

# SECOND PARTY OPINION

## on Natura Cosméticos' Sustainability-Linked Bond Framework

V.E is of the opinion that Natura Cosméticos' Sustainability-Linked Bond Framework is aligned with the core components of the Sustainability-Linked Bond Principles (SLBP) 2020. ✓

### Framework

	Weak	Limited	Robust	Advanced	Characteristics	
KPI's Relevance	[Bar]				Audit of the Data	Yes
Target's Ambition	[Bar]				Three-year Historical Data	Yes
SDG Mapping					Nature of the Impacts on the Bond's Characteristics	Financial
					Disclosure of measures to achieve the SPT(s)	Yes

### Sustainability Performance Target (SPT)

#### KPI 1: GHG emissions intensity (scope 1,2 and 3)

- The target is to reduce the Issuer's GHG emissions intensity (tonnes of CO2e per tonnes of product billed) by 13% by 2026 compared to a 2019 baseline.

#### KPI 2: PCR plastic used in plastic packaging (%)

- The target is to increase the percentage of post-consumed recycled plastic in plastic packaging to 25% by 2026.

	2019 (Baseline)	2020	2026*
KPI 1	3.18	2.85	2.76
KPI 2	9%	16%	25%

\*Trigger event

### Issuer

#### Controversial Activities

- |   |  |   |  |
|---|--|---|--|
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Fossil Fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography             |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Coal                  | <input type="checkbox"/> Human Embryonic Stem Cells | <input type="checkbox"/> Reproductive medicine   |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Gambling              | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Civilian firearms    | <input type="checkbox"/> Genetic engineering   | <input type="checkbox"/> Nuclear power              | <input type="checkbox"/> Tobacco                 |
| <input type="checkbox"/> Alcohol              |  |   |  |

#### ESG Controversies

Number of controversies	None
Frequency	NA
Severity	NA
Responsiveness	NA



## Keys findings

V.E is of the opinion that Natura Cosméticos’ Sustainability-Linked Bond Framework is aligned with the core components of the Sustainability-Linked Bond Principles (SLBP) 2020.

### Selection of the Key Performance Indicator (KPI) – aligned with the SLBP

- The KPIs are relevant and material from an environmental standpoint.
- The KPIs are measurable, externally verified and can be benchmarked.
- The KPIs’ definition, the rationale behind their selection, the calculation methodologies and coverage are clearly defined.

### Calibration of the Sustainability Performance Target (SPT) – aligned with the SLBP

- The SPTs demonstrates an advanced level of ambition.
- The timeline, baseline and trigger events are clearly disclosed.
- The means to achieve the SPTs are clearly disclosed.

### Bond Characteristics – aligned with the SLBP

- The nature of the bond characteristics’ variation is clearly disclosed.
- The Issuer commits to disclose the actual financial impact in the bond documentation for each issuance.

### Reporting– aligned with the SLBP and best practices identified by V.E

- The internal control and reporting processes are relevant, transparent and support the provision of reliable data.
- The Issuer commits to annual reporting on all relevant information related to the KPIs and its associated SPTs, including results, underlying methodologies and assumptions.

### Verification– aligned with the SLBP

- The KPIs will be externally verified on an annual basis.
- The achievement of the SPTs will be externally verified at least on an annual basis and the verification assurance reports will be made publicly available.

## Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of KPI(s) reported data
<input checked="" type="checkbox"/>	Independent verification of SPT(s) achievement		

## Contact

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## SCOPE

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V.E was commissioned to provide an independent opinion (hereafter “Second Party Opinion” or “SPO”) on the integration of 2 environmental factors to the Sustainability-Linked Bond(s) (the “Bond(s)”) issued by Natura Cosméticos S.A. (“Natura Cosméticos” or the “Issuer”) in compliance with the Sustainability-Linked Bond Framework (the “Framework”) created to govern their issuances. The Framework aims to highlight both the Issuer’s sustainability strategy and sustainable finance strategy while demonstrating its alignment with the ICMA’s Sustainability-Linked Bond Principles. In addition, the Framework includes the Issuer’s commitment to achieve specific targets (“Sustainability Performance Targets” or “SPTs”) regarding two environmental key performance indicators (hereafter the “KPIs”) proposed as part of its sustainability strategy.

The debt instruments included in the Framework are intended to finance general corporate purposes, as opposed to other sustainable financial instruments such as green/social bonds or green/social loans. The facilities are agnostic on how funds are used. The main feature of this type of financing is the variation of the bond’s financial characteristics, depending on whether the Issuer achieves predefined sustainability performance objectives.

For these so-called Sustainability-Linked Bonds, the selected KPI(s) to be linked to the variation of the bonds’ financial characteristics is/are the following:

- KPI 1: Greenhouse gas (GHG) emissions intensity, in tonnes of CO<sub>2</sub> per tonnes of billed product (Scope 1, 2 and 3, excluding the use phase) with the following target and trigger event:
  - o SPT 1: Decrease Natura Cosméticos’ GHG emissions intensity (tonnes of CO<sub>2</sub>e per tonnes of product billed) by 13% by 2026, compared to a 2019 baseline, equivalent to reach 2.76 tonnes of CO<sub>2</sub>e per tonne of product billed.
- KPI 2: Post-consumed recycled (PCR) plastic used in finished product plastics packaging (%) with the following target and trigger event:
  - o SPT 1: Increase percentage of PCR plastic in product plastics packaging to 25% by 2026.

Our opinion is established using V.E Environmental, Social and Governance (“ESG”) assessment methodology and the International Capital Market Association’s (ICMA) Sustainability-Linked Bond Principles (“SLBP”), voluntary guidelines, published in June 2020. This opinion is strictly limited to the integration of two environmental factors in the Bonds. This opinion does not cover the integration of broader sustainability factors (i.e. social and governance), or the labelling of the Bonds where the final decision is left to Natura. This opinion does not constitute a verification or certification.

Our opinion is built on the review of the following components:

1. Framework/Issuance: we assessed the Framework’s alignment with the core components of the SLBP 2020.
2. Issuer: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>1</sup>.

Our sources of information are multi-channel, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from V.E exclusive ESG rating database, and (iii) information provided by the Issuer through documents.

We carried out our due diligence assessment from March 31, 2021 to April 16, 2021. We consider that we were provided with access to all the appropriate documents we solicited. Reasonable efforts have been made to verify data accuracy.

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<sup>1</sup>The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

# FRAMEWORK

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The Issuer has described the main characteristics of the Bonds within a formalised Framework which covers the core components of the SLBP 2020 (the last updated version was provided to V.E on March 30, 2021). The Issuer has committed to make this document publicly accessible on its website at the first issuance date, in line with good market practices.

## Alignment with Sustainability-Linked Bond Principles

### Selection of the Key Performance Indicators (KPIs)



### COHERENCE

V.E considers that the selected KPIs are coherent with Natura Cosméticos' strategy and priorities in terms of sustainability. Natura & Co holding, the parent company of Natura Cosméticos, released in June 2020 its sustainability strategy "Commitment to Life", which defines the company's commitments in terms of social and environmental impact for the next 10 years (towards 2030). The Commitment to Life strategy addresses some of the key sustainability issues of the Issuer, including the climate crisis and protection of the Amazon, ensuring equality and inclusion, and the shift of its business towards circularity and regeneration.

Regarding climate change mitigation, the Commitment to Life strategy includes specific targets such as:

- To deliver on the 1.5°C target 20 years before the UN Commitment.
- To have all its emissions targets verified by the Science Based Targets initiative (SBTi), covering all Natura & Co brand (including scope 1, 2 and 3) by the end of 2021.




In terms of circularity and regeneration, the Natura & Co has also set specific goals and targets:

- To reduce packaging material by 20% or more (in weight).
- To have 50% of all plastic used made of recycled content (in weight).
- To have 100% of its packaging made of reusable, recyclable or compostable material.
- To offset through "collection and reuse" programs to reach 100% responsible disposal where recycling infrastructure is not available.

In order to achieve these goals, Natura & Co Holding plans to make a USD 100 million investment in developing regenerative solutions such as biotechnology, regenerative agriculture and creation of revenue streams.

## SDG CONTRIBUTION

The selected KPIs are likely to contribute to two of the United Nations’ Sustainable Development Goals (“SDGs”), namely:

KPI	SDG	SDG TARGETS
PCR PLASTIC USED IN PRODUCT PLASTIC PACKAGING		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 taking action in accordance with their respective capabilities.
		12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
GHG EMISSIONS INTENSITY		UN SDG 13 consists of taking urgent action to combat climate change and its impacts. Corporates can contribute to this goal by investing in reducing greenhouse gas emissions from its operations.

### KPI 1: GHG EMISSIONS INTENSITY (SCOPE 1, 2 AND 3)

#### MATERIALITY

The company has disclosed its materiality matrix and the KPI reflect one of the most material issues identified by the company in the materiality matrix. In addition, the selected KPI reflects as well one of the most relevant sustainability challenges for its industry sector.

The impacts of climate change driven by energy consumption and the related emissions is considered to have irreversible impacts on the environment. In its landmark 2014 report, the United Nations Intergovernmental Panel on Climate Change (IPCC) confirmed that the planet appears locked on an irreversible course of climatic disruption from the buildup of greenhouse gases in the atmosphere. The report expresses with greater certainty than in previous assessments the fact that GHG emissions and other anthropogenic drivers have been the dominant cause of observed warming since the mid-20th century. The IPCC Synthesis Report<sup>2</sup> confirmed that climate change is being registered around the world and warming of the climate system is unequivocal. Since the 1950s many of the observed changes are unprecedented over decades to millennia. “Our assessment finds that the atmosphere and oceans have warmed, the amount of snow and ice has diminished, sea level has risen and the concentration of carbon dioxide has increased to a level unprecedented in at least the last 800,000 years,”.

According to the OECD Guidelines for Multinational Enterprises<sup>3</sup>, companies should fully take into account the established policies of the countries in which they operate. In this regard, companies have to contribute to environmental progress with a view of achieving sustainable development. In addition, companies have to encourage their business partners, including suppliers and subcontractors, to apply the principles contained in the OECD Guidelines.

Natura’s Annual Report includes a materiality matrix which identifies “climate change and reduction of GHG emissions” as material issues.<sup>4</sup>

<sup>2</sup> IPCC Synthesis Report on Climate Change - RK. Pachauri

<sup>3</sup> <http://mneguidelines.oecd.org/guidelines/>

<sup>4</sup> Natura Annual Report 2019 – p201

## MEASURABILITY AND VERIFICATION

The KPI is measurable and externally verified. The calculation methodology is consistent, it has not evolved since data was reported in 2017, and in case of any methodology change (including changes in perimeter, KPI methodology, SPT calibration etc.), the issuer commits to post-issuance external review of the relevant changes.<sup>5</sup>

The KPI is currently reported in the Issuer's Annual Report which is externally audited since at least 2007.

## CLARITY

The KPI is clearly defined and publicly disclosed in the Framework.

Scope 1 GHG emissions represent direct emissions, Scope 2 emissions represent indirect emissions from the acquisition of energy and Scope 3 represents all other upstream (all Issuer activities and suppliers) and downstream (consumers, waste disposal, etc) emissions. Natura Cosméticos complies with GHG Protocol<sup>6</sup> standards and the principles of Brazil's ABNT NBR ISO 14064-1 standard, which establish rules for their conception, development, management and elaboration.

## EXHAUSTIVENESS

The KPI is exhaustive as the it covers 75.1% of Issuer's units of products sold<sup>7</sup>.

## KPI 2: PCR PLASTIC IN PLASTIC PACKAGING

### MATERIALITY

The company has disclosed its materiality matrix and the KPI reflects one of the most material issues identified by the company in the materiality matrix. In addition, the selected KPI reflects as well one of the most relevant sustainability challenges for its industry sector.

Packaging makes a valuable contribution to businesses activities by protecting products, thus preventing product loss and/or degradation. The challenge for packaging designers is to maintain or enhance the consumer acceptance and quality of the packaging, while supporting sustainability objectives.<sup>8</sup>

In terms of waste management, the optimum mix of waste management techniques (reuse, recycling, incinerating with energy recovery or composting) will depend upon a variety of factors including infrastructure and consumer habits, the degree of investment made in modern separation and processing systems, as well as the type and makeup of the packaging itself. The material choices and design should be such that encourage and enable consumers and municipalities to maximise appropriate collection and disposal at the market level.

In a circular economy, products and components are to be made from as much recycled content as possible (where legally and technically possible). This enables a reduced dependence on virgin (fossil) feedstocks, and creates a demand-pull for recycled plastics, sending a clear signal stimulating investments in the collection, sorting, and recycling industry.<sup>9</sup>

<sup>5</sup> The Issuer states with the process of equalization of inventories due to the integration of Natura & Co Latam there's a possibility of scope revision and methodological assumptions taken into account.

<sup>6</sup> Brazilian GHG Protocol: <https://ghgprotocol.org/>

<sup>7</sup> The coverage does not include the Aesop and The Body Shop units of product sold.

<sup>8</sup> [https://www.cosmeticseurope.eu/files/4214/6521/4452/GSP\\_Brochure.pdf](https://www.cosmeticseurope.eu/files/4214/6521/4452/GSP_Brochure.pdf)

<sup>9</sup> New Plastics Economy Global Commitment – commitments, vision and definitions – February 2020.

Natura's Annual Report includes a materiality matrix which identifies "waste and development of lower impact packaging" as material issues.

#### MEASURABILITY AND VERIFICATION

The KPI is measurable and externally verified. The calculation methodology is consistent, it has not evolved since data was reported in 2017, and in case of any methodology change (including changes in perimeter, KPI methodology, SPT calibration etc.), the issuer commits to post-issuance external review of the relevant changes. The KPI is externally verifiable.

The Issuer states that the Annual Report (which has been audited) discloses only total recycled material usage (including other types of materials like glass and paper). However, recycled plastic can be audited separately.

#### CLARITY

The KPI is clearly defined and publicly disclosed in the Framework.

The KPI is the proportion of absolute post-consumed recycled (PCR) plastic used in finished product plastic packaging in relation to total absolute amount of plastic packaging materials. Percentage of PCR is a recognized metric in the packaging industry.

The Issuer explains in its Framework that in order to prioritise renewable or recyclable material, as well as reducing packaging material volume, it has adopted a systemic approach to diminishing its environmental footprint, using and reusing materials already present in the production process.

#### EXHAUSTIVENESS

The KPI is exhaustive as it covers 74% of Issuer's total plastic consumption<sup>10</sup>.

#### BEST PRACTICES

- ⇒ The company has disclosed its materiality matrix and the KPIs reflect the most material issues identified by the company in the materiality matrix.
- ⇒ The Issuer is communicative on the rationale and process for KPI selection, which are considered clearly defined.
- ⇒ The Issuer considers conducting a post-issuance review (which will be made available to bondholders) in case of material changes to the KPI's coverage, calculation methodology, and in particular the SPT calibration.
- ⇒ The KPI(s) definition relies on external references allowing their benchmark.
- ⇒ The KPIs were previously disclosed and have historical externally verified KPI values covering at least the previous 3 years.

<sup>10</sup> The coverage does not include the Aesop and The Body Shop plastic consumption.



### Calibration of the Sustainability Performance Targets (SPTs)



#### AMBITION

##### KPI 1: GHG EMISSIONS INTENSITY

By using the value of GHG emissions intensity per year, the data set should fairly show positive or negative KPI trend, reflecting the Issuer’s commitment to fight climate change, thus enabling investors to make an appropriate assessment of the overall environmental performance.

**Table 1 –GHG emissions intensity Scope 1,2 and 3 (measured in tonnes of CO<sub>2</sub> per tonne of product billed)**

KPI	REPORTED DATA				OBJECTIVES
	2017	2018	2019 (Baseline)	2020	2026*
	3.20	3.14	3.18	2.85	2.76
Annual variation (%)	NA	-1.9%	+1.3%	-10.4%	
GHG emissions intensity reduction (in comparison to the baseline)				-13.2%	
Average annual variation in the period (%)	-0.3%				
				-2.0%	

\*Trigger event

Based on several points of comparison, we consider that Natura Cosméticos’ target demonstrates a robust<sup>11</sup> level of ambition.

The SPT is consistent with the Issuer’s existing targets set in its overall sustainability strategy. The objective is to reach a GHG emissions intensity of 2.76 tonnes of CO<sub>2</sub> per product billed by 2026. This represents a 13.2% reduction of GHG emissions intensity compared to its baseline (2019) and is in line with the Issuer’s a long-term objective of reaching net zero emissions by 2030.

#### Business-as-usual Trajectory Benchmark Analysis

The SPTs demonstrate a advanced level of ambition compared to the Issuer’s BaU performance. The Issuer has provided historical data on the KPI, which indicates that there has been a discontinuous decrease of GHG emissions intensity over the years. Data shows that emissions intensity decreased by 0.6% between 2017 and 2019 (baseline), while the expected reduction between 2019 and the target year 2026 is of 13.2%. On the other hand, the data shows the Issuer had an average annual reduction of its GHG emissions intensity of -0.3% for the period 2017-2019, while the expected annual

<sup>11</sup> V.E scale of assessment: Weak / Limited / Robust / Advanced



average variation from the baseline to the target (2019-2026) would be of -2.0% in average. Therefore, the SPT can be considered a material improvement compared to the BaU performance in previous years.

Of note, results of the year 2020 are distorted by the effects of the COVID 19 pandemic in terms of GHG emission and the operations of Natura Cosméticos. Please consider the analysis of 2020 data as referential, because due to the context, it was not included in the V.E's Business as Usual score assessment.

### Sector Peers Benchmark

The SPT shows an advanced level of ambition compared to sector peers' performances. Other companies in the sector have disclosed similar targets, but in terms of absolute emissions reductions. For example, L'Oréal set a target to reduce its absolute emissions by 25% by 2030 compared to a 2016 baseline<sup>12</sup>, while Coty disclosed a target to reduce its absolute emissions by 30% by 2030 compared to 2017<sup>13</sup> (both companies' targets including scope 1, 2 and 3 emissions). Although the SPT set by Natura is based on its emissions intensity (not absolute emissions) the Issuer has set this SPT as an intermediary milestone to reach net zero emissions by 2030, which is the same global target set by L'Oréal.<sup>14</sup> Overall, the SPT appears to be in line with the targets set by the Issuer's main competitors and best performers in the sector.

### Official International Targets and Scenarios Benchmark Analysis

The SPT shows an robust level of ambition compared to sector standards. The Issuer reports the SPT represents an intermediate target towards its commitment to reach net zero emissions by 2030. Natura &Co, has committed to align its GHG emissions targets with the 1.5° scenario and having their global GHG emission reduction targets verified by the SBTi, which is expected to publish verified targets which cover all brands (including Natura Cosméticos) by the end of 2021.

### MEASURES TO ACHIEVE THE SPT

The measures for achieving the SPTs are credible, detailed and disclosed in the Framework. The Issuer reports it has developed and will continue to work in different initiatives to achieve the SPT, including:

- Increase the portfolio of lower impact products (PCR incorporation, reusable solutions, regenerative ingredients)
- Use more renewable energy (investments in energy efficiency and clean energy such as I-RECs and PPAs for solar/wind power)
- Reduction in air freight for exports (group integration process should amplify our capacity to manufacture at countries reducing the need of exports)
- Improve logistics efficiency & optimization (group integration process already optimizes routes and distribution, investments will be needed to electrify fleet and expand the use of biofuels)
- Increase the digitalization of sales channel (moving towards the future of direct sales in line with GHG intensity reduction)
- Implement an internal carbon price to evaluate reduction projects

<sup>12</sup> <https://www.loreal-finance.com/en/annual-report-2019/responsibility-1-4-0/how-do-we-achieve-carbon-neutrality-1-4-3/>

<sup>13</sup> <https://www.coty.com/sustainability/beauty-of-our-planet>

<sup>14</sup> In 2017, L'Oréal adopted this commitment to achieve carbon neutrality at all its sites by 2025 (production plants, administrative offices and research centres).

## KPI 2: PCR PLASTIC USED IN PRODUCT PLASTIC PACKAGING (%)

By using the share (%) of post-consumed recycled plastic used in product plastic packaging per year, the data set should fairly show positive or negative KPI trend, reflecting the Issuer's commitment to manage its waste and contribute to the circularity of its packaging, thus enabling investors to make an appropriate assessment of the overall environmental performance.

**Table 2 –PCR plastic used in product plastic packaging (%)**

KPI	REPORTED DATA			OBJECTIVES
	2018	2019 (Baseline)	2020	2026*
	5%	9%	16%	25%
Increase of PCR share in plastic packaging (percentage points)	NA	+4	+7	+9
	+11			
	+16			
Average annual increase of PCR share in plastic packaging (percentage points)	+5.5			
	+2.3			

\*Trigger event

Based on several points of comparison, we consider that Natura's target demonstrates a advanced<sup>15</sup> level of ambition.

The SPT is consistent with the Issuer's existing targets set in its overall sustainability strategy. The objective is to reach a share of post consumed recycled (PCR) plastic in product plastic packaging of 25% by 2026. This represents an increase of 16 percentage points compared to the baseline (2019). The SPT appears to be in line with the targets of most sector peers and with the Natura & Co's global commitment to have 50% of all plastic used made of recycled content (in weight) by 2030.

### Business-as-usual Trajectory Benchmark Analysis

The SPT demonstrates a robust level of ambition compared to the Issuer's BaU. The Issuer has provided historical data on the KPI, which indicates that there has been a continuous increase in the share of PCR plastic in its plastic packaging. The share of PCR plastic in the product plastic packaging increased 11 percentage points between 2018 and 2020, in average an increase of 5.5 percentage points per year. Following the Issuer's 2026 target, the share of PCR in plastic packaging would increase 16 percentage points compared to the set baseline (2019), which represents an increase of 2.3 percentage points per year in average. Although the annual increase of PCR share in the plastic packaging appears to be higher in previous years, the target demonstrates a relevant increase of the indicator.

<sup>15</sup> VE scale of assessment: Weak / Limited / Robust / Advanced

## Sector Peers Benchmark

The SPT demonstrates a advanced level of ambition compared to sector peers'goals and targets. Natura Cosméticos' target is to increase its share of PCR plastic in its plastic packaging to 25% (in weight) by 2026, a target above the average performance of the best performers. For instance, Beiersdorf set a target to have 25% of recycling material in its packaging in Europe by 2025<sup>16</sup>, while Unilever set a target to increase the recycled content of their packaging to at least 25% by 2025 (compared to a 2015 baseline)<sup>17</sup> and set a broader target to ensuring that all of its plastic packaging is fully reusable, recyclable or compostable by 2025. Estée Lauder disclosed a target to increase the amount of PCR material in its packaging by up to 50% by 2025 (from a fiscal 2019 baseline)<sup>18</sup>, it means, 13.5% of PCR in the packaging by 2025. In general terms, signatories of the Ellen MacArthur Foundation related with the cosmetic industry reported an average of 7.2% of PCR in their packaging in 2019<sup>19</sup>. L'Oréal is aiming to reach 50% PCR and bio-based sources by 2025, with no plastic packaging content from virgin fossil sources by 2030<sup>20</sup>.

## Official International Targets and Scenarios Benchmark Analysis

Based on these local and global commitments, Natura Cosméticos' target demonstrates an advanced level of ambition.

Of note, as of today there are no global sector standards for packaging in the cosmetics sector. Although, there are several commitments at regional level which are driving goals and target setting on a cross-sector level.

The European Plastics Pact has established a commitment to boost recycled plastics use in new products and packaging as much as possible by 2025, with plastics-using company achieving an average of at least 30% recycled plastics by 2025 (in weight) in their range of products and packaging<sup>21</sup>.

In Latin America, some of the countries where Natura Cosmetics has operations and which are signatories of the New Plastic Economy Global Commitment, have established commitments towards the use of PCR plastic by 2025, a 25% of weighted average of post-consumer recycled content for packaged goods and retail. In addition, in the last Global Commitment Progress Report 2020<sup>22</sup>, the foundation has highlighted the good performance of Natura Cosméticos in this regard.

In terms of Latin America regulation, Peru set a target that establishes that as of December 2021, it will be mandatory to use at least 15% post-consumer recycled content in PET bottles for drink and personal care products<sup>23</sup>. Similarly, Chile's Plastic Pact established a general goal to have all plastic packaging containing in average 25% of recycled material by 2025<sup>24</sup>.

## MEASURES TO ACHIEVE THE SPT

The measures for achieving the SPT are credible, detailed and disclosed in the Framework. The Issuer reports in order to achieve the SPT it has implemented and will continue to work on different strategies including:

- Development of new recycled resins such as polyethylene (PE) and expansion of incorporation of PET to other product categories which nowadays use virgin plastic.
- Natura Innovation Challenge – Zero Waste Packaging<sup>25</sup>: Lead by Natura, this initiative consists on an annual open innovation challenge to create packaging solutions. In the latest 2019/2020 version of the challenge Natura reported to have reviewed more than 570 solutions from over 5 countries.
- Development of products that do not require packaging (naked products).
- Increase the percentage of recycled PET in products that already have recycled PET in its packaging.

<sup>16</sup> <https://www.beiersdorf.com/newsroom/press-news/all-news/2019/07/30-beiersdorf-commits-to-sustainable-packaging>

<sup>17</sup> <https://www.unilever.com/news/press-releases/2017/Unilever-commits-to-100-percent-recyclable-plastic.html>

<sup>18</sup> <https://www.elcompanies.com/en/our-commitments>

<sup>19</sup> <https://www.newplasticseconomy.org/assets/doc/Global-Commitment-2020-Progress-Report.pdf>

<sup>20</sup> <https://www.loreal.com/en/commitments-and-responsibilities/for-the-planet/preserving-natural-resources/>

<sup>21</sup> <https://europeanplasticspact.org/wp-content/uploads/2020/03/European-Plastics-Pact-FINAL.pdf>

<sup>22</sup> <https://www.newplasticseconomy.org/assets/doc/Global-Commitment-2020-Progress-Report.pdf>

<sup>23</sup> <https://www.ellenmacarthurfoundation.org/assets/downloads/Global-Commitment-2020-Progress-Report.pdf>

<sup>24</sup> <https://fch.cl/wp-content/uploads/2020/01/roadmap-pacto-chileno-de-los-plasticos.pdf>

<sup>25</sup> <https://innovationchallenge.natura/>

- Expand the incorporation of recycled polypropylene (PP) in products that use virgin polypropylene.
- Develop and validate technically the use of recycled polyethylene (PE) in product packaging
- Natura Elos Programme<sup>26</sup>: a shared responsibility programme involving Natura and its packaging suppliers that aims to ensure traceability, ratification and reverse logistics to recover and build up volume of post consumed recycled materials so it can be incorporated into packaging.

The Issuer is also a signatory of the Ellen Macarthur Foundation's (EMF) New Plastic Economy Global Commitment under which Natura Cosméticos has committed to eliminate problematic or unnecessary plastic packaging, move from single-use towards reuse models and to have 100% reusable, recyclable or compostable plastic packaging by 2025.<sup>27</sup> Natura is also collaborating in the development of the Plastic Pact for Brazil.

#### BEST PRACTICES

⇒ The means for achieving the SPTs are credible and detailed.

<sup>26</sup> <https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/435808>

<sup>27</sup> <https://www.ellenmacarthurfoundation.org/resources/apply/global-commitment-progress-report>

## Bond Characteristics



Natura Cosméticos confirms that the bonds issued under this Framework will be subject to variations in their financial characteristics depending on the achievement of the defined trigger events. The exact mechanism and impacts will be detailed for each bond in the pre-issuance template, and publicly disclosed.

As indicated in the Framework, if the SPT has not been reached at the target observation date, as per the annual reporting published following the target observation date, a premium will be payable by Natura Cosméticos. The mechanism for payment of the premium will be specified in the final terms of the notes and may include an increase in the coupon margin payable.

\*V.E considers that, as of today, there is insufficient information and market precedent to appropriately assess the potential best practices regarding the bond characteristics' variation. In this sense, the "Aligned" level is currently considered to be the highest level to be achieved by Issuers on this pillar. In addition, the meaningfulness of the variation of the SLB's structural and/or financial characteristics of the Bond cannot be assessed due to a lack of comparison data.

## Reporting

Not Aligned

Partially Aligned

Aligned

Best Practices

KPI 1 AND 2

## REPORTING PROCESS

For KPI 1, Natura Cosméticos complies with the principles of Brazil's ABNT NBR ISO 14064-1 standard, which establish rules for their conception, development, management and elaboration of the KPI.

For KPI 2, the Issuer reports that the Annual Report currently discloses only total recycled material usage (including other types of materials like glass and paper), but it does conduct an internal waste inventory and is committed to audit the data for recycled plastic.

The Issuer states it will provide relevant information to investors and other stakeholders about the implementation of Natura Cosméticos sustainability strategy in general, the progress made on the KPIs, and the achievement (or not) of the SPTs set out in its Framework and in the specific documentation of the bonds, in the Natura &Co Investor Relations website.

## CONTROL

KPI data undergoes both internal and external verification.

For KPI 1, the Issuer reports the data collection process is conducted with specific spreadsheets for each source of emissions, and primary or secondary data is used according to the level of accuracy of internal systems. All assumptions and uncertainties are mapped and described for the external validation process that is carried out each year.

For KPI 2, the Issuer reports that the Annual Report currently discloses only total recycled material usage (including other types of materials like glass and paper), but is committed to audit the data for recycled plastic separately.

The responsibility for KPIs are under the Chief Brand, Innovation, International and Sustainability Officer. In terms of technical expertise, the Sustainability Senior Manager is responsible for KPI 1 and R&D Packaging Senior Manager provides technical expertise for KPI 2.

The performance level against each SPT for each KPI will be verified by qualified external reviewer(s) with relevant expertise as described in the Verification section of the Framework.

## ACCESIBILITY OF RESULTS

The reporting will be published annually, for the whole period that is relevant for assessing the SPT and related trigger events. The report will be published on Natura &Co's Investor Relations website after each calendar year-end at least until Natura Cosméticos has reported on the performance of the SPT on the stated SPT observation date for each Sustainability-Linked Finance Instrument. Thereafter, Natura Cosméticos may provide updates related to its GHG emissions and recycled packaging performance through its consolidated annual sustainability reporting at the Natura &Co level.

The intended scope and granularity of the reporting is clear and exhaustive, covering all the required elements. All relevant information is disclosed by the Issuer in public documentation, including information on the performance of KPIs, information enabling investors to monitor the level of ambition of the SPTs and baselines.

## BEST PRACTICES

- ⇒ KPI data undergoes both internal and external verification
- ⇒ The intended scope and granularity of the reporting is clear and exhaustive, covering all the required and recommended elements.
- ⇒ The reporting on the KPIs will be published annually until maturity of the bond.<sup>28</sup>

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<sup>28</sup> The Issuer indicates that the specific KPIs may not be reported, however, GHG emissions & recycled packaging will be reported following the corporate targets related with the corporate challenges in this regard.

## Verification



The Issuer commits to undergo an external verification of the performance of each KPI against each SPT, and the related impact, and timing of such impact, on the instrument's financial characteristics.

The Issuer reports the performance against each SPT for each KPI at the relevant observation date will be verified annually by a qualified external and independent reviewer prior to the relevant publication date of the KPIs. The verification will be conducted with limited assurance and will be made publicly available on the company's Investor Relations website.

The verification will be conducted annually and in case of material changes impacting the instrument's financial characteristics (such as a trigger event), until after the last SPT trigger event of the bond has been reached (2026).

The Issuer indicates that KPIs on 'GHG emissions' and 'plastic used in packaging' targets will be reported after the trigger event. Compared to the KPIs established in the Framework, these KPIs might suffer changes in the scope after the trigger event, however, but they will follow up the corporate objectives in these regards.



# ISSUER

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## Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against Natura Cosméticos over the last four years.

## Involvement in Controversial Activities

The Issuer appear to be not involved in any of the 17 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

# METHODOLOGY

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In V.E' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the Issuer; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E' Scientific Council. All employees are signatories of V.E' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## FRAMEWORK/ISSUANCE

### Alignment with the Sustainability-Linked Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework/Bond has been evaluated by V.E according to the ICMA's Sustainability-Linked Bond Principles - June 2020 ("SLBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

### Selection of Key Performance Indicators (KPIs)

KPI's materiality and coherence with the Issuer overall sustainability strategy and with the Issuer sector's main sustainability challenges. KPI's measurability and clarity, internal and external control over the KPI's data, exhaustiveness of the KPI's coverage.

### Calibration of Sustainability Performance Targets (SPTs)

Coherence of the SPTs with the overall sustainability strategy, ambition of the SPTs (compared the Issuer's own performance, sector peers and relevant international standards), trigger events' disclosure, disclosure and credibility of the means for achievement (including scope and geographical coverage of the means).

### Bond characteristics

Disclosure of the bond characteristics' variation, meaningfulness of these variation.

### Reporting

Reporting process formalisation and verification, data's accessibility.

### Verification

Verification of the performance against the SPTs and disclosure of the assurance reports.

## ISSUER

### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the Issuer, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the Issuer (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the Issuer for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on an Issuer's reputation reduces with time, depending on the severity of the event and the Issuer's responsiveness to this event. Conventionally, V.E' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### **Involvement in controversial activities**

17 controversial activities have been analysed following 30 parameters to screen the Issuer's involvement in any of them. The Issuer's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the Issuer.

**V.E'S ASSESSMENT SCALES**

Scale of assessment of the KPI(s) materiality and the associated SPT(s) ambition.	
Advanced	The selected KPI(s) reflects the most material issues for the Issuer's core sustainability and business strategy and address the most relevant environmental, social and/or governance challenges of the industry sector.
	An advanced ambition is achieved when the SPT(s) can demonstrate the following: (i) alignment with the 2D scenario/recognized sector standards (ii) a top performance in comparison to sector peers, and (iii) an improvement of the company's performance.
Robust	The selected KPI(s) reflects material issues for the Issuer's core sustainability and business strategy and address relevant environmental, social and/or governance challenges of the industry sector.
	A robust ambition is achieved when the SPT(s) can demonstrate at least two out of three of the following items: (i) alignment with the 2D scenario/recognized sector standards (ii) a performance in line with the average performance of sector peers, and (iii) an improvement of the company's performance.
Limited	The selected KPI(s) does not appropriately reflect material issues for the Issuer's core sustainability and business strategy and partially address relevant environmental, social and/or governance challenges of the industry sector.
	A limited ambition is achieved when the SPT(s) can demonstrate only one out of three of the following: (i) alignment with the 2D scenario/recognized sector standards (ii) a performance in line with the average performance of sector peers, and (iii) an improvement of the company's performance.
Weak	The selected KPI(s) does not reflect material issues for the Issuer's core sustainability and business strategy and do not address relevant environmental, social and/or governance challenges of the industry sector.
	A weak ambition is achieved when the SPT(s) (i) is not aligned the 2D scenario/recognized sector standards (ii) is below the average performance of its sector peers, and (iii) shows a negative trend in the company's performance.

Scale of assessment of financial instrument's alignment with Sustainability-Linked Bond and Loan Principles	
Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles by adopting recommended and best practices.
Aligned	The Instrument has adopted all the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles.
Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles, but not all of them.
Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Sustainability-Linked Bond Principles and/or of the Loan Market Association's Sustainability-Linked Loan Principles.

# DISCLAIMERS

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Transparency on the relation between V.E and the Issuer: V.E has not carried out any audit mission or consultancy activity for Natura Cosméticos. No established relation (financial or commercial) exists between V.E and the Issuer. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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