner label products and claims, "free from" claims, etc.	Marketing/ R&D	3,9	5 (almost certain)	Medium-term (3-10yrs)

Additionally, ISDIN continuously assesses and revises the risk of drought for Spain. Despite continuously working hand-on-hand with our key production suppliers in order to minimize their water footprint, water stress in Spain is a reality and thus the risk has been flagged to follow-it narrowly

2. IMPACT OF THE IDENTIFIED RISKS AND OPPORTUNITIES

The analysis of climate-related risks and opportunities had an important role in shaping the strategy for the definition of the current climate transition plan, due to their impact on different aspects of the business strategy and on the financial planning.

The impact of the identified risks and opportunities was calculated using different transition and physical climate scenarios, depending on the case. Next table gives a description of how these scenarios were considered through the analysis (both qualitative and quantitative).

Table 10. Climate-related scenarios analyzed.

Climate-related scenario	Description
Transition scenarios IEA NZE 2050	<p>The analysis using this scenario was quantitative. We referred to two different parameters in our risk and opportunities assessment (based on TCFD recommendations): CO2 prices for electricity, industry and energy production in selected regions; fossil fuel prices.</p> <p>Assumptions: CO2 prices for electricity, industry and energy production are supposed to grow globally from 2030 to 2050. For advanced economies, this is the most expensive scenario</p>

Climate-related scenario	Description
	<p>compared to the other IEA scenarios. Regarding fossil fuel prices, IEA crude oil price in this scenario is supposed to be lower than 2020 price, due to the lower demand.</p> <p>Analytical choices: the source of prices used is IEA. World Energy Outlook 2021, Table B.2 (CO2 prices for electricity, industry and energy production in selected regions by scenario) and table 2.2 (Fossil fuel prices by scenario); in the case of Table B.2, prices of advanced economies was considered for calculations; in the case of table 2.2, the prices of crude oil itself have not been used, but rather the reduction trend compared to 2020. Time horizon considered was 2030, as this is the timeline for ISDIN transition plans.</p>
<p>Transition scenarios IEA STEPS (previously IEA NPS)</p>	<p>The analysis using this scenario was quantitative. We referred to two different parameters in our risk and opportunities assessment (based on TCFD recommendations): CO2 prices for electricity, industry and energy production in selected regions; fossil fuel prices.</p> <p>Assumptions: CO2 prices for electricity, industry and energy production are supposed to grow globally from 2030 to 2050. In this scenario, European Union prices are the highest ones, even if the price in 2030 is half the price of the net zero scenario. Regarding fossil fuel prices, IEA crude oil price in this scenario is twice the 2020 price of the net zero scenario.</p> <p>Analytical choices: the source of prices used is IEA. World Energy Outlook 2021, Table B.2 (CO2 prices for electricity, industry and energy production in selected regions by scenario) and table 2.2 (Fossil fuel prices by scenario); in the case of Table B.2, prices of advanced economies was considered for calculations; in the case of table 2.2, the prices of crude oil itself have not been used, but rather the increasing trend compared to 2020. Time horizon considered was 2030, as this is the timeline for ISDIN transition plans.</p>
<p>Physical climate scenarios RCP 4.5</p>	<p>The analysis using this scenario was qualitative and was used to identify, at company level, the most affected countries where ISDIN operates, affected by climate risks, according to available information in IPCC AR5 report.</p> <p>Additional tools were used to complement the information, and in some cases, to realize quantitative analysis.</p> <p>The tool Thinkhazard by Global Facility for Disaster Reduction and Recovery (GFDRR - https://thinkhazard.org) was used to</p>

Climate-related scenario	Description
	<p>qualitatively analyze river and urban floods risks at company-wide level (Perú, Chile, Argentina, Brasil and Colombia the most affected).</p> <p>For scenarios of water scarcity, the online tool WaterRiskFilter was used (https://waterriskfilter.org/assess/sites/analyse/dashboard).</p> <p>For extreme sea levels in ports, qualitative global maps of 1,5°C, 2°C and 3°C scenarios were used.(Source: https://unctad.org/es/node/33168)</p>
Physical climate scenarios RCP 8.5	<p>The analysis using this scenario was qualitative and quantitative and was used to identify, at company level, the most affected countries where ISDIN operates, affected by climate risks, according to available information in the IPCC AR5 report.</p> <p>Additional tools were used to complement the information, and in some cases, to realize quantitative analysis.</p> <p>The tool Thinkhazard by Global Facility for Disaster Reduction and Recovery (GFDRR - https://thinkhazard.org) was used to qualitatively analyze river and urban floods risks at company-wide level (Perú, Chile, Argentina, Brazil and Colombia the most affected). IPCC AR6 report (Table 4.3) was used to quantitatively analyze the magnitude of influence of the likelihood of flooding due to extratropical storms in the identified as most affected countries.</p>

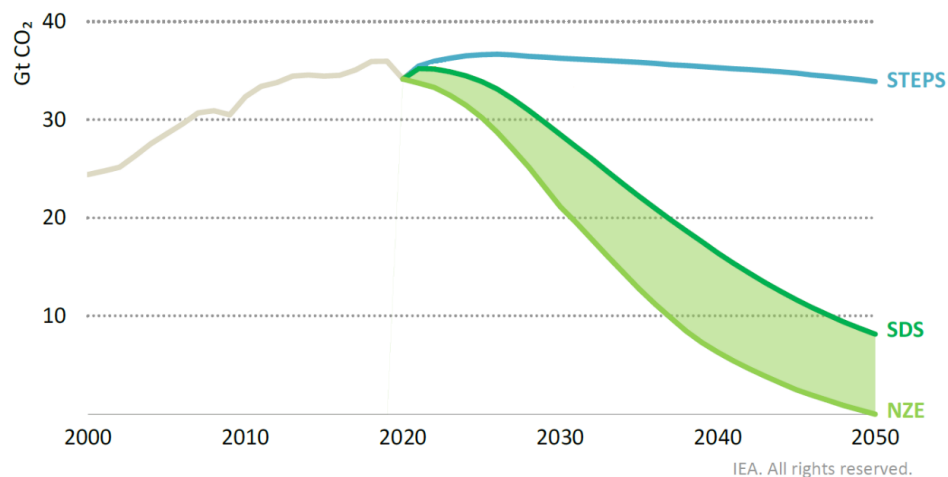


Figure 4 CO2 emissions in the WEO-2021 scenarios over time. Source: IEA

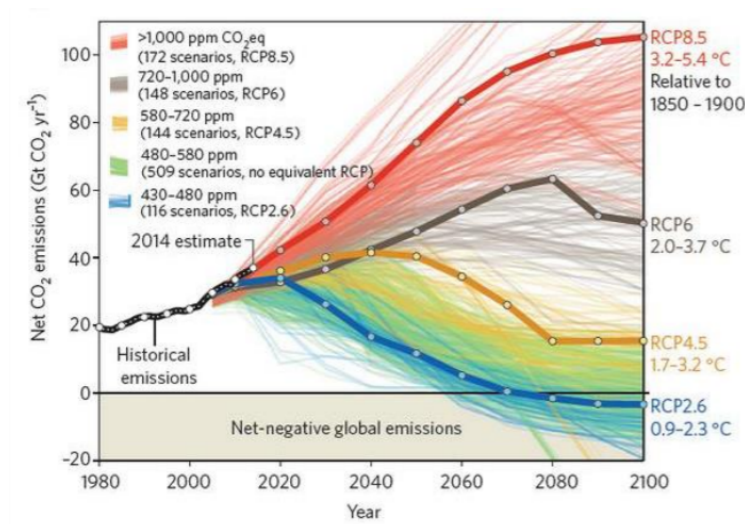


Figure 5 CO₂ emissions and growth of temperature in RCP physical scenarios. Source IPCC-AR5

Impact on the business strategy

As a result of defining the strategic impact on ISDIN's business, it was analyzed how climate-related risks and opportunities have influenced ISDIN's strategy on different areas of the company.

IMPACT ON PRODUCT AND SERVICES

ISDIN's strategy has been already influenced in the business area of product and services by climate-related issues. The **need for caring for the environment** and the **sensibility for marine environments** are an increasing driver of purchase decisions in consumers. This pattern in consumer behavior has already influenced ISDIN's strategy for some years. Concretely, ISDIN has been working on formulas which minimize their impact in the oceans for more than 5 years.

A case study of the most substantial strategic decisions made in this area is the "Sea Friendly formula" concept (<https://www.ISDIN.com/seafriendly/>), which guarantees that a product contains a majority of biodegradable or inorganic ingredients, minimizing its impact in the oceans. The Sea Friendly formulas have been scientifically verified following the international regulation ISO 10253:2016 Water quality — Marine algal growth inhibition test with *Skeletonema* sp. and *Phaeodactylum tricornutum*. OECD No. 301: Ready Biodegradability.

These strategic decisions are intended to be maintained in the medium- and long-term horizon of ISDIN's strategy, as they are aligned with ISDIN's values and will therefore maintain its reputation and relevance in the market.

Another climate-related risk that influenced our strategy is the **change in market trends and customer behaviour** related to packaging materials and circular economy related to packaging. This risk could cause a reduction of revenues if ISDIN does not invest in a new packaging strategy. This risk influenced the strategic decision of ISDIN of accelerating the ecodesign process of the packaging of sold

products, with these actions: Life Cycle Assessment analysis, color classification, definition of sustainability specifications for packaging and reduction of packaging itself.

IMPACT ON SUPPLY CHAIN AND VALUE CHAIN

The **risk of drought** is high in the company's manufacturing areas, especially in Spain, in all climate scenarios (RCP4.5-8,5). This risk could have financial impact both on the increase of the price of water-based subproducts bought by ISDIN, on increased price of production of water-based products by ISDIN (majority of products) and on possible delays in production due to reduced availability of water. Due to the difficulties to foresee changes in water supply policies, an estimated financial impact is still not estimated, but our strategy is to keep following this risk to understand it in a more quantitative way, to define a strategy of mitigation.

On the other hand, climate-related opportunities for **logistics optimization** influenced ISDIN's strategy, reducing both transport costs and scope 3 GHG emissions. This opportunity influences our business at medium term and with high magnitude, so that actions have been included in the strategy and an economic follow-up is carried out semiannually to optimize economic benefits.

With the expected increase in sales in the short and medium term, the size of the capturable opportunity is higher and would increase proportionately with sales. Scenario analysis was used considering carbon prices from IEA STEPS and IEA NZE 2050 scenarios in 2030.

The distribution strategy implemented by ISDIN includes 3 actions:

In 2021, to reduce air transportation to the bare minimum, an **internal carbon price** was introduced to disincentivize ISDIN's affiliates to require transportation by plane. This internal price is intended as an internal fee and the idea is to use it, in the short term, to create a climate fund, to allocate it to the use of sustainable aviation fuel, or for other destinations to reduce GHG emissions.

IMPACT ON INVESTMENT IN R&D

Climate-related opportunity to innovate in **creating more natural based products** has also influenced ISDIN's strategy. Natural based products are associated by consumers to health and respect for the environment, which includes the idea of mitigating climate change with lower emissions. This opportunity influences ISDIN's business at short term and with medium magnitude, so that actions have been already included in the strategy.

A case study related to this opportunity is ISDIN's continuous work on product's reformulations to optimize their quality and adapt to customer demands, investing in R&D for creating new formula. The work realized for launching naturally based line, like ISDIN Baby Naturals and ISDIN Woman is an example. According to this

strategy, ISDIN also developed an Eco-design White Book for the development of eco-designed packaging.

The strategic decision of **investing in R&D**, both for internal and external projects, is intended to be maintained in the short - medium- and long-term horizon of ISDIN's strategy. Especially, internal R&D has been a fundamental value for ISDIN's strategy since the beginning of the activity.

IMPACT ON OPERATIONS

It has been seen that an increase in the carbon pricing policies could affect the operating costs of the activities that have a higher carbon intensity amongst the ones carried out by ISDIN. Operating costs that could be affected are transport related (industrial transport and corporate travels mainly), energy related and direct expenses (raw materials and packaging mainly).

This risk could impact ISDIN's business at medium-term with high magnitude. Depending on the climate change scenario chosen (IEA STEPS and IEA NZE 2050), the carbon price will vary and thus the impact of our operating expenditures. The increase of the price of crude (IEA STEPS) and of the price of CO₂ for electricity, industry, and energy production (IEA STEPS- IEA NZE 2050) is a risk in the short term for ISDIN, as it could cause increasing operational costs, especially in industrial transport, corporate travels, raw materials, and packaging costs.

For this reason, ISDIN's business strategy included the planification of actions like the **introduction of sustainable aviation fuel** for unavoidable flights and the **use of internal carbon pricing for air shipments** as a disincentive.

Regarding the projections of increasing electricity cost, by 2030 it will be more convenient to install on-site self-consumption systems than to buy renewable energy. For this reason, the strategy included the introduction of **electrical trucks** for long-haul transportation in central warehouse (Spain), the implementation of **insetting projects** for end-product production and the installation of **solar panels** in central warehouse (Spain) to reduce energy value chain emissions. Regarding raw materials and packaging costs, ISDIN is planning to reinforce the packaging ecodesign strategy and circular economy initiatives, and to implement long-term purchase agreements for recycled materials.

Impact on the financial planning

ISDIN has quantified the financial impacts of climate-related risks and opportunities with a qualitative and quantitative analysis following TCFD methodology and ISDIN's risk evaluation procedures. This is how they influenced the financial planning:

IMPACT ON DIRECT COSTS

In 2020 ISDIN developed the naturally-based line Baby Naturals (launched in January 2021), and in 2021 we relaunched the naturally-based line ISDIN Woman. These lines of products have been created to respond to the shifting in consumers

behaviour, who are always more aware of the environmental impact of their consumption choices and are just a couple of illustrative examples of ISDIN's pipeline. Additionally, some other recent launches include a higher than usual weight of recycled materials (e.g. Essential cleansing, Babynaturals, Transparent Spray)

The plan of launching new lines of products based on more sustainable materials, eco-design packaging, LCA study, etc, was designed in 2019 and 2020 and is a long-term measure for the financial planning of the company.

Ecodesigning products have a significant impact on direct costs due to the scarce availability of the raw materials and components versus regular products, as well as more complex processes or production practices. This impact is assumed in the short-term because it is considered as an investment for increasing revenues in the medium-long term.

Additionally, the recently implemented carbon pricing mechanism is also expected to impact direct costs for product transportation to affiliates by air which will be gradually increased.

IMPACT ON INDIRECT COSTS

According to the plan designed in 2019 to reduce carbon emissions in scopes 1, 2 and 3 Include the transition to lower or zero emissions transportation means (e.g. electric commercial fleet cars) or the use of more sustainable fuels (e.g. SAF for corporate travels). Both of these aspects include a considerable economic effort of indirect costs which are expected to rise in the short term, despite the also expected compensation through higher efficiency and transport optimization.

IMPACT ON CAPITAL EXPENDITURE

Although not yet implemented, ISDIN expects and has approved considerable rises in CAPEX for climate related purposes, which includes, for example, the installation of several EV charging points and the installation of solar panels in central warehouse in Spain.

IMPACT ON CAPITAL ALLOCATION

Since 2018 ISDIN is increasing its research and development (R&D) budget related with climate-related risks and opportunities, like the most recent project of sustainable purchases which includes the certification of a sustainable purchases process to make more accurate decisions with regards to the raw materials to be used based on (but not exclusively) a given raw material impact on the climate change versus its alternatives. The project dimension will impact our capital allocation.

3. ISDIN'S RESILIENCE

It is worth noting that all the transition scenarios contemplate the reduction of fossil fuels and the transition to sustainable mobility, by land, sea and air. Considering that the emissions from mobile sources and upstream & downstream transport and

distribution categories are almost 27% of the total ISDIN's carbon footprint, a strategy of transition to sustainable transport and optimization of logistics and distribution is necessary. For this strategy, supplier engagement action is fundamental.

Considering the reduction in the cost of investment in low-emission vehicles in all scenarios by 2030, the use of more efficient modes of transport/distribution processes should be considered an opportunity, especially for Spain, where the largest road transport is carried out.

The planification of actions like the introduction of sustainable aviation fuel for unavoidable flights and the use of internal carbon pricing for air shipments as a disincentive are actions included in the strategy of the company, to reduce the risk of transport operational costs due to the increase of the price of crude (IEA STEPS) and of the price of CO₂ for electricity, industry, and energy production (IEA STEPS-NetZero) in the near-medium horizon.

The planning of measures for the introduction of electrical trucks for long-haul transportation in central warehouse (Spain), the implementation of insetting projects for end-product production and the installation of solar panels in central warehouse (Spain) to reduce energy value chain emissions is a resilience strategy for the expected increase of electricity costs by 2030.

The packaging ecodesign strategy, the implementation of circular economy initiatives, and the effort to obtain long-term purchase agreements for recycled materials, are initiatives to reduce the exposure of the company to higher raw materials and packaging costs in the near term.

For climate scenarios (RCP4.5-8.5), the increase in the frequency of extratropical storms can alter consumer behaviour, reducing revenues, especially in countries with not prepared infrastructure, affecting ISDIN's business strategy. Considering ISDIN's operational countries, bigger and more frequent extratropical storm episodes in developing economies are expected to affect sales in Brazil, Colombia, Peru, Chile and Argentina (as already happened in Perú in 2017). In this case, the diversification of the business across more countries could be a good factor of resilience.

Furthermore, the risk of drought is high in the company's manufacturing areas, especially in Spain, in all scenarios. It is necessary to anticipate scenarios of obligatory reduction of water consumption and possible increases in the cost of water. The drought scenario is practically certain in Spain, while it is very difficult to foresee changes in water supply policies. A better knowledge on water consumption needs and impacts is required to define a strategy and better understand this risk.

Risk Management

PROCESSES TO IDENTIFY, ASSESS AND MANAGE CLIMATE-RELATED RISKS

1. Identification and assessment to climate-related risks

The ESG area has been the responsible to detect and quantify the climate-related risks and opportunities since 2019. In 2020, a pilot climate-related risk and opportunity assessment was carried out, identifying, and quantifying the most relevant risks and opportunities of each stage of the value chain, especially the ones with impact in short-medium term.

In 2021, ISDIN developed the climate-related risk assessment following the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), including scenarios analysis. In this assessment, the risks and opportunities were identified with the guidance of an external consultant, they were validated and quantified with the help of the C-Level (COO, CSO, CPO, CMO, etc.) and the different areas of the company were involved.

From this point, climate-related risk management is integrated into our multi-disciplinary company-wide risk management process. The results of the climate-related risk assessment were incorporated into the company's risk and opportunity matrix, which is reviewed annually with all members of management (including the CEO) and reported to the board. Risks and opportunities are managed by the Internal Audit area more frequently than once a year with the area managers involved.

The process includes these steps, which are repeatable as new risks are detected or the need to update the analysis is detected:

- **Identification**

With the guidance of an external consultant, the ESG area worked from the beginning with the company's Internal Audit area, to identify a first list of climate-related risks and opportunities and assign area owners to all of them. This first work had also the objective of aligning with the risk management process of the company (definition of impact levels, probability and management mechanisms), to facilitate the integration of climate-related risk map in the general risk map of the company.

After this step, all the areas of the company were included in the risks and opportunities identification and quantification process. The initial list was critically discussed from the different points of view, by selecting the main risks and opportunities or including new ones, and deleting other ones of minimal importance. The areas of the company have the important perspective of having experienced past vulnerabilities or new trends (increased prices, increased demand, etc..).

- **Assessment**

Area owners worked together with ESG area to quantify each risk and opportunity, identifying the ones with substantive financial or strategic impact, in short, medium and long term. The cost of risk management activities was estimated too.

- **Respond**

ISDIN's process applies to all Group's subsidiaries, evaluating their risks periodically and proactively through the risk matrix carried out jointly by the Corporate Committee, and subsequently with the Audit Committee and the Board of Directors. The risk matrix encompasses the risks in different areas and orders them by probability of occurrence and impact. For each risk with high financial and strategic impact, a specific action plan is carried out.

On the other hand, the company's Internal Audit area evaluates the effectiveness and efficiency of the controls established to mitigate risks, collaborating with the person responsible for the implementation of the different action plans, and reporting to the Chairman of the company. The

climate risk and opportunity matrix is reviewed two times per year and includes all stages of the value chain.

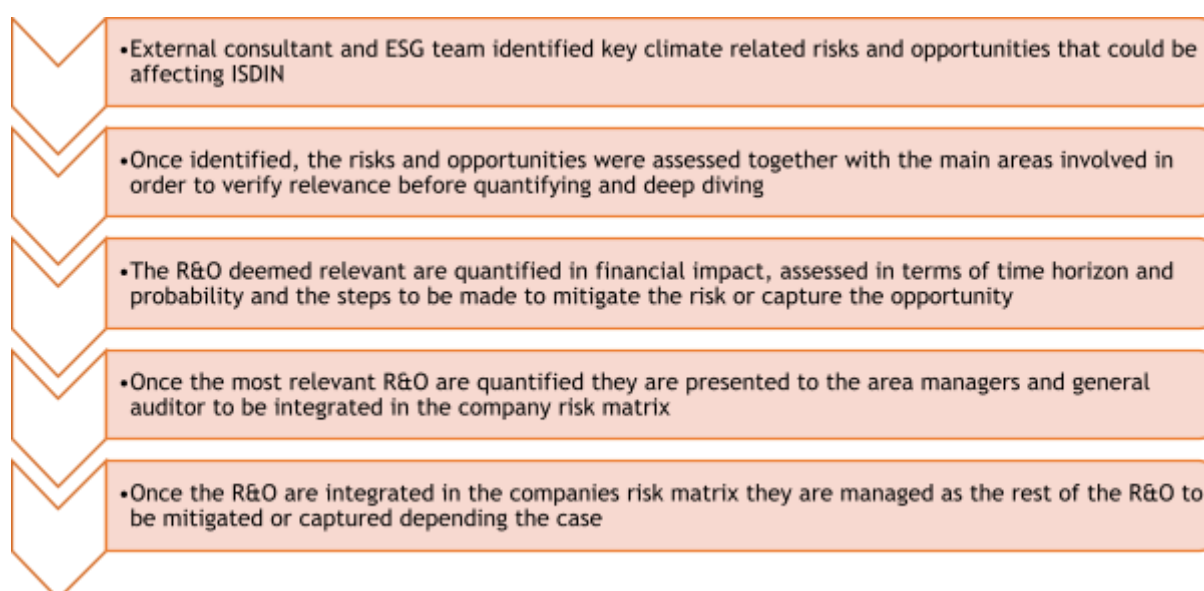
- **Risk management actions**

Risks and opportunities identified at short and medium term, with high impact and high probability, are identified as priority and reviewed two times per year. Specific actions plans are defined to mitigate these risks and to develop activities to capitalize the opportunities. Long term risks and opportunities with high impact and high probability will be reviewed annually.

Risks and opportunities with medium impact and medium probability are evaluated to define the best mitigation or control action, even if they are not identified as priority.

Risks and opportunities with low impact are excluded from mitigation actions, but are included in the periodic review, to be updated.

Figure 6 ISDIN's process for TCFD in a nutshell



2. Relative significance of climate-related risks

The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy and risks related to the physical impacts of climate change.

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.

Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations.

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial

implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Organizations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organizations' premises, operations, supply chain, transport needs, and employee safety.

The relevance of the risks analyzed and the consequent integration in ISDIN's overall risk management is described in the following table.

Risk category	Relevance and inclusion
Current regulation	<p>Current regulations are considered relevant and ISDIN's legal and regulatory areas are continually updated on them, supported by expert external consultants. Climate-related regulations that can affect the company activity are mainly related to energy consumption reduction, GHG emissions limitations and prices and packaging. As the company operates internationally (mainly Europe, LATAM, USA and China), it is critical to have a global vision and be continuously updated on current regulations in all the countries where ISDIN operates , both directly and indirectly (suppliers).</p> <p>Example of specific risk considered in our climate-related risk assessment: the impact of the plastic regulations on packaging imposed by legislation affects the packaging of the products sent to the market (Directive 94/62/EC as amended by Directive 2004/12/EC).</p>
Emerging regulation	<p>Emerging regulations are considered relevant and ISDIN's legal area is continually updated on them, supported by expert external consultants. Climate-related regulations that can affect the company activity are mainly related to energy consumption reduction, GHG emissions limitations and prices, transport policies and packaging. As the company operates internationally (mainly Europe, LATAM, USA and China), it is critical to have a global vision and be continuously updated on emerging regulations in all the countries where ISDIN operates, both directly and indirectly (suppliers).</p> <p>Example of specific risk considered in our climate-related risk assessment: an increase in the carbon pricing policies in the medium term could affect the operating costs of the activities that have a higher carbon dependence amongst the ones carried out by ISDIN. Depending on the climate change scenarios, the carbon price will vary and thus the impact of our operating expenditures. The activities that will cause a financial impact are transport related (industrial transport and corporate travels mainly), energy related and direct expenses (raw materials and packaging mainly). (See Risk 1, C2.3a for more details).</p>
Technology	<p>ISDIN's business is not based on the direct use of technology. Consequently, this risk is considered as not relevant. Nevertheless, it has been included in our climate-related risk assessment, because of the</p>

Risk category	Relevance and inclusion
	<p>risk of increased costs to transition to lower emission technology, especially in relation to transport (directly controlled by ISDIN and, directly by suppliers) and to cosmetic production.</p> <p>Examples of (non-relevant) specific risk considered in our climate-related risk assessment: the obligation to shift from transport sector to lower emission technology will be reflected in the cost to adapt ISDIN's commercial fleet and in increased direct costs due to the same adaptation at suppliers' level. Another example is the risk related to the increased investment cost for a more efficient production, like more efficient technology in the purification process of water.</p>
Legal	<p>Legal risks are not relevant for ISDIN's climate-related risk assessment process because we have a legal area that is responsible for keeping up to date on all legal and regulatory issues and that assists ESG to ensure legal compliance of the activity of the company. ISDIN's legal area works continuously with external legal and regulatory assessment of specialized legal advisors. For this reason, the risk is considered controlled.</p> <p>It has been included in our climate-related risk assessment because in the short term the company needs to keep up to date for issues like, as a way of example, GHG emissions reporting or risks analysis and the recently published Spanish Climate Change Law (May, 2021).</p> <p>Example of specific risk considered in our climate-related risk assessment: increased exposure to litigation due to an eventual published normative and obligations, for which ISDIN would not be able to give a quick response. It will require an increasing cost of insurance policies and could cause reputational damage to the company.</p>
Market	<p>Market risks are relevant for ISDIN's climate-related assessment because they are strictly related with the amount of sold products, which variation could have high financial impacts for the company.</p> <p>Example of specific risk considered in our climate-related risk assessment: change in market trends and customer behaviour related to packaging materials and circular economy related to packaging could cause a reduction of revenues if ISDIN does not invest in a new packaging strategy.</p>
Reputation	<p>Reputation is a relevant aspect for ISDIN's strategy to maintain its growing business. For this reason, the company has always invested in defining new formulas and products in response to customer demands. This demand is changing for cosmetics' consumers, who are giving importance to both healthy and environmentally respectful decisions, associating environmental respect also with climate change mitigation. Innovating in products that have a lower impact in the environment is ISDIN's strategy in response to this risk, and includes R&D in</p>

Risk category	Relevance and inclusion
	<p>eco-packaging, natural-based formula and formula with low impact in oceans (ISDIN Baby Care, ISDIN Woman, Sea Friendly lines are an example); all of them have an impact in reducing carbon footprint (mainly scope 3). This strategy has been a pillar in ISDIN's business for many years and does not strictly result from our climate-related risk assessment.</p> <p>Example of specific risk considered in our climate-related risk assessment: difficulty to adapt to shift in consumer preferences related to packaging, due to the low availability of innovative materials in short term and the strong existing agreements between providers and other companies demanding innovative materials; it could affect the revenues, and it would require to develop long-term purchase agreements with suppliers of recycled materials, and to invest in different areas of innovation as well.</p>
Acute physical	<p>The risk of acute physical events is a more disruptive risk of consumption than of production, due to the type of company, because the cosmetics industry works with high contribution margins, which is why it is more affected by the disruption in consumption. Likewise, with respect to production, this risk is not relevant for ISDIN's activity because the company does not have warehouses or production factories in geographical areas identified for acute physical risks, so that there is no risk for stopping its activity due to these events. This risk could affect ISDIN's suppliers, but the storage policy to reduce the scarcity risk implemented by ISDIN for its Spanish warehouse makes this risk irrelevant for production.</p> <p>An example of a disruption in consumption due to an extratropical storm was the one that caused severe flooding in Peru in 2017, affecting sales for 2 months. This example served as the basis for the risk analysis. During the months of January and March 2017, the floods in Peru caused by the El Niño Phenomenon affected 1.9 million people. This produced a significant loss of sales to ISDIN. Specifically, 20% of sales during the months of January and February did not achieve a "rebound effect" in subsequent months and are considered lost. Using this example, we were able to quantify and extrapolate the impact on other developing countries that are prone to similar phenomena due to similar orography and level of resources and infrastructure. However, we cannot apply the same extrapolation to the impact of extratropical phenomena in developed countries since, in the real examples that we have seen (e.g. floods in Germany in July 2021 or the Gloria storm phenomenon in January 2020 that affected Spain and the south of France strongly, being considered the hardest storm to hit Spain since January 1982) the effects on sales were</p>

Risk category	Relevance and inclusion
	temporary and recovered in the following days due to the rapid response and recovery of normality, having more means and better infrastructures.
Chronic physical	<p>Changes in precipitation patterns and extreme variability in weather patterns are a relevant risk for ISDIN because they can affect its business in different ways: on one hand they can affect the availability of raw materials obtained from natural sources in high exposed zones to extreme weather variability, and this decreasing availability reflects in the increasing of its price. On the other hand, they can cause a variability in the consumers behavior, affecting the sale of products (like sunscreens, for example).</p> <p>An example of this risk is that sustainable palm oil used by ISDIN is sourced from areas with a high exposure to the chronical change in intensity and duration of El Niño weather pattern (Indonesia and Malaysia); the extreme changes in rainfall level either below or above the average significantly affects the productivity, so that sustainable palm oil derived ingredients for our products could be subjected to price increasing.</p> <p>Another example of risk is related to the high risk of drought and desertification in Spain, in short, medium and long term, especially in the regions where the production occurs (Valencian and Catalonia Community). This risk could affect the company in different ways: through increased operating costs for inadequate water supply, through increased cost of water, or through the reduction of sold products for the delay in production caused by water rationing for industries. Now, this risk is difficult to quantify, due to the high variability in the price of water, and to reactive policies during drought peaks, not always affecting industries. As the risk of drought is very high for Spain, this risk will be assessed continuously, as we consider that in the near future it could have a considerable impact for the company.</p>

Metrics for monitoring climate risks and opportunities

As a part of the implementation of the TCFD recommendations, a set of metrics have been established that allow to assess climate-related risks and opportunities and make a follow up of the main risks and opportunities analyzed.

The risks analyzed to mitigate or to follow up and the consequent metrics defined to measure and manage risk are listed in the table below:

Table 11. Metrics for monitoring climate risks.

CLIMATE RISK TO MITIGATE / FOLLOW UP	METRIC TO MEASURE AND MANAGE THE RISK
(1T) Increased OPEX due to Carbon pricing policies	<ul style="list-style-type: none"> CO2 price for industry in all countries where ISDIN has offices/subsidiaries (€/tonCO2)
(10T) Reduced demand for products due to shift in consumer preferences (formula)	<ul style="list-style-type: none"> Annual sales per type of product/formula (€) Sales curve of products with organic or natural ingredients, cleaner label products and claims, “free from” claims, etc.
(11T) Reduced demand for products due to shift in consumer preferences (packaging)	<ul style="list-style-type: none"> Annual sales per type of packaging (€)
(20P) Extratropical storm episodes affecting sales	<ul style="list-style-type: none"> Number of extratropical storm episodes per country Sales during the two months following the event, compared to those of the previous year in the same period
(6T) Increased costs due to transition to low carbon technologies	<ul style="list-style-type: none"> Average price of electric vehicle (€/vehicle) Average price of recharging point (€/recharging point) Investment in electric vehicles (€) Investment in charging points (€) Electricity price (€/kWh) Commercial fleet energy cost (€)
(8T) Cost to invest in new packaging	<ul style="list-style-type: none"> Packaging cost – plastic (€/kg) Packaging cost – cardboard (€/kg) Packaging cost – glass (€/kg) Packaging cost – aluminium (€/kg)

The opportunities to capture that were analyzed and the consequent metrics defined to measure and manage them are listed in the table below:

Table 12. Metrics for monitoring climate opportunities.

CLIMATE OPPORTUNITY TO CAPTURE	METRIC TO MEASURE AND MANAGE THE OPPORTUNITY
(20) Use of more efficient modes of transport/distribution processes	<ul style="list-style-type: none"> CO2 emissions per km and weight transported (gCO2/km·tn) in maritime transport CO2 emissions per km and weight transported (gCO2/km·tn) in road transport

	<ul style="list-style-type: none"> • Share flights (% number air transport/number of air and maritim transport)
(6O) Shift in consumer preferences	<ul style="list-style-type: none"> • Revenues from sustainable products

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