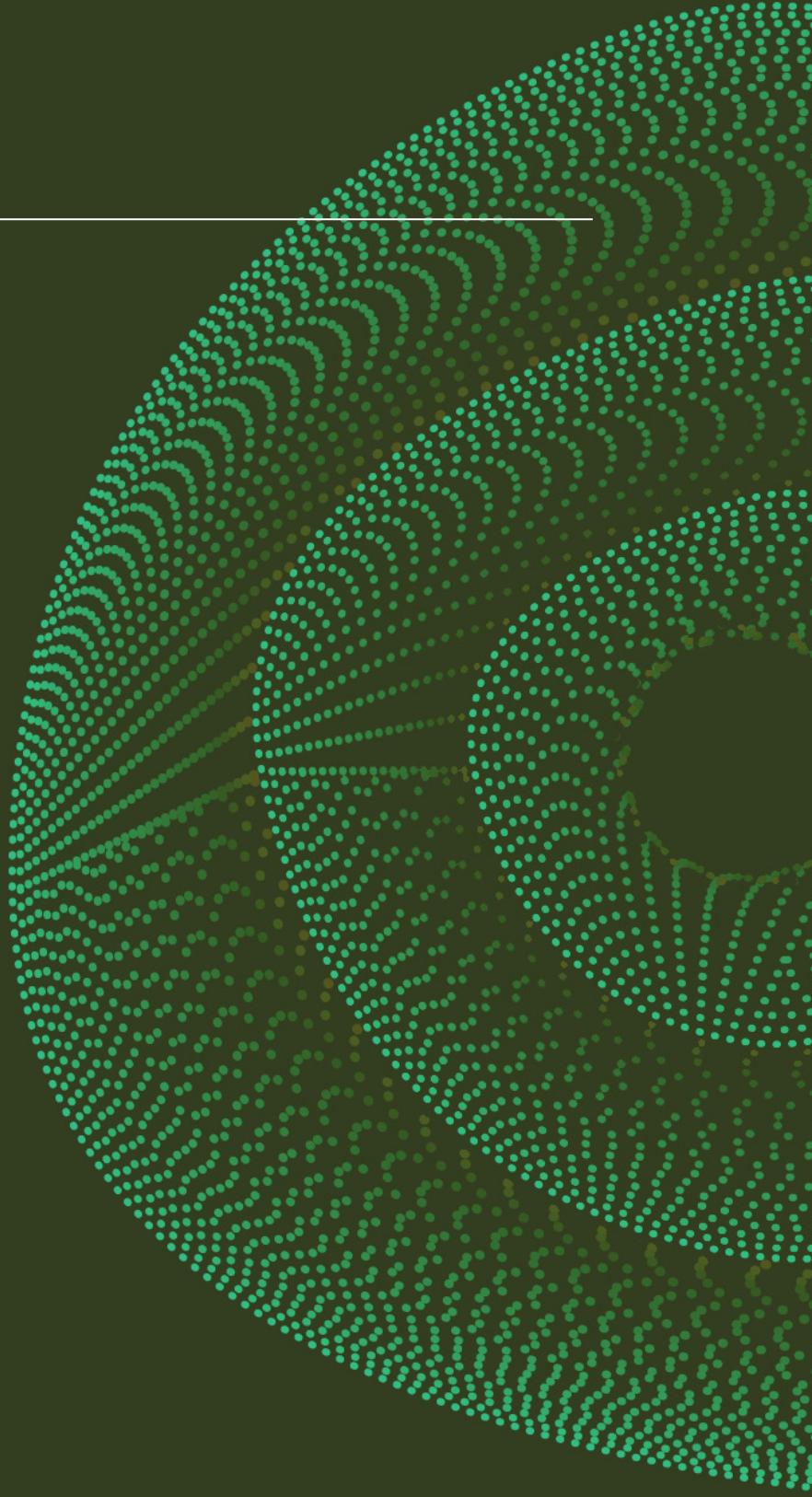
Natural Capital



INTEGRATED PROFIT & LOSS METHODOLOGY

natura

natura AVON

VALUING IMPACT

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Summary

THIS REPORT presents the application of the eQALY methodology, developed by Valuing Impact, to Natural Capital accounting. It focuses on the recent implementation by Natura, the Brazilian leader in the cosmetics and beauty sector. The company has made progress in valuing Natural Capital in its Integrated Profit & Loss, or iP&L, aligning it with Human and Social capitals accounting. The methodology adopted analyzes 16 impact indicators based on the ReCiPe method, in addition to marine plastics, for a total of 17. This allows for a more in-depth understanding of the consequences of business decisions. This approach evidences a commitment to systemic regeneration, a key strategic priority for Natura that aligns with the company's greenhouse gas emission reduction targets. The eQALY methodology lends itself to adaptation and replication in various scenarios, making it an attractive option for organizations committed to sustainability and corporate responsibility.

Introduction

NATURAL CAPITAL is defined by Costanza and Daly (1992) as the stock of natural assets that provide a flow of valuable ecosystem services to humanity. These assets include natural resources, such as minerals, oil, gas, forests, water, soil, and biodiversity in general.

Ecosystem services are the benefits that humans obtain from ecosystems, either directly or indirectly. In other words, these are the flows of value that occur between Natural Capital and Human Capital. These include the provision of basic resources, such as food and water; regulation and support of processes, such as flood control, pollination, air and water purification, soil formation and nutrient cycles; and cultural, aesthetic, and recreational benefits (DALY and FARLEY, 2003). The concept of Natural Capital highlights the necessity of preserving these resources, as they are vital to the well-being of humanity and to long-term economic sustainability.

Human actions directly impact the distribution and availability of environmental services, leading to challenges, such as the contamination of air, soil and water, or landfills in areas inhabited by socially vulnerable communities. This, in turn, affects the availability of natural resources, as well as the ability to access them. To tackle these challenges, socio-environmental movements have emerged, such as climate justice. While climate change is primarily caused by developed countries, its effects are felt most acutely by marginalized populations. It is therefore essential to promote equality in mitigating environmental impacts, ensuring access to clean natural resources, and protecting against harmful environmental practices and policies.

This report underscores the significance of businesses adopting a perspective focused on understanding what is meant by the term "Natural Capital" and the impacts thereon. This is particularly important given that business actions transform nature and rely on it. It is of great importance to integrate this vision into corporate decision-making processes and to ensure that practices contribute to climate justice, paramount to promote more sustainable and equitable development.

The Capitals

THE CONCEPT of capital has become a prominent topic in global business, particularly in the context of Natural Capital, due to the recent regulatory pressures resulting from environmental disasters caused by corporate activities. For Natura, this concept is inextricably linked to the idea of regeneration, which entails promoting and restoring life in individuals, communities, ecosystems, and in the relationships between them. This idea is connected to well-being/being well ("Bem Estar Bem", in Portuguese), which is the company's "Reason for Being", conceived more than three decades ago. Well-being/being well is based on the integration of well-being and being well to express the pursuit of an harmonious relationship of the individual with himself/herself, with others and nature. Natura is dedicated to demonstrating the effectiveness of its regenerative practices through the iP&L (Integrated Profit & Loss) framework, which measures the socio-environmental impacts of our activities in monetary terms, ensuring a consistent and transparent approach that covers the Natural, Human, and Social capitals. This enables the company to effectively advance its strategic objectives.

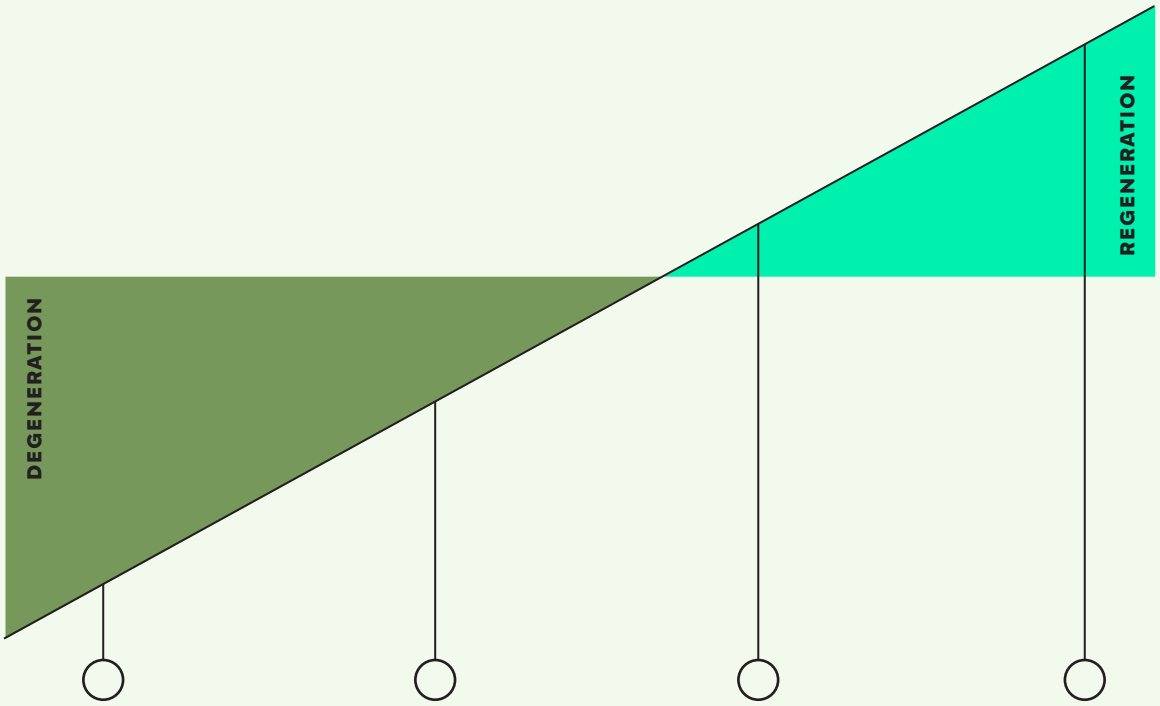
Regenerative business practices represent a fundamental shift in the way corporations approach sustainability. These practices aim to achieve more than mere compliance with regulations, minimal harm, or maintenance of the status quo. They not only reduce the generation of negative impacts but also seek to reverse the damage caused by human activities and regenerate ecosystems and communities impacted by them.

The measurement of Natural Capital is a fundamental aspect of the regeneration concept, and a key indicator of success. By assigning a monetary value to it, Natura can gain a deeper understanding of the impacts of its activities and take initiative-taking measures to lessen negative effects, mitigate damage, and promote environmental recovery. This includes practices, such as restoring degraded habitats, implementing regenerative agricultural systems, and promoting biodiversity.

Integrating Natural Capital into Human and Social capitals in Natura's strategies allows the company to take a more systemic approach, where economic growth and human well-being can develop in ways that benefit the health and resilience of natural ecosystems.

FIGURE 1

Evolution of the vision of socio-environmental impact over the years



TRADITIONAL CAPITALISM
Mitigation of more obvious negative effects. Incipient social and environmental responsibility. No impact valuation.

ECOLOGY – 1980'S/1990'S
Focus on environmental degradation. Search to zero out negative effects begins.

SUSTAINABILITY – 1990'S/2000'S
Impact begins to be measured. The idea of building a positive impact gains traction.

REGENERATION – 2020'S
The objective is to increasingly create more positive impact to restore systems.

Since 2013, we have seen significant strides in the field valuation, which have shaped the advancement of Natural Capital valuation. Noteworthy developments include the publication of the Natural Capital Protocol (CAPITALS COALITION, 2016), the creation of the Value Balancing Alliance (VBA) and the International Foundation for Valuing Impacts, an extension of Harvard Business School's Impact Weighted Account initiative. These efforts have been instrumental in integrating the valuation of Natural Capital into business practices and public policies, promoting a more comprehensive understanding of the value of natural resources and the services they provide.

In 2016, for the first time, Natura implemented its Environmental Profit & Loss (EP&L) methodology, which was developed to create a critical link between the company's strategy and a new vision of the materiality of environmental impacts. Since then, other companies have focused their efforts on valuing the impact on Natural Capital.

Firstly, this study encompassed only select areas of environmental impact, including air pollution, greenhouse gas emissions, land use and biodiversity, solid waste, water pollution and water consumption. However, these were not integrated with Human and Social capitals, which were subsequently assessed through alternative means, resulting in a lack of comparability. The scope of valuation was subsequently broadened to encompass all three capitals, thereby ensuring greater integrality between them. This occurred primarily when the company began to recognize the interconnectivity between the topics. This was exemplified by the carbon neutral strategy, which offers a range of social benefits while simultaneously addressing natural carbon-related impacts. As time progressed, additional topics were incorporated, including the influence of the direct selling model on Beauty Consultants, who are primarily women, and Human Capital.

In 2021 Natura launched its inaugural Integrated Profit & Loss (iP&L) report, marking a significant milestone in the company's sustainability journey. This report enabled a comprehensive and comparative assessment of the positive and negative impacts of Natura's activities on the economy, society, and the environment. It represented a significant advancement in measurement and management, and paved the way for a more integrated approach to sustainability issues. Since then, Natura has revisited the Natural Capital methodology with a view to harmonizing new developments and qualifying all capitals on a common basis. In this context, the change in quality of life is regarded as the most significant impact on society.

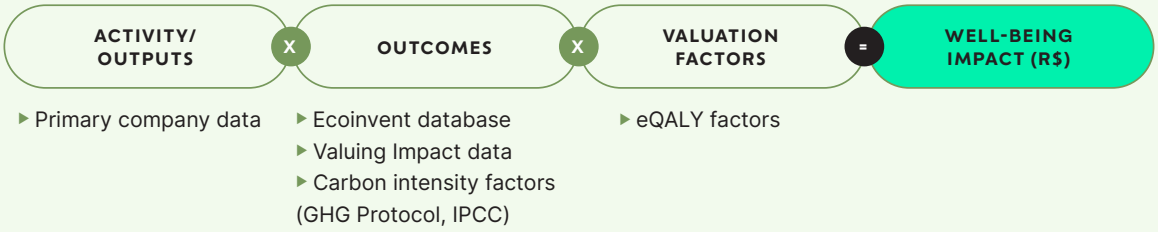
In collaboration with the consultancy Valuing Impact, we have developed a new methodology which comprises the analysis of 16 key impact indicators based on the ReCiPe method. This is a well-established approach to Life Cycle Assessment which enables us to translate environmental impacts into distinct categories, facilitating the interpretation of data and informing decisions. Furthermore, the calculation also considers the disposal of marine microplastics, resulting in a total of 17 impact indicators.

Methodology

A COMPLETE IMPACT VALUATION MODEL is characterized by a straightforward rationale process. The activity to be valued is clearly defined, and the results and changes generated thereby are valued based on their direct impacts on health and well-being or related to economic utility factors (VIONNET; ADHIKARI; HAUT, 2021), depending on the effects generated.

FIGURE 2

Structure of the rationale behind the Natural Capital methodology



The company's activity information is initially collected to determine the output data, which represents the direct, tangible, and measurable products or services generated by a project or activity. This primary data (such as, detailed lists of raw material purchases) is then multiplied by the outcomes, i.e., the effects or results of these impacts, which can be short, medium, or long-term. The multiplication factors are sourced from reference databases, such as the Ecoinvent database. The next step is to perform another

multiplication using the valuation factors, which assign value to the impact. These impact values derived from the ReCiPe method and Valuing Impact, for instance.

It is crucial for corporate decision-making processes to have a single monetized indicator that measures all impact indicators. This allows strategies to be compared and prioritized effectively. For instance, the carbon can be valued by a range of figures per ton, from US$ 5, based on the market price of carbon credits, to US$ 236 (IFVI, 2024), considering the Social Cost of Carbon. In addition to these two extremes, there are other valuation approaches, including solution costs, mitigation costs, and the willingness to pay for carbon. Each of these approaches offers a distinct perspective, although they all use monetary units. It is essential to understand this diversity of approaches to apply impact valuation models in a consistent way within a business context. The choice of valuation approach must be aligned with the company's specific objectives.

Natura, for instance, employs a methodology that measures change in well-being and quality of life, in line with the company's Reason for Being, which is the "well-being/ being well" By measuring the impact of the company's activities on these dimensions in a consistent manner, it is possible to compare, prioritize and manage the several topics.

Natura's current methodology is based on the well-known QALY estimate (Quality-Adjusted Life Years) that we assumed equal to the DALY (Disability-Adjusted Life Years), composing the equivalent QALY (or eQALY) methodology. This was developed by Valuing Impact to translate economic costs in terms of changes in the human life's well-being.

The concept of QALY (Quality-Adjusted Life Year) was developed to assess the cost-effectiveness of health interventions by comparing the number of life-years gained from different therapies. Currently, it is a measure that combines the quantity and quality of life. Accordingly, 1 QALY corresponds to one year of life in optimal health. If an individual lives a year with a quality of life considered to be half the ideal, this would be equivalent to 0.5 QALY.

In a complementary manner, the concept of DALY was introduced to measure the overall impact of a disease on a population in terms of years of life lost due to premature mortality. The DALY is currently employed to assess the adverse effects on population health. The DALY is calculated by adding together the number of years of life lost due to premature mortality (YLL, or Years of Life Lost) and the number of years of life adjusted for disability (YLD, or Years Lived with Disability).

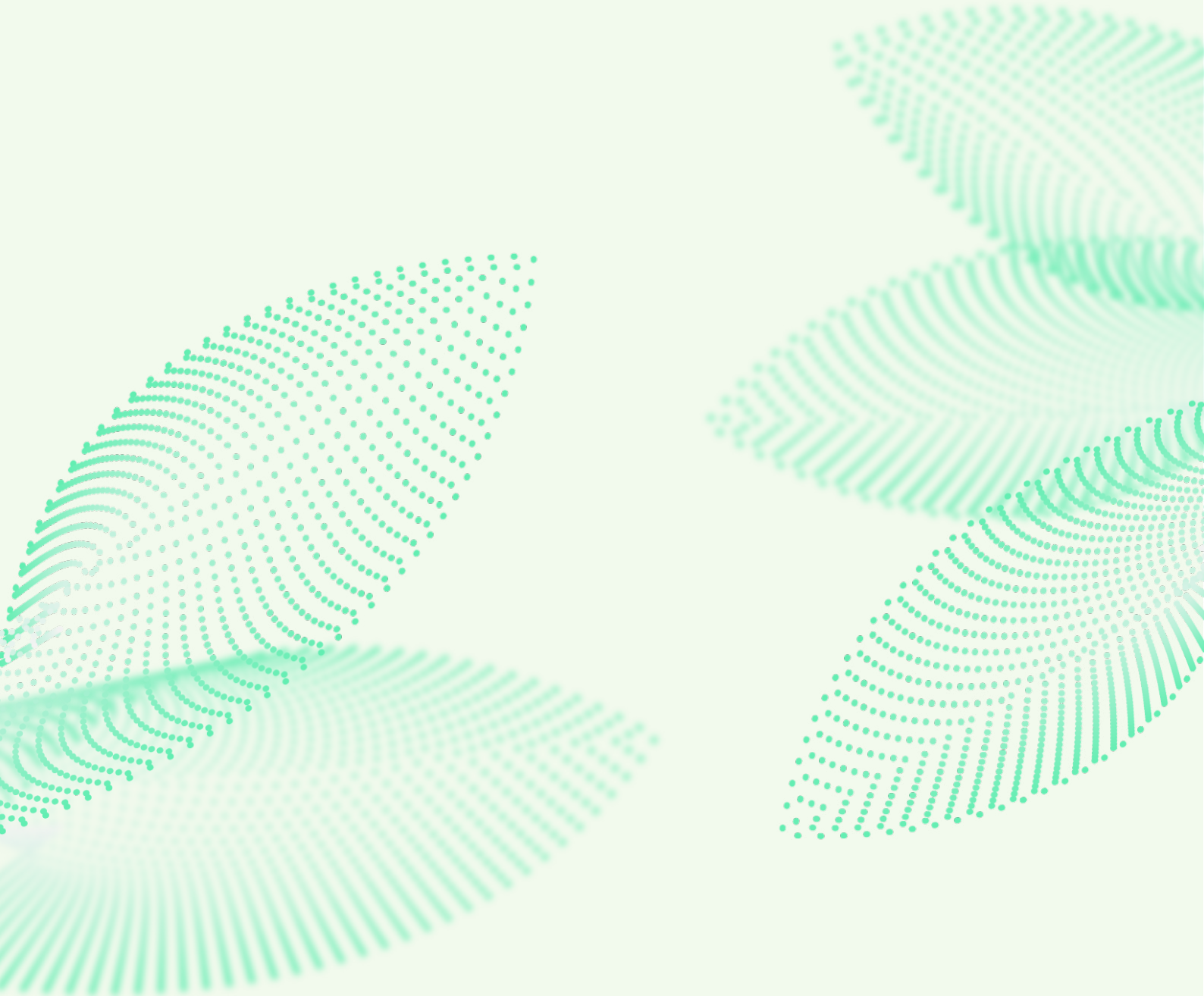
In its inaugural internal valuation study conducted in 2014, Natura adopted a DALY value derived from willingness-to-pay models, known as VSL, Value of a Statistical Life (OECD, 2015). This value represents the marginal rate of substitution between income and mortality risk. This value is typically calculated through surveys wherein a large sample population is queried on their willingness to pay to prevent a specific health condition. By analyzing data from varied population groups and health conditions, it is possible to assign a value to a human life, which can then be used to inform decision-making that will improve health and prosperity.

The eQALY (or equivalent QALY) is a proposed indicator that aims to reflect a wider range of effects than those traditionally captured by QALYs, which focus exclusively on health and quality of life. In addition to these factors, the eQALY incorporates health determinants that can be expressed in economic terms, such as wages and taxes. When calculating this indicator, these factors are systematically weighted in relation to the original QALY, resulting in a measure that covers both economic and social impacts. In this context, DALYs are considered equivalent to QALYs, but with an opposite sign.

The factors employed to measure the influence of Natural Capital are classified into two valuation pathways , encompassing three areas of protection (a concept defined in LCA and in ReCiPe method). These pathways address fundamental aspects of life and the environment that should be preserved or protected. The first main pathway encompasses impacts that have a direct effect on health (Human Health Protection Area), including emissions of particulate matter (air pollution), dispersion of toxic chemicals (human toxicity), and climate changes. The second main valuation pathway focuses on economic results, covering impact factors that affect the quality of the ecosystem or abiotic resources (non-living components of an environment, physical or chemical). These are measured in terms of damage or mitigation economic costs to society across the two areas of protection: Ecosystem Quality and non-renewable resources.

The eQALY methodology measures the results of these two valuation pathways, based on utility factors (VIONNET; ADHIKARI; HAUT, 2021) that translate environmental effects into impacts on society's well-being, mostly using a world average Health Utility of Taxes (HUT) factor.

Innovations in Methodology



The new Natural Capital Accounting model, based on the eQALY methodology, incorporates four key innovations:

1

Broader coverage of impact drivers: The new model envisages a more comprehensive suite of impact indicators, including new environmental issues, based on the Life Cycle Assessment ReCiPe 2016 (HUIJBREGTS et al., 2016) and Ecoinvent methods. It now contains completely new impact indicators, such as the metal depletion, the fossil depletion, and the amount of marine plastics.

2

The structure is aligned with greenhouse gas (GHG) accounting standards: The new model was developed in accordance with the company's GHG accounting structure to ensure alignment and consistency in the indicators adopted in internal processes and in the disclosures of reports, such as the TNFD (Taskforce on Nature-related Financial Disclosures).

3

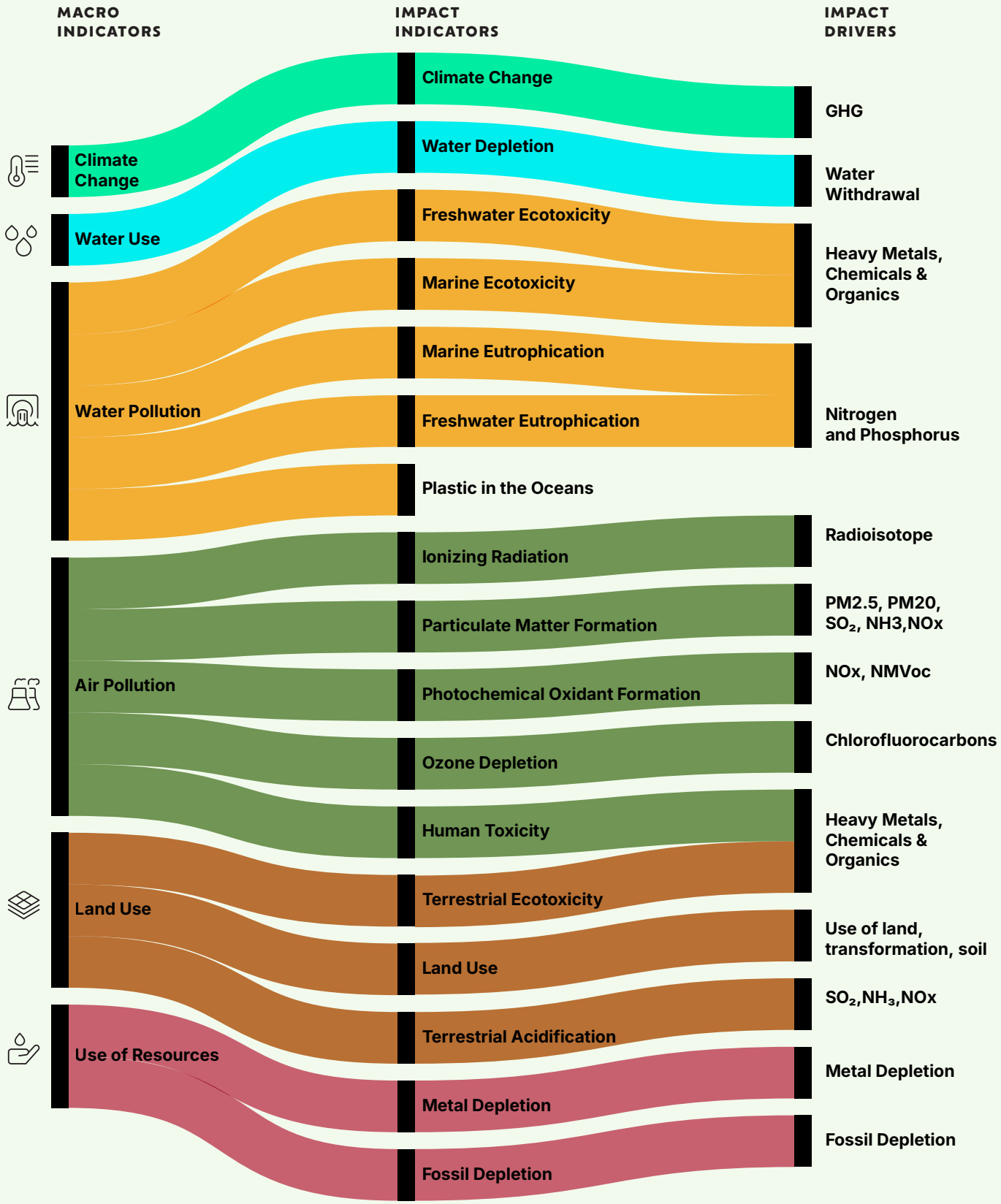
Consistent valuation methodology: A new valuation approach was applied to ensure consistency when defining the impact on the Natural, Human and Social capitals. The new methodology evolved from valuing the economic impacts of ecosystem services to valuing well-being, allowing for comparability between capitals.

4

The bottom-up model and data quality allow for the straightforward capture of changes and more accurate measurement of positive impact projects: Previously, iP&L's Natural Capital model was a top-down model, with the starting point being an overview that was gradually broken down into smaller components. The new model employs a bottom-up approach, beginning with specific, smaller components and gradually integrating them to build larger, more complex systems in line with the rationale of Life Cycle Assessments. This approach ensures the availability of more precise data and makes it possible to measure progress in relation to established commitments with greater accuracy. To this end, select components of the model have been refined to ensure a more consistent and comparable approach in relation to key areas, such as water use, the end-of-life of plastics, Natura's recycling and reverse logistics program (Elos), and greenhouse gas emission offsets. This new system allows for the straightforward accounting of changes in the company's performance and its impact on Natural Capital.

FIGURE 3

iP&L flow considers 16 impact indicators



Based on the ReCiPe assessment model, and an additional indicator, Marine Plastics, for a total of 17. Impacts from the use of abiotic resources have been added to the Life Cycle Assessment categories, which were not included in the previous version of iP&L.

The subdivision of the six impact categories (macro indicators) into specific indicators (impact drivers) allows for a more detailed analysis of the changes in Natural Capital associated with Natura's activities. For instance, the Water Pollution category is measured by means of indicators pertaining to ecotoxicity, eutrophication (split between marine and freshwater ecosystems) and the impact of plastics on aquatic life.

To perform the calculations, we applied primary data from various activities, including the mass of recycled packaging (in tons), distances traveled, materials purchased, fuel consumption in logistics, and kWh of energy, among others.

While the Ecoinvent impact indicators (ReCiPe method) were utilized in outcomes to measure the intensity of the impact of each indicator per unit of result, a different approach was adopted for carbon. Rather than following the standard method, the decision was to use Natura's greenhouse gas inventory, complemented by the factors from Ecoinvent. This replacement was made to ensure that the GHG emission factors were fully aligned with the company's most up-to-date model, thereby ensuring total consistency between the carbon accounting model and the iP&L.

As mentioned above, the valuation factors for Natural Capital impact indicators can be approached via two main pathways, which are dealt with as follows in iP&L:

1

Direct health effects/change in well-being (Human Health Protection Area): In this valuation pathway, impact indicators are measured according to categories that can be translated directly into DALYs applying ReCiPe characterization factors. As example, air pollution indicators include Particulate Matter Formation and Ozone Depletion, among others.

2

Economic results/change in well-being (Ecosystem Quality and Non-Renewable Resource Protection Areas): In this second path of valuation, economic factors (published by eQALY, LANCA or CE Delft) are applied according to the type of indicator and translated into DALY, using an average HUT factor (Health Utility of Taxes: the contribution of taxes to the well-being of a population in certain location). Examples: Fossil Depletion, Marine Eutrophication and Land Use.

TABLE 1

Example of calculating the impact of 300,000 kg diesel use

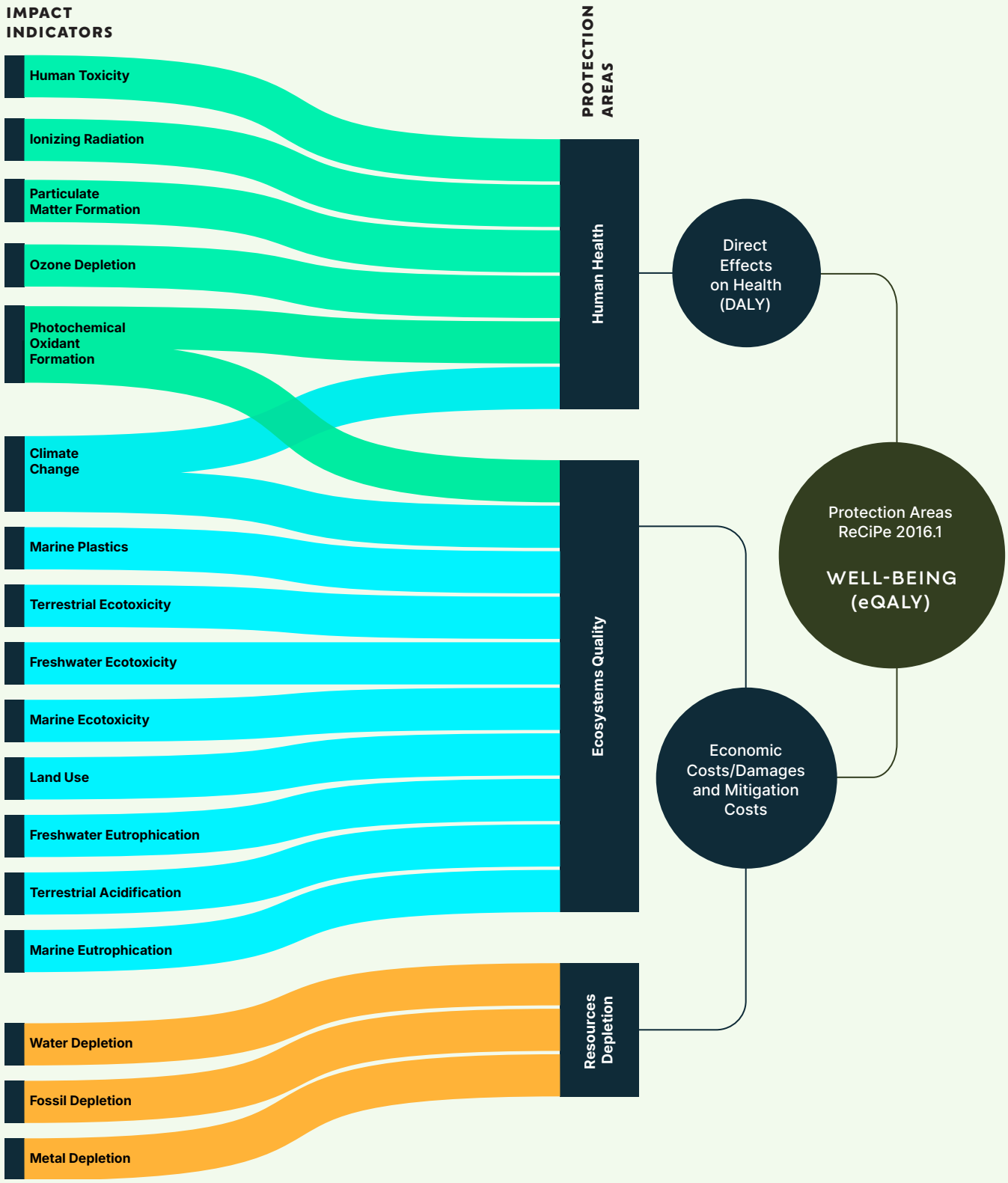
RESULT FACTORS FROM THE DATABASE (LCA)	PRODUCTS OF ACTIVITIES /OUTPUTS	RESULTS/ OUTCOME	VALUATION FACTORS	CHANGES IN WELL-BEING
Climate change	4.6033 kg CO_2 -Eq/kg diesel	1,380,975 kg CO_2-Eq	-2.97 R$/kg CO_2-Eq	-R$ 4,101,496
Water depletion	0.0034 m^3/ kg diesel	1,032m^3	-1.63 R$/$m^3$	-R$ 1,682
Marine Ecotoxicity	0.0334 kg 1.4-DCB-Eq/ kg diesel	10,008 kg 1.4-DCB-Eq .	-0.13 R$/kg 1.4-DCB-Eq	-R$ 1,301
Freshwater ecotoxicity	0.0213 kg 1.4-DCB-Eq/ kg diesel	6,381 kg 1.4-DCB-Eq .	-0.62 R$/kg 1.4-DCB-Eq	-R$ 3,956
Marine eutrophication	0.0001 kg N -Eq/kg diesel	30 kg N-Eq	-53.11 R$/kg N-Eq	-R$ 1,593
Freshwater eutrophication	0.0001 kg P -Eq/kg diesel	42 kg P-Eq	-31.77 R$/kg P-Eq	-R$ 1,334
Plastic in the Oceans	0 kg plastic	0 kg plastic	-39.19 R$/kg plastic	R$ 0
Ionizing radiation	0.0222 kg U235 -Eq/kg diesel	6,657 kg U235-Eq	-0.01 R$/kg U235-Eq	-R$ 67
Particulate matter formation	0.0113 kg PM10 -Eq/kg diesel	3,390 kg PM10-Eq	-588.16 R$/kg PM10-Eq	-R$ 1,993,862
Photochemical oxidant formation	0.0516 kg NMVOC/ kg diesel	15,489 kg NMVOC	-158.04 R$/kg NMVOC	-R$ 2,447,882
Ozone depletion	0 kg CFC-11-Eq/ kg diesel	0 kg CFC-11-Eq	-496.54 R$/kg CFC-11-Eq	R$ 0
Human toxicity	0.1703 kg 1.4-DCB-Eq/ kg diesel	51,090 kg 1.4-DCB-Eq .	-1.66 R$/kg 1.4-DCB-Eq	-R$ 84,809
Land use	0.0128 m^2a crop-Eq/ kg diesel	3,834m^2a crop-Eq	-1.37 R$/m *a crop-Eq	-R$ 5,253
Terrestrial ecotoxicity	0.1747 kg 1.4-DCB-Eq/ kg diesel	52,396 kg 1.4-DCB-Eq .	-0.15 R$/kg 1.4-DCB-Eq	-R$ 7,859
Terrestrial acidification	0.0219 kg SO2 -Eq/kg diesel	6,558 kg SO2-Eq	-84.88 R$/kg SO2-Eq	-R$ 556,643
Metal depletion	0.0616 kg Fe -Eq/kg diesel	18,480 kg Fe-Eq	-3.89 R$/Fe-Eq	-R$ 71,887
Fossil depletion	1.3673 kg oil/ kg diesel	410,199 kg oil	-7.75 R$/kg oil	-R$ 3,179,042

TOTAL VALUE IN WELL-BEING CHANGES:

- R$ 12,458,583.96

FIGURE 4

Impact and valuation structure of the ReCiPe/Ecoinvent environmental indicators in the well-being measure (eQALY), in the three Protection Areas: Human Health, Ecosystem Quality and Non-Renewable Resources



In addition to the direct effects on health, we adopted the following methods to quantify the economic cost pathways:

Water Abundance dataset (WORLD RESOURCES INSTITUTE, 2020): This publication provides estimates of solution costs to address water stewardship issues around the world, including water scarcity. It is possible to derive specific valuation factors from this for all major river basins and countries globally. Valuing Impact developed specific valuation factors adapted from this publication.

Land use (based on LANCA 2016): A model was developed to analyze changes in soil ecosystem services (or land use) based on different types of occupation. The model has been regionalized nationwide and considers several ecosystem services, including groundwater recharge, water filtration (water quality), resistance to erosion, soil organic carbon, and soil fertility.

Marine plastics (BEAUMONT et al., 2019): The economic cost of marine plastics was estimated based on the Beaumont et al. (2019) average valuation factor. It builds on the Plastic Leak Project (2020) fate modeling, developed by Quantis and EA.

All other impact drivers (CE DELFT, 2018): for impact indicators that are not connected with the direct well-being pathway, an economic costs based on CE Delft 2018 was used, translated into a change of well-being and considering an average Health Utility of Taxes (HUT) factor.

TABLE 2

Valuation factors by indicator, resulting from Natural Capital accounting, for the initiatives linked to Natura's Commitment to Life **in all the main impact indicator categories (the factors are available for access via a template that can be made available by** Valuing Impact

Indicators / Final Valuation Factor of ReCiPe (R$)

INDICATORS	VALUATION	UNIT	SOURCE
Climate Change	-2.97	R$ / kg CO_2-eq	ReCiPe 2016
Ozone Depletion	-496.54	R$ / kg CFC-eq	ReCiPe 2016
Human Toxicity	-1.66	R$ / kg 1.4 DB-eq	ReCiPe 2016
Photochemical Oxidant Formation	-158.04	R$ / kg NMVOC-eq	ReCiPe 2016
Particulate Matter Formation	-588.16	R$ / PM10-eq	ReCiPe 2016
Ionizing Radiation	-0.01	R$ / kg kBq U235-eq	ReCiPe 2016
Terrestrial acidification	-84.88	R$ / kg SO2-eq	CE Delft 2018
Freshwater Eutrophication	-31.77	R$ / kg P-eq	CE Delft 2018
Marine Eutrophication	-53.11	R$ / kg N-eq	CE Delft 2018
Terrestrial Ecotoxicity	-0.15	R$ / kg 1.4 DB-eq	CE Delft 2018
Freshwater Ecotoxicity	-0.62	R$ / kg 1.4 DB-eq	CE Delft 2018
Marine Ecotoxicity	-0.13	R$ / kg 1.4 DB-eq	CE Delft 2018
Land Use	-1.37	R$ / m^2 year	Valuing Impact/LANCA
Conservation of the Amazon Rainforest	-24,353.35	R$ / m^2 year	Adapted from De Groot, R., Brander, L., van der Ploeg, S., et al. ,2012
Water Depletion	-1.63	R$ / m^3	Valuing Impact
Metal Depletion	-3.89	R$ / kg Fe-Eq	ReCiPe H intermediate point method
Fossil Depletion	-7.75	R$ / kg oil	ReCiPe H intermediate point method
Plastic in the Ocean	-39,188.17	R$ / t plastic	Beaumont *et al.*, 2019

Regional impacts were considered to enhance the quality of decision-making. For Natura, it was possible to apply the regionalized water depletion indicator at the country level, for the analysis of water use, and the electricity demanded in water heating (for the rinse-off products use phase) and store operation (Scope 3). The valuation factors vary from R$ 0,27 (in Colombia) to R$ 3,31 (in Peru), according to the Water Abundance dataset (World Resources Institute, 2020).

In terms of land use and the value of ecosystem services, Natura has already established a specific valuation for land conservation in the Amazon, measured in hectares. A future opportunity is to regionalize land use factors for the company's entire value chain, with advances in the traceability strategy and connection to the Locate approach of the TNFD (Taskforce on Nature-related Financial Disclosures). This is the initial phase of the LEAP framework, which assists organizations in identifying and prioritizing geographical areas where their operations interact with nature, by adopting data to gain insight into the current state and pressures on nature in these regions. By understanding the origin of the resources and inputs used, Natura will be able to conduct a regional assessment.

To consider greenhouse gas emissions, we applied the GHG Protocol, which is the most widely used standard globally for corporate GHG accounting. This connection ensures that Natura's climate change commitments are reflected in the Natural Capital model, guaranteeing consistency in approaches and compatibility across all the company's social and environmental reporting efforts. Furthermore, Natura is committed to the SBTi approach (Science Based Targets Initiative), which aligns corporate targets with the Paris Agreement's goal of restricting global warming to 1.5°C compared to pre-industrial levels. This approach can now be applied to Natural Capital accounting.

The structure of the model was adapted from the greenhouse gas inventory developed by Natura, which encompasses Scopes 1, 2 and 3, to be comprehensive in terms of the value chain, extending to all impact indicators (not just climate change), characterized as upstream and downstream.

Table 5 (in the appendix) shows the valuation scope and which part of the value chain it is connected to. It should be noted that Scopes 2 (steam and heat) and 3.1 (Processing of products sold), 3.14 (Franchises) and 3.15 (Investments) do not compose Natura's greenhouse gas inventory.

iP&L's performance in 2023

IN THIS INNOVATIVE APPROACH, the results of Natura's iP&L in 2023 bring the impacts on Natural Capital closer to other capitals, also considering the magnitude of impact, resulting in: R$ -12,2 billion in Natural Capital, R$ 23,2 billion in Human Capital and R$ 28,6 billion in Social Capital.

TABLE 3

Natural Capital accounting results (in R$ million) by impact category and Life Cycle stage (aggregate)

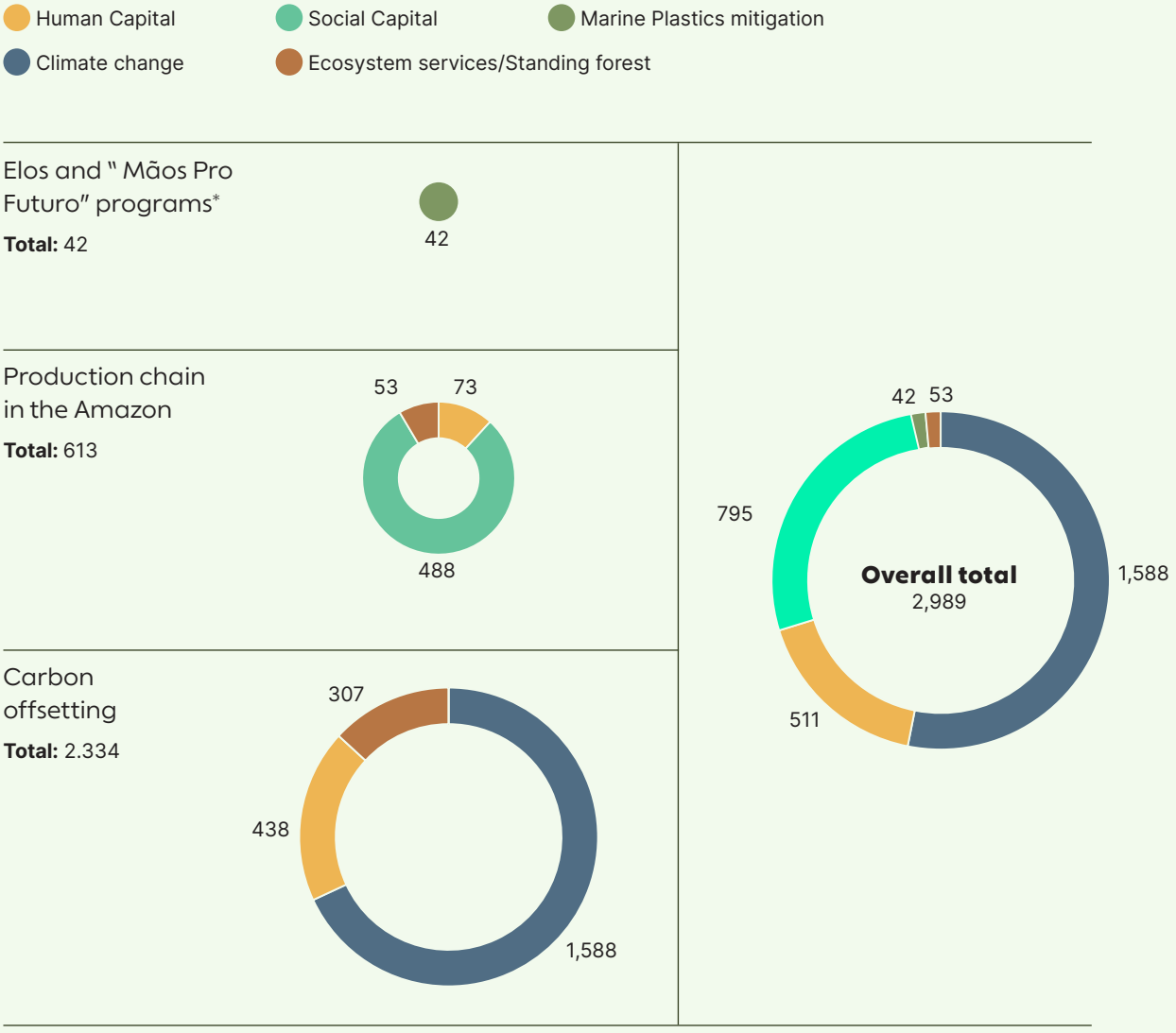
SCOPE	LAND USE	NATURAL RESOURCES	AIR POLLUTION	CLIMATE CHANGE	WATER POLLUTION	WATER USE	STANDING FOREST	OVERALL TOTAL
Carbon Credits	0	0	0	1,588	0	0	0	1,588
Direct Operations	-6.2	-41	-27	-124	-2	0	0	-201
Product Use + End-of-Life	-212	-1,058	-795	-1,897	-72	-137	0	-4,171
Supplier Communities	0	0	0	0	0	0	53	52.7
Suppliers (Supply Chain)	-4,159.70	-1,631	-1,616	-1,827	-264	-43	0	-9,541
Overall Total	-4,377.90	-2,731	-2,438	-3,848	-338	-180	53	**-13,860**

When analyzing the results in Table 3, we can see that most of the impact relates to the supply chain, which accounts for 78% of the net impact, and the end-of-life of products, with 34% of the net impact, mainly due to climate change. Part of this impact is mitigated by the carbon credits acquired by the company and their associated co-benefits.

TABLE 4

Natural Capital accounting results for the initiatives connected with Natura's Commitment to Life in the main impact factor categories

RESULTS (IN R$ MILLION).



*Natura is engaged in several recycling and reverse logistics initiatives. It should be noted that credit from the recycling of waste and the recycling of end-of-life products cannot be accounted for as a reduction or removal of impact. However, we can consider the impact avoided by the improper disposal of plastic, as some quantity will reach the oceans. Accordingly, we will consider this specific waste stream, which is already incorporated into the model.

The above results refer to Natura's public socio-environmental initiatives, such as offsetting carbon emissions, protecting the Amazon and promoting the packaging circularity.

The company's initiatives linked to the Amazon generated a positive impact of R$ 613 million. The total offsetting of the company's greenhouse gas emissions (Scopes 1, 2 and 3) reached R$ 2,333 million, generating benefits in terms of air quality, biodiversity conservation and GHG removal. These initiatives also positively impact Human and Social capitals, in terms of health, job creation, income, and local community development. It is therefore important to measure the final impacts of the strategies and have a total view of the benefits and externalities generated, which can start from an environmental front and have an impact on the social front (and vice versa).

The results evidence that carbon offsetting initiatives alone are insufficient for eliminating the environmental impacts generated by the entire company's value chain. In 2024, Natura broadened the scope of its Carbon Neutral Program, which became the Climate Transition Plan, with ambitious decarbonization targets aligned with SBTi objectives and incorporating the Net Zero concept. The plan also includes social and human aspects.

In 2023, the Carbon Neutral Program yielded substantial environmental benefits, with a return of US$ 121 for every US$ 1 invested. The current Climate Transition Plan promotes forest conservation through a combination of input purchases and the sharing of benefits for access to traditional knowledge and genetic heritage. The Circular Carbon project compensates supplier communities in the Amazon for their role in protecting forest areas, evidencing the economic feasibility of reconciling productive activities with environmental conservation.

The climate transition poses significant challenges for companies like Natura, which are seeking to align their operations with global social and environmental commitments. The most significant challenges include the necessity to drastically reduce carbon emissions throughout the value chain,in supply chain mostly which demands continuous innovation in processes and products, as well as substantial investments in cleaner technologies. Furthermore, adapting to new regulations and market expectations while maintaining competitiveness and profitability requires effective strategic management.

Conclusion

THIS PAPER AIMS to provide a comprehensive overview of the effects of human activities on Natural Capital, offering valuable insights into Natura's operations that can be beneficial for businesses seeking to assess their environmental and social impacts. This approach encourages dialogue on the value of a comprehensive view of the impacts caused by business. Accounting for climate justice underscores the necessity of embedding the three capitals — Natural, Human, and Social — highlighting the impact of human actions on humanity itself and the value exchange between the Human and Natural capitals in the form of ecosystem services.

For Natura, applying the eQALY methodology to identify the major axes of socio-environmental impact not only reinforces the value proposition present in well-being/being well (the company's "Reason for Being"), but also provides crucial information for assessing the business' real value. Any company may face significant socio-environmental risks, and Natura's Natural Capital valuation methodology is an essential tool for assessing and mitigating these risks. By upholding its commitment to socio-environmental objectives, Natura exemplifies the feasibility of recognizing an indispensable capital for the planet, by offering the business ecosystem a sustainable and regenerative approach.

The negative results associated with impacts on Natural Capital underscore Natura's key challenges, enabling the company to identify areas where more efficient management of impact indicators is required. This allows us to more effectively minimize negative impacts and maximize benefits, aiming at achieving a net positive impact on Natural Capital that aligns with the concept of regeneration.

This approach enables Natura to achieve its social and environmental goals while also provides a solid foundation for long-term value creation, reinforcing its position as a leader in responsible business practices.

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Appendix

TABLE 5

Scope of the methodology versus GHG Protocol

Scope 1

		NATURA 2023	NOTE	AVON 2023	VALUE CHAIN
1	**Direct Stationary Combustion**	✓	Life Cycle Assessment	✓	Manufacturing
1	**Fugitive emissions**	✓	Life Cycle Assessment	✓	Manufacturing
1	**Direct mobile combustion**	✓	Life Cycle Assessment	✓	Manufacturing
1	**Operational Effluents**	✓	Life Cycle Assessment	Not reported	Manufacturing

Scope 2

		NATURA 2023	NOTE	AVON 2023	VALUE CHAIN
2	**Electricity Purchased and Consumed**	✓	Life Cycle Assessment	Not reported	Manufacturing
2	**Steam and Heat**	Not reported	-	Not reported	Manufacturing

Scope 3

		NATURA 2023	NOTE	AVON 2023	VALUE CHAIN
3.1a	**Purchased Goods and Services**	✓	Modeled by EEIO*	✓	Supply Chain (Purchased Goods)
3.1b	**Purchased Goods and Services**	✓	Modeled by EEIO	✓	Supply Chain (Purchased Services)
3,2	**Capital Goods**	✓	Modeled by EEIO	✓	Supply Chain (other)
3,3	**Fuel and Energy Related Emissions Not Included in Scopes 1 and 2**	✓	Life Cycle Assessment	✓	Supply Chain (other)
3,4	**Upstream Transportation and Distribution**	✓	Life Cycle Assessment	✓	Logistics
3,5	**Waste Generated in Own Operations**	✓	Life Cycle Assessment	✓	Supply Chain (other)
3,6	**Business travels**	✓	Life Cycle Assessment	✓	Supply Chain (other)
3,7	**Employee commuting**	✓	Life Cycle Assessment	✓	Supply Chain (other)
3,8	**Upstream Leased Assets**	✓	Life Cycle Assessment	✓	Supply chain (other)
3,9	**Downstream Transportation and Distribution**	✓	Life Cycle Assessment	✓	Logistics
3,10	**Processing of Sold Products**	Not reported	-	Not reported	N/A
3,11	**Use of Sold Products**	✓	Life Cycle Assessment	✓	Use phase
3,12	**Treatment of End-of-Life Sold Products**	✓	Life Cycle Assessment	✓	End of life
3,13	**Downstream Leased Assets**	✓	Life Cycle Assessment	✓	Distribution
3,14	**Franchises**	Not reported	-	Not reported	N/A
3,15	**Investments**	Not reported	-	Not reported	N/A

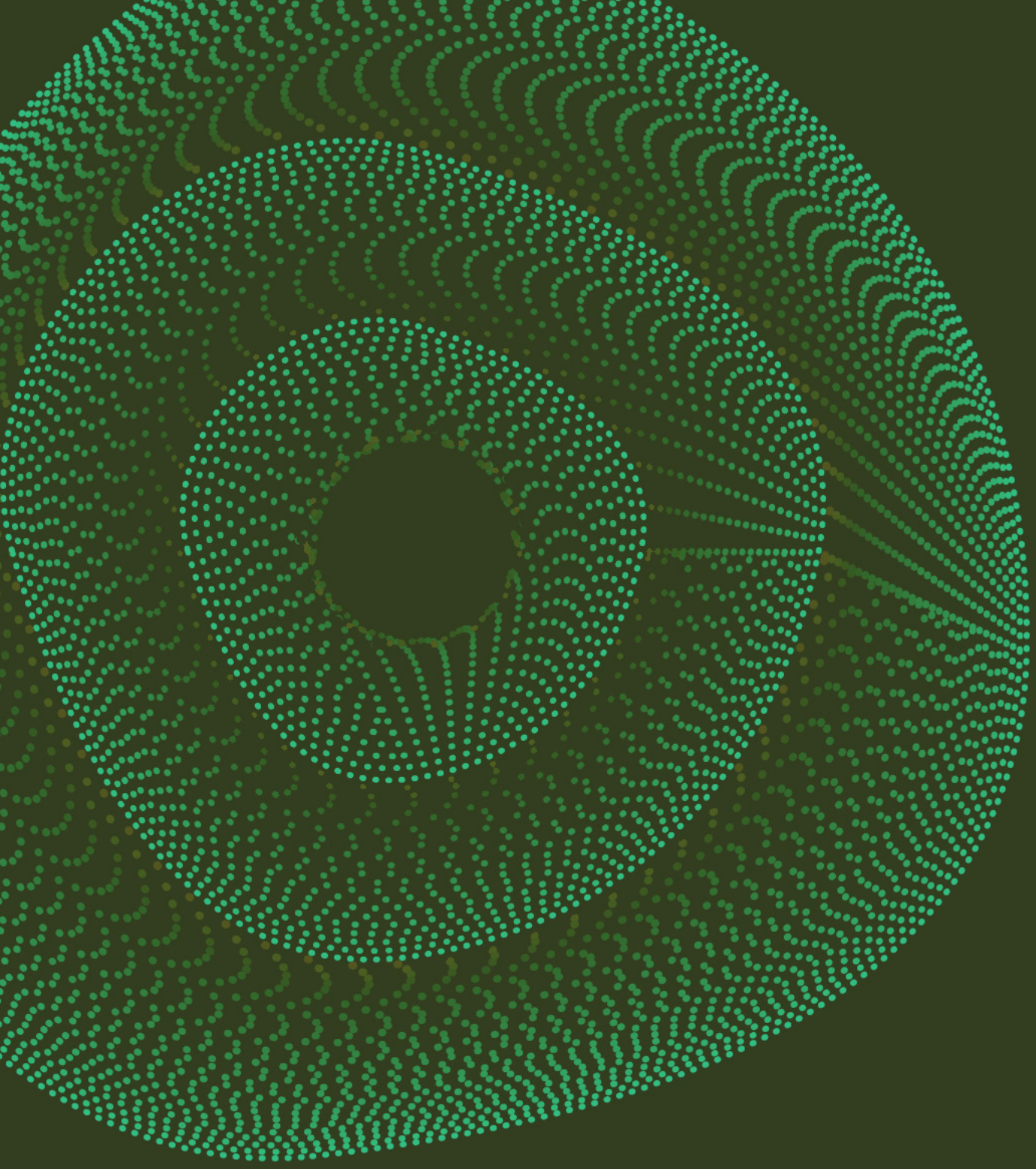
Additional Scope

(not modeled from the Carbon Inventory)

		NATURA 2023	NOTE	AVON 2023	VALUE CHAIN
3,11	**Water Use**	✓	Life Cycle Assessment	✓	Stage of Use
3,12	**Marine plastics**	✓	Life Cycle Assessment	✓	Stage of Use
-	**Carbon Credits**	✓	eQALY/Impact Valuation	x	*Offsetting*
1	**Amazon**	✓	eQALY/Impact Valuation	x	Supply Chain
12	**Reverse logistics**	✓	Life Cycle Assessment	x	Supply Chain
1	**Ethanol/ Palm Model**	✓	Not modeled/partially covered in 3.1	x	Supply Chain
2	**I-RECs****	✓	Life Cycle Assessment	x	Manufacturing

*The EEIO (Environmental Extended Input-Output) model analyzes the ratio between the economy and the environment. It expands input-output tables to include environmental data, making it possible to assess how production and consumption affect the environment and identify opportunities to make processes more sustainable.

**I-REC (International Renewable Energy Certificate) is a system that certifies the renewable origin of energy. Since all energy travels through the same distribution system, it is not possible to trace its origin only physically. The acquisition of I-RECs ensures that the energy purchased comes from renewable sources.



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