



Natura Cosméticos  
**Sustainability-Linked Bond  
Report**

November 2022

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# 1. Introduction

## 1.1 Background and missions

Natura Cosméticos S.A. ("Natura Cosméticos" or the "Company") was founded in Sao Paulo, Brazil in 1969 and in just over 50 years has grown into Brazil's largest multinational player in the cosmetics sector. Natura Cosméticos is a wholly owned subsidiary of Natura &Co Holding ("Natura &Co"), the fourth-largest pure play beauty group in the world made up of four iconic beauty companies: Avon, Natura, The Body Shop and Aesop. Natura &Co Holding had a consolidated net revenue of R\$40.16bn in 2021, employs over 30,000 people, and operates in more than 100 countries.

## 1.2 2021 SLB Issued by Natura Cosméticos

In May 2021 Natura Cosméticos successfully issued a US\$1 billion Sustainability Linked Bond. This represented the largest of its kind to be issued in Latin America. It includes GHG intensity reduction and an increase in use of PCR plastic in product packaging. These goals align with Natura &Co's Commitment to Life 2030 Sustainability Vision by supporting efforts to address the climate crisis and embrace circularity. The bond marks Natura &Co's consistency in connecting financial targets with environmental targets.

## 1.3 Rationale for issuing Sustainability-Linked Bonds

To demonstrate our commitment to sustainability and to concretely link our financing to core objectives of Natura &Co's 2030 Sustainability Vision, Natura Cosméticos developed a Sustainability-Linked Bond ("SLB") Framework in accordance with the Sustainability-Linked Bond Principles ("SLBP") 2020, as administered by the International Capital Markets Association ("ICMA"). **The following five components form the basis of the Framework:**

1. Key Performance Indicators ("KPIs")  
.....
2. Sustainability Performance Targets ("SPTs")  
.....
3. Bond Characteristics  
.....
4. Reporting  
.....
5. Verification

## 2. Natura Cosméticos Sustainability-Linked Bond Framework

This Framework outlines our approach to issuing SLBs. Prior to issuance, Natura Cosméticos may use a selection of one or more of the following KPIs, which are core, relevant and material to the Company's business. There is no assurance that the proceeds of any SLB will be allocated toward green or social projects. The KPIs and SPTs set out in this Framework will remain applicable throughout the tenor of any security issued under the Framework, regardless of any changes to the sustainability strategy of Natura Cosméticos. Any new or updated Sustainability-Linked Bond Framework, related or not to any future capital markets transactions, shall not have any effects on the SLBs issued under this Framework.

### 2.1 Key Performance Indicators (KPIs)

**Boundary definition for KPI measurement:** Natura &Co's 2030 Sustainability Vision, Commitment to Life, is designed to address the climate crisis and protect the Amazon, to defend human rights and be human-kind, and to embrace circularity and regeneration. The KPIs defined in this section (2.1) apply to the Natura Cosméticos business, excluding Avon, The Body Shop and Aesop. The perimeter of the KPIs may change if there is a material change to the Natura Cosméticos business, such as through a material acquisition or divestiture of assets.

**Rationale:** Natura Cosméticos represents the most material portion of the holistic business (Natura Cosméticos, The Body Shop and Aesop). In 2020, the year preceding the issuance of the SLB, Natura Cosméticos made up 75% of the total units of products sold.

#### **KPI #1: SCOPES 1, 2 & 3 GHG EMISSIONS INTENSITY**

*(In tonnes CO<sub>2</sub> per tonnes product billed)*

**Definition and methodology for KPI measurement:** Scope 1 GHG emissions represent direct emissions, Scope 2 GHG emissions represent indirect emissions from the acquisition of energy and Scope 3 GHG emission represents all other upstream (all company activities and suppliers) and downstream (consumers, waste disposal, etc.) emissions. Natura Cosméticos complies with GHG Protocol 5 standards and the principles of Brazil's ABNT NBR ISO 14064-1 standard, which establish rules for their conception, development, management and elaboration.

**This KPI is aligned with the following United Nations Sustainable Development Goals ("UN SDGs"):**

- SDG 7: Affordable and Clean Energy. Target 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix. Target 7.3 By 2030, double the global rate of improvement in energy efficiency;
- SDG 9: Industry, Innovation and Infrastructure. Target 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries acting in accordance with their respective capabilities.

**Our footprint:** 96% of Natura Cosméticos carbon footprint is from Scope 3 emissions, with Scope 1 & 2 making up 2% respectively.

## **KPI #2: POST-CONSUMER RECYCLED ("PCR") PLASTIC USED IN PLASTIC PRODUCT PACKAGING**

*(in %)*

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**Definition and methodology for KPI measurement:** the proportion of absolute post-consumer recycled plastic used in finished product plastic packaging in relation to total absolute amount of plastic packaging materials. This KPI is applicable to Natura Cosméticos' entire product portfolio.

This KPI also advances Natura Cosméticos More Beauty, Less Waste cause in which we invite our consumers and society in general to reflect on their choices and habits beyond the consumption of our products.

**This KPI is aligned with the following United Nations Sustainable Development Goal ("UN SDGs"):**

- SDG 12: Responsible Consumption and Production. Target 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.

**Scope:** Plastic is the most widely used packaging product in our portfolio and the second most used in volume. In 2020, packaging represented 27% of Natura Cosméticos' waste, which amounts to 11,178 tonnes of material.

## 2.2 Sustainability Performance Targets (SPTs)

**Baseline for SPTs:** 2019 is used as the baseline by Natura Cosméticos for the SPTs. 2019 was chosen because business performance in 2020 was considered an outlier due to the effects of the COVID-19 pandemic. As a result of COVID19, our business experienced a significant increase in demand for basic hygiene products (hair and body care, soaps and refills). When compared to luxury products, basic hygiene products have a lower carbon footprint as they generally use lighter packaging. Additionally, over the past few years we have made disproportionate progress in incorporating PCR and green plastic into the packaging of basic hygiene products, relative to other products in our portfolio. Finally, in 2020, as a result of the COVID-19 pandemic, we decreased energy consumption, global air travel, executive fleet and private transportation emissions, and reduced the number of printed catalogues and catalogue pages given our focus on basic hygiene products.

### 2.2.1 SPT #1: Reduce Scopes 1, 2 & 3 GHG emissions intensity by 13% by 2026 (baseline year: 2019)

This reduction target is science-based and an interim target on Natura Cosméticos' path towards net zero GHG emissions by 2030, aligned with a global temperature rise of 1.5 °C. In Natura &Co's Sustainability Vision 2030 the company commits to all brands making this transition by 2030.

#### Historical Performance:

Year	2019 Baseline	2020	2021 Reported year <sup>4,5</sup>	2026 Target year
Relative emissions (tonnes CO <sub>2</sub> e/tonnes of product billed) <sup>1,2,3</sup>	3.18	2.85	2.80	2.76
Reduction in emission intensity (%)	0%	10.4%	11.9%	13%

<sup>1</sup>. Considers Scope 1, 2 and 3 emissions, adopting a location approach for Scope 2. <sup>2</sup>. The calculations cover the gases CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O and HFCs. <sup>3</sup>. The greenhouse gas emissions inventory takes into account emissions from all stages of our operations, from the extraction of raw materials, through our processes and those in our production chains, to the final disposal of post-consumer packaging. We comply with GHG Protocol standards and the principles of Brazil's ABNT NBR ISO 14064-1 standard, which establish rules for conception and development. The inventory does not take into account operations in France, the United States and Malaysia. <sup>4</sup>. Result published in Natura &Co Latam's annual report at GRI 305-4 GHG emissions intensity - Natura (page 65) <sup>5</sup>. In 2021, the Natura GHG emissions inventory was audited by PwC

**Natura Cosméticos implemented the following measures to reduce GHG emissions intensity:**

- Increased the portfolio of lower impact products (focusing on PCR incorporation);
- Decreased the carbon footprint of higher impact products (particularly effective for mass products in perfumery category)
- Increased the digitalization of sales channel (moving towards the future of direct sales, in line with GHG intensity reduction);
- Improved logistics efficiency and optimization (Natura &Co integration process already optimizes routes and distribution).

Although we have achieved good results through the actions above, export emissions have increased due to an increase in demand.

**Emissions intensity disclosure per key process:**

<b>Process</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Products (packaging and raw material)	57,1%	59,2%	60,2%
Distribution	11,9%	12,1%	11,5%
Exports	4,7%	6,6%	6,7%
Printed & support material	16,8%	15,1%	13,7%
Others	9,6%	7,0%	7,8%

**2.2.1.1 Climate Transition Action Plan**

Continuing our decarbonization strategy, this year we set up decarbonization workstreams within departments responsible for the majority of our footprint (R&D, Procurement, Logistics, Facilities and Printed Materials). These workstreams are responsible for evaluating and implementing different mitigation projects, aligned with the strategic planning of our business. In order to help decision making, we have established a partnership with SINAI Technologies for three main objectives: digitalize our GHG Inventory; evaluate and compare mitigation projects using Marginal Abatement Cost Curves (MACCs) to define the optimal resource allocation in terms of carbon reductions; and further analyze adopting premises to build transition scenarios alongside business evolution for the coming years.

## 2.2.2 SPT #2: Reach 25% of PCR plastic usage in plastic product packaging by 2026

Natura Cosméticos is a leader in packaging innovation and this is an interim target to achieving 50% PCR plastic used across all brands by 2030, as set out in Natura &Co's Sustainability Vision 2030. Additionally, this target is aligned with Natura Cosméticos' actions under the Ellen MacArthur Foundation's New Plastics Economy Global Commitment.

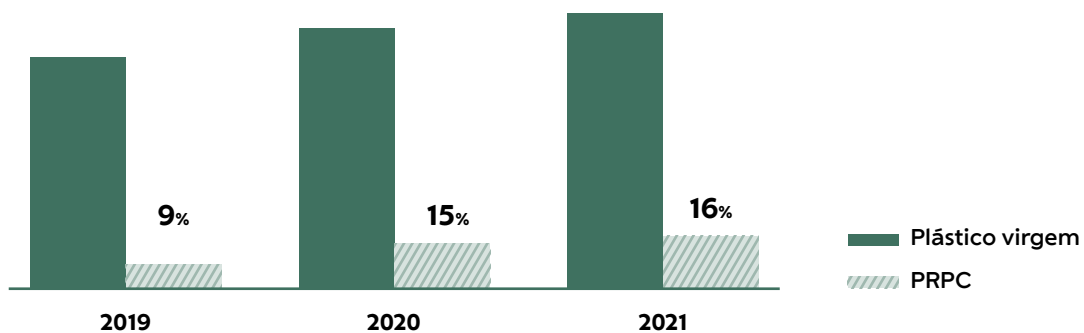
### Historical Performance:

Year	2018	2019 Baseline	2020 <sup>2</sup>	2021 Reported year <sup>3,4</sup>	2026 Target year
PCR plastic used in finished plastic product packaging (%) <sup>1</sup>	5%	9%	15%	16%	25%

### Natura Cosméticos implemented the following measures to increase absolute post-consumer recycled plastic used:

- Incorporated PCRs PET in additional product categories which are currently using virgin plastic;
- Increased the percentage of recycled PET in products already using this material in packaging.

We have also been working to expand the incorporation of recycled polypropylene (PP) in products which use virgin polypropylene, and to develop and technically validate the use of recycled polyethylene (PE) in product packaging.



1. Percentage of post-consumer recycled material (PCR) mass in relation to total mass of packaging material, weighted by the quantity billed 2. 2020 results previously published as 16% 3. Result published in Natura &Co Latam annual report at GRI 301-2, SASB CG-HP-410a. Recycled input materials used (%) – Natura (page 113) 4. In 2021, the Waste inventory was audited by PwC



**Challenges to achieve SPT #2:** PCR supply chain operations were heavily impacted by COVID19, in response to which Natura Cosméticos established a recovery action plan. However, the impacts of COVID-19 continued to be felt into 2021, which proved a challenging year with regards to PCR material.

#### **2.2.2.1 Action plan:**

##### **Future actions to continue increasing PCR plastic consumption include**

1. Increase PCR plastic content in products already using recycled plastic (p.e: substitution of 30% recycled PET bottle to 100% recycled PET bottle);
2. Develop new recycled resins options, such as polypropylene (PP) which currently accounts for 28% of plastic consumption but has no recycled content. This represents the main strategy to reach our goal and
3. Reduce plastic consumption by growing refill sales, thereby increasing PCR plastic volume/percentage in our overall results.

### **3. Appendix:**

1. PwC assurance letter

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2. Annual report pg 65

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3. Annual report pg 113