

The capital that really matters

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By mapping and disclosing environmental externalities throughout its value chain, Natura takes a major step towards building the new capitalism

OVER THE PAST 50 YEARS, the wear on ecosystems has occurred more rapidly than at any other time in world history. Consumption of the Earth's resources has generated unprecedented advances in prosperity for mankind, but the price has been high: atmospheric concentrations of greenhouse gases (GHG) are reaching very dangerous levels, with the potential to raise the planet's average temperature between 4°C and 6°C by the end of the century, which could be catastrophic. Faced with this situation, companies have a key role to play by reducing the environmental degradation caused by their activities and helping to contain the threat to conditions for life on the planet. To be able to plan this reduction more effectively, corporations need to find ways to take natural capital into account throughout their business value chains. Having access to reliable numbers makes it easier to reduce negative impacts and to leverage positive ones (for

example, by innovating in materials and production processes).

When a company is able to undertake its Natural Capital assessment and disclose this information, it creates a degree of transparency which is extremely important for its stakeholders. Investors can take decisions based on the environmental risks and how a company takes advantage of opportunities through innovation. Similarly, customers have the chance to select products and services based on the environmental footprint the company discloses. In this regard, the valuation of impacts generates the possibility of modifying consumer preferences and attracting investment to companies that are engaged in building a new, more responsible and more sustainable capitalism.

In 2014, Natura endeavored to measure its impacts on the environment. To better understand our current situation, the company undertook a study to calculate the monetary value of the business's impacts and the ultimate consequences of these for society. The study was based on GHG emissions, water pollution, water use, waste, air pollution and land use. It is the Environmental Profit and Loss or EP&L.

The valuation of externalities is a new model applied by few companies in the world. With support from the consultancy PwC, Natura is the first company in Latin America to conduct an in-depth EP&L assessment of its businesses. It will drive learning that will enable us to reexamine our innovation, distribution and production processes, among others. This in turn will ensure greater quality in strategic decision making at Natura, helping the company to achieve its 2050 Sustainability Vision.

The weight of emissions

As far back as 2007, aware of the need to combat and prevent climate change, the company created the Natura Carbon Neutral Program to drive a significant ongoing measurement, reduction and offsetting of GHG emissions, from the extraction of raw materials through to the destination of post-consumer packaging.

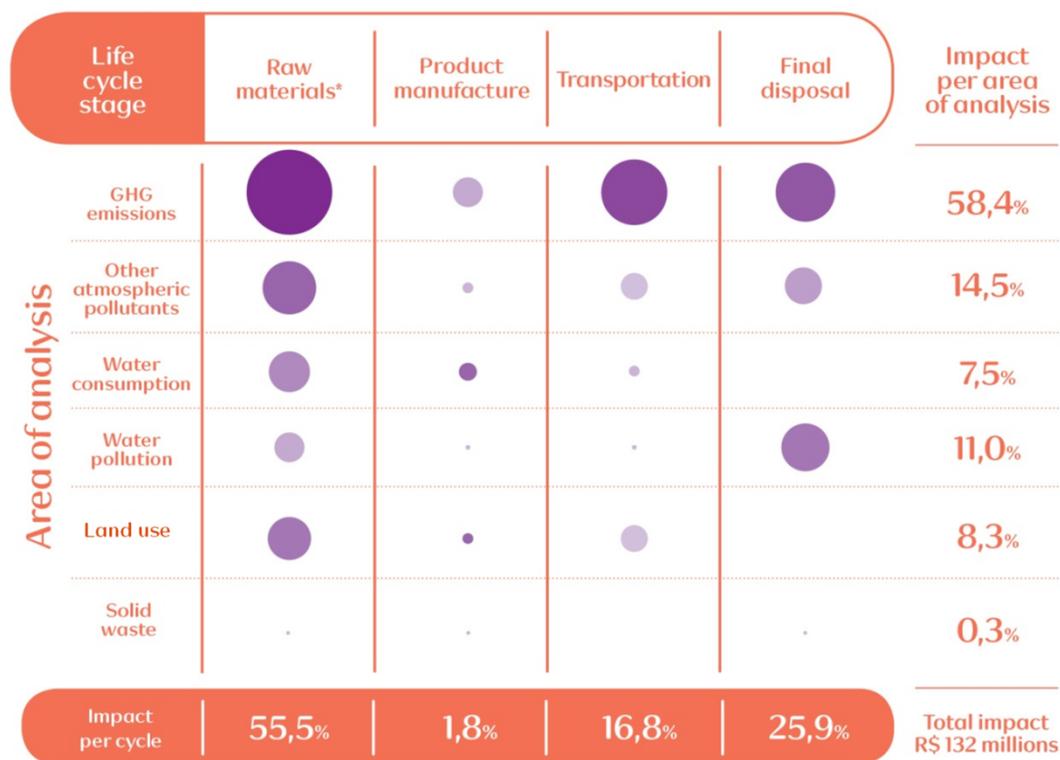
Many measures to reduce GHG emissions have been taken as a result of this program, such as:

- Replacement of fossil-based ingredients with plant-based substitutes (83% of our formulations come from renewable sources)
- Use of organic instead of conventional alcohol.
- Implementation of a supplier development program focused on improving performance and implanting best social and environmental practices.
- Substitution of the paper used in the Natura magazine with a type that generates lower emissions.
- Offering regular packs with refills.
- Launch of the SOU line, which uses fewer resources than the average packaging used in the market (including refills).
- Use of post-consumer recycled material in packaging instead of conventional material.

- Use of cabotage (coastal navigation) to supply distribution centers in the Northeast and North of Brazil instead of road transportation.

Our EP&L results show GHG emissions represent a great impact and are significant along the length of the value chain. If we had not implemented these sustainable practices, our negative impact would have been R\$ 164 million in 2013. Instead, it totaled R\$ 132 million, encompassing the supply chain, manufacturing, distribution and product disposal stages. Calculating the cumulative results of these practices between 2006 and 2013, the greenhouse gas impact avoided was equivalent to over R\$ 97 million.

Table 1: Natura's 2013 EP&L



The size of the circles is proportional to the measured value of the impact

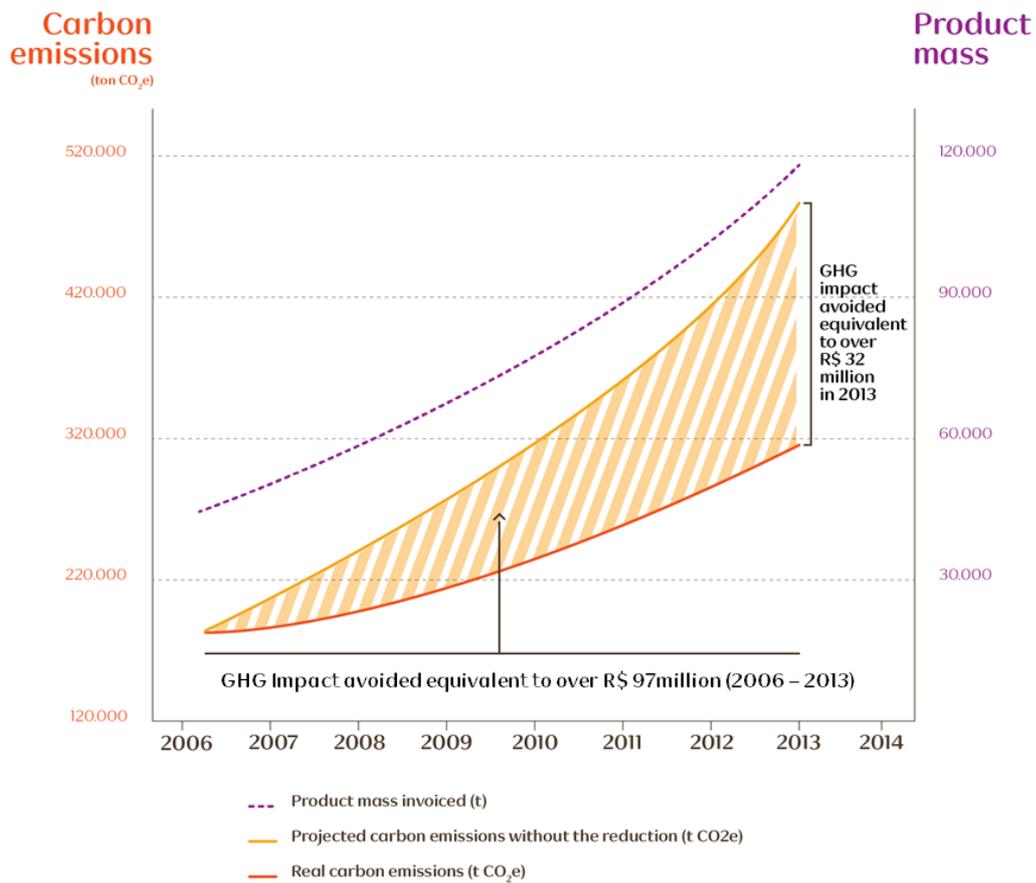
*Extraction, processing and transportation

Natura is a Carbon Neutral company – that is, it offsets all its emissions, taking into account both its own processes and others throughout the production chain.

This compensation involves the purchase of carbon credits (investment in projects promoting reforestation, waste treatment or the substitution of fossil fuels with renewable or more efficient ones).

In parallel with this offsetting, we will continue to pursue significant reductions in our relative carbon emissions throughout the value chain. Our ambition is to achieve a 33% reduction in relative carbon emissions by 2020 against base year 2012.

Graph I: Carbon Neutral Program - Greenhouse gas impact avoided



In addition to reinforcing our Carbon Neutral strategy, the EP&L also corroborates our decision to use Pan Amazon biodiversity assets sourced sustainably from forestry stewardship and agroforestry systems.

The use of these assets in products promotes the conservation of forests and sustainable stewardship practices, which in turn contribute towards regulating the climate, for example through controlling atmospheric pollution and maintaining the water balance.

The product use stage

All consumer goods companies share responsibility for the impact generated by the use of their products, but the majority are unaware of the size of this impact. In spite of all the uncertainties involved, Natura has made every effort to map all the impacts from this stage of its value chain and will now take action. The company intends to implant a system of shared management with the consumer and partners and use the knowledge acquired to guide innovation in its product lines.

Bathing at least once a day is a deeply rooted habit in Brazilian culture, and is associated with a sensation of well-being, health and body care (evoking Natura's Essence, *well being well*). However, major social and environmental changes are occurring, resulting in lower water availability, with large urban centers – such as Rio de Janeiro and São Paulo – having experienced interruptions in supplies and concern about the possible collapse of their reservoir systems. As a result, the water issue has become a key focus for Natura in assessing the impact of its activities. The results of our EP&L assessment have shown that water consumption generates a significant impact on society, particularly in the use stage, due to the fact that a major part of our portfolio comprises hygiene and bathing products. The principal culprits here are the energy used to heat water for showering (60%) – it comes mainly from hydroelectric plants, which increase water evaporation – and the water consumed in rinsing the products (40%). The Brazilian energy grid consists of approximately 70% hydroelectric and 30% thermoelectric power, which means

that heating water for bathing uses a significant amount of water and generates significant GHG emissions.

Due to the association of our products with bathing, the total environmental impact in the use stage was calculated at an additional R\$ 455 million. Reducing this impact depends on shared management with the end consumer, incorporating the discussion of personal habits and customs. We will work on this issue with a view to promoting sustainability and a low carbon economy, understood in the broadest sense.

Innovations in methodology

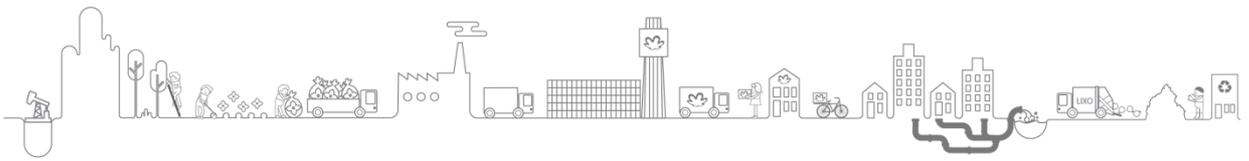
Since the EP&L is an emerging methodology, a number of metrics still need to be improved or adapted for different realities.

This is the case, for example, in accounting for the generation of waste which frequently ends up not being disposed of properly, polluting rivers and oceans. We continue to work on measuring this type of impact, so that our methods will reflect all the environmental ramifications of our operations.

The assessment of the impact of biodiversity assets on land use also requires methodological innovations. The inputs for this indicator included factors such as the wealth of species and vegetation coverage existent before cultivation of the raw materials used by Natura was initiated. From the standpoint of preserving the forests, the results have been positive. “When we started buying ingredients such as fruits and nuts, we generated economic value for the local

communities and provided an incentive for keeping the forest standing”, explains Andreza B Souza, Sustainability Coordinator at Natura.

However, the total wealth of species in a determined location (animals, microorganisms and other plants in general) has not yet been accounted for. The same is true for a number of environmental services such as food security, pollination, soil carbon, habitat (animal refuge), water production in forestry conservation and biological control. Consequently, potential additional positive impacts have yet to be measured.



Global movement

Natura intends to share the EP&L learnings with other Brazilian companies. “We do not want to restrict this knowledge to our own business. Valuation is an extremely new question. We would like to be able to discuss the dilemmas and challenges involved with a network of other companies”, Natura’s director of Sustainability Marcelo Alonso states.

In Brazil, our goal is to mobilize a network of entrepreneurs to discuss what we have learned from our first EP&L assessment. Together with other companies interested in this question, it would be possible to drive further improvements in the metrics for our specific local context. Factors such as the positive effects of the sustainable stewardship of social biodiversity are still difficult to calculate in monetary terms. It is also necessary to take into account

challenges such as waste management in a local context when there is no accurate information about the final destination of packaging and products – which can, for example impact water resources. “We want to get the discussion started in Brazil, which is where our main operations are, but with time, also expand it to our international operations”, Luciana Villa Nova, Sustainability Manager, concludes.

In our Sustainability Vision, we assumed the commitment of integrating environmental and social effects into Natura's economic results by 2020.

Attributing a value to these non-financial aspects will enable comparison with the wealth that we produce and distribute and represents a decisive step towards drafting the actions that will bring us to an even more ambitious target. By 2050, we intend to be a company that generates a positive total impact in all its dimensions of activity: economic, environmental, social and cultural.

Thus, the next step will be the valuation of the impacts and the benefits generated by the business for the social development of communities, incentives for employment and enterprise, through the construction of a SP&L (Social Profit and Loss) assessment for the company.