

Natura Integrated Profit & Loss Accounting 2021

Technical
Executive
Summary and
Insights

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Context

In order to solve our global crisis, our world needs leadership and accountability. To achieve this, new ways of accounting for value need to be established. Our impact on the world and society needs to be accounted for in all its dimensions, and this measure must be at the basis of a transition plan towards a regenerative economy. This will not be achieved using business as usual practices. Our accounting system, focused on financial values, is missing a huge part of our economic system value, its dependence on people and natural resources, for instance, and its impact on our society. Reforming the way we account for value will be the foundation of a sustainable transition and will be the guide for businesses willing to adapt and thrive in the new normal.

Recently, an emerging movement has shown the path towards comprehensive value accounting, based on the lead of the Capitals Coalition, the World Business Council for Sustainable Development (WBCSD) and the Value Balancing Alliance (VBA), among others. This movement has accelerated during recent years with the publication of the Natural Capital Protocol (Capitals Coalition, 2016) and the Human and Social Capital Coalition (Capitals Coalition, 2019). These protocols lay the foundation for measuring the societal value, impact and dependencies of businesses around the world. They are rapidly being deployed by a range of companies in all sectors and geographies, informing a change in business practices which contributes to our sustainability goals.

Natura was an early adopter of such an approach, having deployed its first Environmental Profit & Loss (EP&L) accounting in this space since 2016. Natura progressively extended the scope of its EP&L into human and social capital, covering first its carbon neutral strategy, delivering a variety of societal co-benefits, its Amazon program, which supports extractive communities, and the impact of its direct sales model on consultants, the majority of whom are women. Based on these evolutions, in 2020 the first Integrated Profit & Loss (IP&L) was created and used internally. In 2022, Natura updated and refined this IP&L and is making it public through this whitepaper.



Natura, its sustainability strategy and the IP&L

Natura was founded in 1969 and is the largest Brazilian multinational in the cosmetics sector, with a presence in Hispanic America, Malaysia, the United States and Europe (through its operation in France). Natura operates with direct selling through beauty consultants (approximately 2 million consultants) in Brazil, Argentina, Chile, Colombia, Mexico, Peru and Malaysia. Natura has an omnichannel presence with 589 physical stores and 1.3 million virtual spaces and e-commerce. Alongside Avon, The Body Shop and Aesop, it forms Natura &Co, the fourth largest beauty group in the world.

Natura is pursuing three main causes, spearheading its sustainability transformation and addressing material business topics:

- **Living Amazon Forest** (8,155 families in 40 communities trading with Natura in the Amazon);
- **More Beauty, Less Waste** (760 daily care products optimized to reduce their environmental impact plus corporate carbon neutral strategy)
- **Every Person Matters** (2 million consultants and 7,176 employees).

The IP&L was created to answer the need to drive business and sustainability decisions based on impact data, which are greatly lacking in all sectors at this moment. It is based on an integrated model of Natura's activities which portrays financial performance only when value to society, through natural, human and social capital, is incorporated (see Figure 1). Societal and financial value must be measured and analyzed together, which is the role of the IP&L, in order to deliver on societal and financial performance.

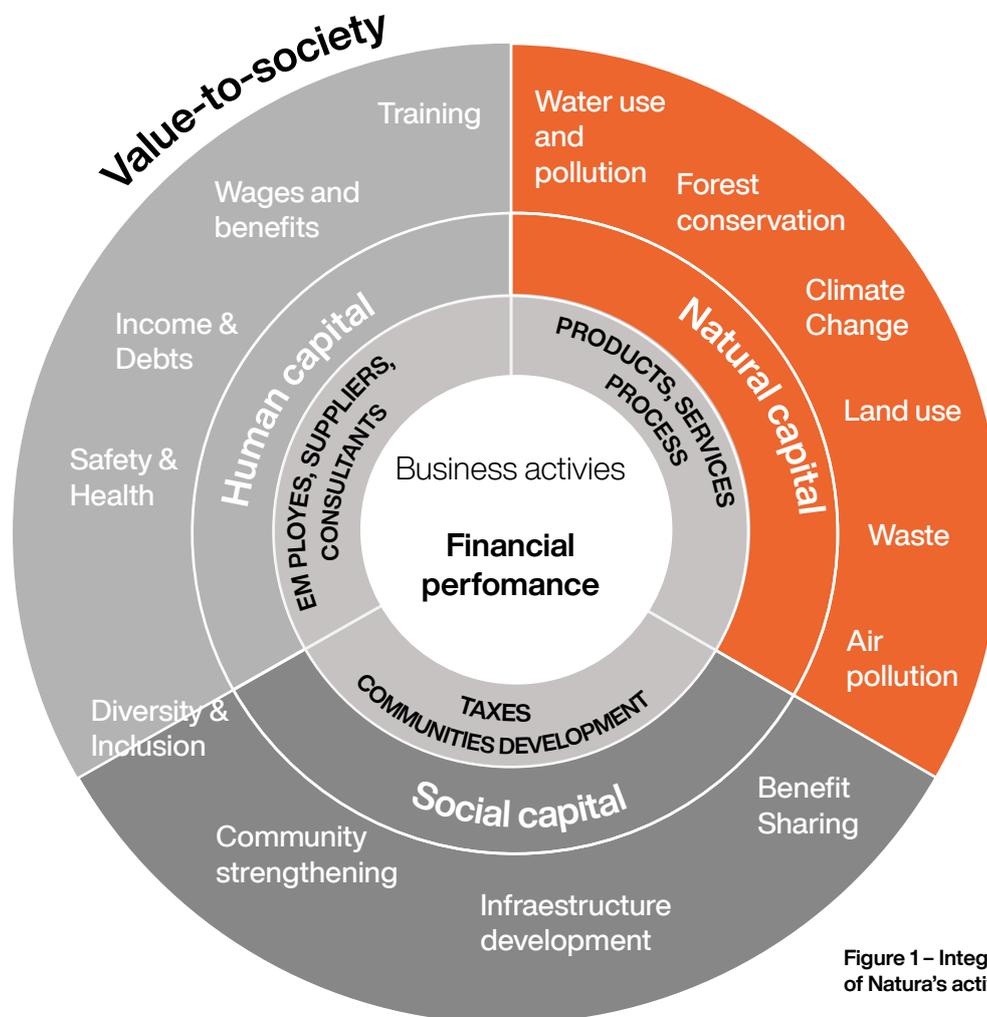


Figure 1 - Integrated model of Natura's activities

IP&L method references and key principle

The IP&L methodology relies mostly on the Natural Capital Protocol and the Human and Social Capital Protocol (Capitals Coalition, 2016, 2019). Impacts are best measured when defined using impact pathways, a collection of which creates an impact framework. Figure 10 illustrates the comprehensive impact framework of Natura's IP&L using the concept of impact pathways.

Measuring activities, inputs and outputs is usually straightforward as these can be observed directly. The complexity comes from measuring outcomes and impacts which are often experienced in the longer term and are usually the result of various activities or outputs. Outcomes and impacts are about changes in quality of life and ecosystems. These are complex to isolate and measure, so often they are modeled based on similar observed effects described in the scientific literature.

In our experience, it is critical to define a consistent, comparable and relevant impact indicator which in our case reflects "the change in well-being of those affected over the longer term". The unit to measure such a unique impact indicator is

based on the Disability Adjusted Life Years (DALY) or Quality Adjusted Life Years (QALY) measurement units, adapted for the purpose of this impact framework (see the description of the DALY/QALY unit in the Appendix)

The activities covered reflect the Natura value chain, from its supply chain and extractive communities in the Amazon region, to its direct operations (manufacturing and offices), the Natura consultants (sales activities), to the products used and product end of life. In the case of Natura, we also covered the carbon offsetting program, with a portfolio of carbon credits delivering various societal co-benefits (including some in the Amazon region, linked to the extractive communities), and the Instituto Natura, which supports education in Latin America countries.

The impact drivers are categorized per type of capital: human, social and natural capital. One impact driver can have a potential impact on more than one capital, although we have categorized these based on their main contribution towards one specific capital. The impact drivers correspond to either

activities or outputs that can be measured across the entire Natura value chain. For instance, the “income impact” can be measured for suppliers’ employees, direct Natura employees and Natura consultants, based on the same principles.

Valuation pathways reflect how we connect impact drivers to the chosen impact indicator (change in quality of life). There are two main pathways possible: direct health/well-being effects and economic outcomes. The first one, direct health/well-being is used when the output, the direct result of an ac-

tivity, affects human health. We consider both physical and psychological effects and cover changes in quality of life as well as life expectancy. These pathways are used, for instance, to measure the value of safety activities which reduce the frequency of occupational accidents or fatalities. They can also be used to measure more complex issues related to happiness, life satisfaction, self-confidence and so on. Finally, these pathways can also measure the social utility of products (which is not yet modelled by Natura in this version of the IP&L).

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Overview of the IP&L main table figure

The results of the Integrated Profit & Loss (IP&L) 2021 are presented in Figure 2. They show a net positive societal value created by Natura in 2021 of approximately R\$18 billion, mostly driven by social and human capital, while the natural capital impact is still, at this moment, net negative. Compared to the sales generated, corresponding to approximately R\$12 billion, the societal impact is greater, resulting in a societal return of 1,5. Thus, for every R\$ 1 of sales of Natura products, R\$1,5 of net societal value is created.

In line with the income statement structure, the IP&L reporting structure permits the identification of which activity generates which level of impact. It is useful to identify positive and negative contributions, although the level of aggregation still conceals many of the interesting details. For management purposes, a finer disaggregation of the impact valuation results is required; this is available for Natura internally.

Natura brand only

	Financial	Human capital	Social capital	Natural capital	Total
Gross Sales		-3,784	-	-399	-4,184
Consultants (BR Prata+ / LT Oro+)		8,684	-	-	8,684
Consultants (BR Bronze- / LT Prata-)		-12,468	-	-	-12,468
Use phase (updated for water use)		-	-	-257	-257
End of life (updated for plastic EOL)		-	-	-143	-143
Tax		-	11,648	-	11,648
Net Sales	12,133	-3,784	11,648	-399	7,464
Cost of Goods		2,030	681	-175	2,536
Direct operations		191	60	-5	247
COVID relief (products donations)		-	-	-	-
Suppliers		1,794	607	-170	2,231
Suppliers communities (incl. Amazon)		44	14	-	58
Gross Profit		-1,755	12,328	-574	9,999
Expenses		5,736	2,328	103	8,167
Sales, Marketing & Logistics		2,609	1,074	-52	3,632
Direct operations		891	257	-	1,148
Suppliers		2,476	817	-52	3,241
Consultants (BR Prata+ / LT Oro+)		-230	-	-	-230
Consultants (BR Bronze- / LT Prata-)		-527	-	-	-527
General & Administration		1,834	953	154	2,941
Direct operations		470	227	-	697
COVID relief (financial donations)		51	-	-	51
Suppliers		1,176	370	-4	1,541
Suppliers communities (incl. Amazon)		11	274	22	307
Carbon credits		126	82	137	345
Other Operating Expenses		1,293	301	-	1,594
Natura Institute		1,293	301	-	1,594
Depreciation & Amortization		-	-	-	-
EBITDA		3,981	14,657	-472	18,166

Figure 2 - Natura IP&L results overview for the year 2021 (in mR\$)

We created an additional table showing the contribution to societal value per topic and Natura activity, which allows a better thematic analysis and interpretation of the results, as illustrated in Figure 3. Most of the value is driven by the high-level consultants, the taxes paid and Natura's supply chain spending. Natura's direct operations come next, although they are relatively lower than the first three categories.

We can observe a negative impact contribution from consultants at low levels, characterized either by consultants who are just starting with Natura or who remain at a relatively low level of sales activity over time for different reasons. Another negative contribution is the product use and product end of life phases, which generate a negative impact on natural ca-

pital linked to the water and energy used at the consumer level, as well as the waste generated by the products and their packaging. The natural capital positive contributions include the investment in supplier communities, in particular in the Amazon region, protecting the forest and investment in carbon credits which offset Natura's GHG emissions and also provide additional environmental benefits.

The utility of products for society, which would have an impact on human and social capital, is not included in the scope of the current IP&L but should be in the future. This social utility is related to the positive impact on hygiene and the wellbeing and social integration that part of the cosmetic products generate for consumers.

	Human capital	Social capital	Natural capital	Total 2021	2021 SROI ¹
Consultants higher levels	8,452	-	-	8,452	-
Taxes (sales and corporate)	-	11,648	-	11,648	-
Supply chain	5,445	1,794	-231	7,008	-
Direct operations	1,552	545	-2	2,094	-
Instituto Natura	1,293	301	-	1,594	32.8
Carbon credits	126	82	137	345	40.1
Supplier communities (incl. Amazon)	56	288	22	365	8.6
COVID relief	51			51	2.5
Product use phase + end of life			-397	-397	-
Consultants lower levels	-12,994			-12,994	-
Total	3,981	14,657	-472	18,166	1.5

Figure 3 - Thematic classification of the impact valuation results for Natura

The overall results of the Natura IP&L indicate a net positive impact of R\$18.2 billion, despite some challenges highlighted by lower results in natural capital and in the low-level consultants. Other negative results exist but are offset by positive contributions in other categories, which shows the importance of not stopping the analysis at a high level but diving deeper into the results.

The social return on investment (SROI) ratios are interesting to analyze as well, as they show a wide variability depending on the line item or activity. Typical business activities result in an SROI of between 1:1 and 1:3.6, while targeted investments

which have the purpose of creating societal return, such as the Instituto Natura, the purchase of carbon credits, and purchases from supplier communities in the Amazon have an SROI ratio ranging from 1:8.6 to 1:40.1, which are relatively high values. These results primarily show that some business activities deliver more societal value than others, and that when societal value is at the core of the activities (supplier communities, carbon credits and Instituto Natura), societal returns can be extremely high and can support business value creation (e.g. the Ekos brand based on supplier communities in the Amazon).



Insights

The main value added by the IP&L results is the provision of an exhaustive view of the societal value delivered by a company along its entire value chain, across all capitals (natural, human and social capital), using a comparable, relevant and consistent monetized impact indicator. The monetization allows for greater capacity to relate to the results and compare them with financial or economic information. The IP&L is also a true measure of the sustainability of a company, reflecting both negative and positive contributions to society. The IP&L allows us to inform decision making processes and corporate strategy at various levels.

Building on what we have learned from developing and using the IP&L, we have summarized the main insights below. We have covered six key questions presented below with their answers:

4.1. What made the IP&L possible and why develop it?

Natura's history of leadership and innovation provided the basis for the idea of the IP&L to emerge as early as 2016 with our environmental P&L. Social impact has always been more difficult to capture than environmental impact, but it is only when we capture natural, human and social capital together that we obtain a better representation of Natura's value for society. Natura has always been in the forefront when it comes to sustainability, and we are aware that this is going to become more and more data driven, not only in climate change or diversity, but in terms of a holistic view of societal and business value. The sooner we get there, the stronger our competitive advantage will be. This is especially true now with the rapid increase in interest in ESG metrics from investors, the change in consumer perceptions and the increased pressure from governments and NGOs. To respond to this, we need a strong direction to aim for, driven by relevant data for impact on society. The IP&L offers this vision. The internal realization of this at a high level in Natura created the right environment for the IP&L to emerge. Exploring the unknown takes courage and leadership.

4.2. What has the IP&L development process brought to Natura?

Beyond the results themselves, the IP&L development process has added great value for Natura.

The first value it created came in the form of collaboration between a wide range of internal stakeholders, as well as some external ones. This collaboration helped strengthen Natura's unity as a company, creating connections and networks that will be used for other collaborations in the future. The IP&L development process also internalized a lot of knowledge and skills on the topic of sustainability and impact valuation methods, which is a rapidly evolving field in the private sector. The entire process introduced a new perspective on known facts that has been important for internal strategies. It has helped align different stakeholders by taking into consideration the results of impacts, which are more objective than measures of outputs. This process has helped us understand the relative materiality of different Natura activities as well. We have also identified new concepts and benchmarks that will become very important for Natura's sustainability strategy in the future, including for instance the concept of a living wage.

The values generated through collaboration on the IP&L development process have added a lot for Natura's employees and have made us evolve towards a common and truer understanding of the reality of Natura's impact. The IP&L has helped consolidate a vision of Natura's value for society that is grounded in facts and data rather than awards won and marketing material.

4.3. How will the IP&L be used in the future, what are the expectations?

The IP&L has a critical link with strategy and supports a new vision of materiality for Natura. This may be considered a form of triple materiality.

The possibility offered by the IP&L to view Natura's societal impact throughout its entire value chain and activities is unique and has not been achieved to date. Knowledge is power. Natura intends to use this new information over the coming years to develop unique insights to drive its business. It will require developing a learning agenda for the different internal (and perhaps external) stakeholders as it involves complex information based on new methodologies that most executives are not familiar with. Engagement and capacity building will be an important part of the IP&L deployment in the future.

The IP&L may not be used directly for decision making, but rather provide strategic direction that will highlight the activity, output and outcome indicators that will be used for taking decisions at management level.

Additionally, for internal strategy and management, Natura expects to use the IP&L for engagements with a range of external stakeholders. The increased interest in ESG has shown in parallel the vast gap in the standardization and relevance of the information provided by rating agencies. We need a true measure of sustainability and not only a rating that portrays what companies are saying they are doing. We believe that the IP&L provides this opportunity as an absolute metric of sustainability. We expect to test the use of the IP&L for engagement with investors but not limit it to them. We think that soon more stakeholders, such as governments, NGOs, business partners and suppliers/clients will ask for this type of information. However, the maturity of most stakeholders on these topics is still an issue, and awareness raising activities will be key to aligning everyone with Natura's vision of the use of the IP&L.

4.4. Where do you see the highest potential for improvement of the IP&L in terms of methodology?

There are various dimensions that we could develop in the coming years, as we know we have developed a good and robust first version but are also aware that we are only at the beginning of the journey.

We observed that input data usually require some adaptation for the IP&L. We have been engaging with different internal teams at Natura to identify and interpret input data and address data gaps. The quality of the IP&L results is entirely connected to the quality of what goes into the model, so it demands that we evolve our data collection processes and data management system. The measurement of the broader benefits of being part of the Natura network, including the sense of social integration and belonging, is also an important area for improvement.

The measurement of impact drivers, outcomes and impact valuation pathways is another area where we have been progressing a lot through the development of the Natura IP&L. We have invested in various methodological developments, including the health utility of income and tax, which are quite innovative compared to the alternatives. The gap in methodologies is still important, especially since most of the knowledge is still in the hands of academics or consultants rather than embedded in businesses, where it would enable an efficient deployment of an IP&L approach. We hope there will be further collaborations in the future to promote the development of common knowledge on valuation methodologies. The IP&L in its current format presents a good portrait of Natura's impact in 2021, but we need to develop the model in a direction that allows us to assess future scenarios. Scenario building is key to informing better strategy and decision making. For instance, what will happen when we have achieved our 2030 commitments in terms of IP&L results, how much societal value creation will we have achieved and how much remaining negative value will we still have to address

in the future? This is a very interesting area of development to provide more dynamic support for Natura business strategy.

Another area where we will seek to further develop the IP&L is the connection with business value. We currently present a parallel accounting between income statement and natural, human and social capital. The insights provided by this format are already important. A stronger focus on financial value can, however, help us understand the mechanisms of exchange between societal and business value in greater detail. In particular, the potential rate of internalization of societal value, from a risk and opportunity perspective. The potential to create business value when investing in societal value is also an area that has important potential. For instance, investing in human capital in the form of training and life skills for our consultants also helps reduce sales-related costs (lower turnover) and increase product sales, positively impacting consultants' income and Natura's revenue. The last area where we see important potential is the standardization of IP&L methodologies so that every business will be able to measure and report its results in a comparable and transparent way

4.5. Where do you see the highest potential for creating positive value for Natura in the coming years?

Based on our current IP&L results, we see three important areas of opportunities:

- a) Highest impact contributors: we observed that we generate a massive impact through the work with our high-level consultants, payment of taxes and spending on our suppliers. There is an important opportunity to develop strategies to maximize this impact even further.
- b) Highest return activities: we identified specific Natura activities that lead to very high societal returns ranging from 1:9 to 1:40, which is not common in business activities. These activities include the purchase of raw materials from the Amazon extractive communities, the carbon neutral strategy and the Instituto Natura education activities. These are projects that have been developed primarily with social value in mind, while strengthening the unique selling points of the Natura business. There is significant potential to scale up or replicate these activities in other areas, in particular the Amazon project, which is at the very core of the Natura business.
- c) Low and medium impact contributors with high growth potential: Other activities such as direct employment, product utility and use phase and packaging end of life are areas where strong impact growth may be foreseen in Natura's targeted activities. All three areas are important categories to consider

when it comes to scaling up Natura's positive value in the future. Strategies will need to be discussed and developed together with a wide range of stakeholders.

4.6. Why are there negative results and how to manage them?

Any business in the world will make negative and positive contributions to society. We know that natural capital impact is mostly negative for the majority of businesses (since any economic activity uses natural capital as an input for its production and results in pollutant emissions to nature, such as GHGs and other chemicals, affecting ecosystems and biodiversity). There is, however, great variability in social value, with some companies having very negative impacts while others produce very positive ones. This mostly reflects the reality of our world and the major trends that we are observing, such as inequalities and environmental damage. It is normal to see this reflected in a business's IP&L. If this were not the case, it would be worrying as the measure would probably not be very objective or could even be misleading.

In the case of Natura, we have identified a few negative contributions which are being addressed by the company's strategy. Measuring the extent of these impacts helps us understand, prioritize and address them through our strategy.

The negative contributions relate mostly to low level consultants and our impact on natural capital.

The consultants at low levels of relationship with Natura still have the potential to earn a living wage based on their sales activity. This may be considered normal, especially if they have just started on their entrepreneurial journey. Natura uses levels of performance to incentivize consultants to achieve a higher income. The challenge is to understand how to ensure this transition towards higher income more rapidly, by investing in the consultants' productivity, income diversification, skills and knowledge and general opportunities to extend their network. All these points are currently being addressed by Natura.

Natura's natural capital impact is the other negative contribution related mainly to the final stages of product use and subsequent circularity. To address these issues, Natura already has commitments in its 2030 Vision - Commitment to Life - that covers topics such as net zero, circularity and sustainable materials. Additionally, other investments in sourcing from the Amazon and in carbon offsetting have already generated benefits that have helped us reduce our net impact by 30%. Lastly, we have been working on reducing our natural capital impact for many years, resulting in a 25% reduction from 2018 to 2020, when compared with net sales performance

One recurrent comment that we have received was that we should stop operating when we see a negative value.

However, this is not our position, as it will not help in reducing the impact. Most likely another company will take our place, possibly operating with a lower performance or simply removing the positive impact we are already generating with our operation. For instance, we should not exclude low level consultants from the opportunity to generate an income, but rather support them in increasing their income through creating a network of clients and relationships. Excluding them would have other consequences, such as eliminating female participation in the economy (and reducing women's empowerment) and putting a population group with fewer opportunities at higher risk, thus exacerbating inequalities. Through our sustainability strategy, we can continue to reduce our negative impact and scale-up our positive impact to reach a very positive net impact, which is already the case today.

4.7. What will the future developments of Natura's IP&L be?

In the short term, we are continuing to boost awareness, empowerment and training of Natura employees in the IP&L since it is a very innovative tool that has never been used in the past. Through this engagement, we are also ensuring that priorities identified in the IP&L are understood and addressed by the different internal stakeholders. This is the first step for any business that wants to use a new tool such as the IP&L.

The influence of the IP&L on decision making at Natura will also require that performance management processes and governance be adapted to account for this new information. New indicators have to be defined, with responsibility and accountability clearly defined. We expect that this information will be communicated and used directly by the board.

In conclusion, the Natura IP&L is one of the first comprehensive IP&L exercises undertaken by a business in the world to date. We realize that there is still a long way to go before we can standardize such an approach and ensure its deployment in the private sector. Natura's IP&L is still a work in progress, even though it is already well advanced. Natura recognizes that the model and results presented here might change in the near future when further progress is made by the company and its partners. Thanks to the work of the Capitals Coalition, the World Business Council for the Sustainable Development and the Value Balancing Alliance, as well as others, progress on standardization is being made in parallel. We do, however, need to accelerate our transition towards a regenerative and sustainable economic model. We hope that this example of making the Natura IP&L and its methodology public will encourage others to take this step and use advanced and more relevant impact frameworks than in the past, developing important insights for their businesses.

Case studies

In order to illustrate the level of detail that can be generated by the IP&L to support a better understanding of Natura's business and sustainability, we provide three different cases showing the results of deep-dives into a) the Amazon extractive communities that provide ingredients to Natura while protecting the forest and generating socio-economic opportunities; b) into the consultants' business model; c) and into plastic waste and circularity opportunities.

for Natura products. This relationship is beneficial for all the parties involved, including Natura, which has access to unique, high-quality raw materials that have led to the creation of 41 bioingredients, the communities, which have market opportunities (8,155 households), receive income and other benefits, as well as for nature and for the forest, 2 million hectares of which are protected. Inputs such as piriococa, ucuuba, pataua, murumuru and others are extracted sustainably by 85 supply chains in the Amazon and are used in several brands and product categories, ranging from fragrances and skin care to hair care.

5.1. Deep-dive into Living Amazon Forest - Amazon extractive community results

Influenced by the Eco 92 UN summit in Brazil, Natura became aware of the fact that due to its different cultures and biodiversity, the Amazon is a key vector for the living planet and society. Believing in the region's potential to be a major hub for innovation and sustainable business, in 2000 the company launched Ekos, Natura's first brand to use ingredients from Brazilian biodiversity. This was the start of a special relationship that Natura has with Amazon communities that use an agroforestry model to produce key ingredients

Overall, the sourcing of ingredients from the 40 extractive communities in 4 Amazonian territories generates R\$317 million in societal benefits in the Amazon and a total of R\$365 million in Brazil. This contributes to 2.0% of Natura's overall IP&L, but represents a huge opportunity in terms of scaling up the business model, extensive to other businesses in other sectors. It is also an efficient activity for creating societal value, since for every R\$ spent on the initiative, R\$8.6 is generated for society, in particular for the communities in the Amazon. Figure 4 shows the breakdown of the results for the Amazon sourcing activities, per type of value.

2021 in mnR\$

Category		Human capital	Social capital	Natural capital
Benefit sharing		-	121.5	
Sourcing of raw materials	Income	69.2		
	Gap to Living Wage	-51.8		
	Taxes	-	12.2	21.6
	Coop economic activity	22.7		
Indirect resources		11.3	26.5	
Institutional strengthening		-	83.4	
Subtotal (Amazon)		51.4	243.6	21.6
Subtotal (other communities)		4.3	43.9	-
TOTAL SUPPLIER COMMUNITIES		55.7	287.5	21.6

Figure 4 - Impact valuation results for the Living Amazon Forest

The results show an important contribution to social capital from benefit sharing, which is by far the largest single contributor to societal value. Natura pioneered the signature of the first benefit-sharing agreement, in addition to making a commitment to the Nagoya Protocol. This is an instrument that regulates access to biodiversity genetic resources and the sharing of benefits related to them on a global level, seeking to protect and value biodiversity while ensuring the distribution of benefits from the use of this biodiversity in a fair and equitable manner. This benefit sharing is aligned with the Convention on Biological Diversity, which regulates the fraction of the sales of products with embedded ingredients (biodiversity resources) from the Amazon that should be shared with the communities. These funds finance producer cooperatives, which are involved in investment choices. They finance production capacity, training, education, and other types of investments to promote the conservation of biodiversity.

The Institutional strengthening is the second biggest contribution and are part of the investments that Natura is committing to undertaking to support the region. The other investments cover infrastructure, capacity building, studies and technical services for the producers.

The purchase of products in the region is the third biggest contributor to societal value, driven mostly by income generation, economic activities generated through local trade and tax income. In spite of these positive impacts, the gap to a living wage still represents a challenge. Further refinement of the model and a study to achieve better understanding of the cost of living in the region are being undertaken to provide insights into this issue. Ensuring a living wage is not only a question of increasing product prices, but also of increasing productivity and decreasing production costs. The overall benefits generated by the relationship with Natura also need to be accounted for, as some of them complement the income generated by the products.

Each community of producers protects the land and forest where they source the ingredients and has a positive influence on the surrounding areas, effectively limiting deforestation. Natura estimated that two million hectares of forest are protected. The benefit created, calculated based on a deforestation avoided model, reaches R\$22 million annually in terms of the value of ecosystem services.

Overall, the value to society of the entire activity of sourcing ingredients in the Amazon and from extractive communities generates an important positive value with a relatively high and relevant societal return of 1:8.6 (for every R\$ spent in the region, including the sourcing of

ingredients, R\$8.60 of societal value is created). It is a model that could be scaled up towards a regenerative economy by Natura and others in the future and could constitute an important driver for the protection of the Amazon forest.

5.2. Deep-dive into Every Person Matters: Consultants and women's empowerment

The core of the Natura business model is its consultants, mostly women, who develop entrepreneurial activities to sell the company's products to their networks. This direct sales model reaches and generates opportunities for underserved people. The entire model is based on the progression of consultants towards higher sales volumes and performance, allowing them to progressively increase their income. Measurement of the time spent on the activity showed that low level consultants often have a low income, at times below the living wage threshold. Figure 5 illustrates the trade-off between the impact generated from additional income received and the gap remaining towards a living wage for part of the consultants. The contribution from commercial training is also a key positive contribution to the human capital value of consultants, as are the COVID relief activities in 2021. The last contribution, which results in a negative impact, is the debt that a small fraction of consultants accumulate for various reasons, which leads to late payment fees and other costs. Overall, the impact for consultants is driven by the income generated, which is the single highest contributor to the Natura IP&L, while this is mitigated by the gap to a living wage, mainly for low level consultants. It will be critical to address this trade-off in Natura strategy in the future, including a deeper understanding of the time dedicated to Natura activities. This question is already reflected in one of the pillars of Natura sustainability strategy to promote measurable gains for the consultants in income, health, education and digital inclusion.

2021 in mR\$

	Low-level consultants	High-level consultants	Total
Income impact	4.933	14.085	19.018
Gap to living income	-17.401	-5.401	-22.803
Commercial training	48	110	158
Debt	-574	-342	-916
Total	-12.994	8.452	-4.542

Figure 5 - Impact valuation results for all consultants at Natura, split by low level and high-level consultants.

Looking at this dynamic of consultant income generation and vertical mobility, the entire model relies on the opportunity to increase consultants' income through increased volumes and efficiency over time. Natura estimates for instance that there is a consultant upward mobility of approximately 14% per year in the middle levels, showing a relevant dynamic of income (and social) progression. We also observe that consultants with greater seniority usually earn more income. This demonstrates how the Natura direct sales model works, providing opportunities for generating sales for Natu-

ra and, in parallel, income opportunities and upward social mobility for consultants who perform better.

Figure 6 illustrates the increased positive impact moving from lower to higher levels of consultants, focused on consultants in Brazil only. The net impact for low level consultants is still negative despite the positive contribution of income, while for high level consultants the net impact is highly positive. All results are expressed per consultant and per year on average.

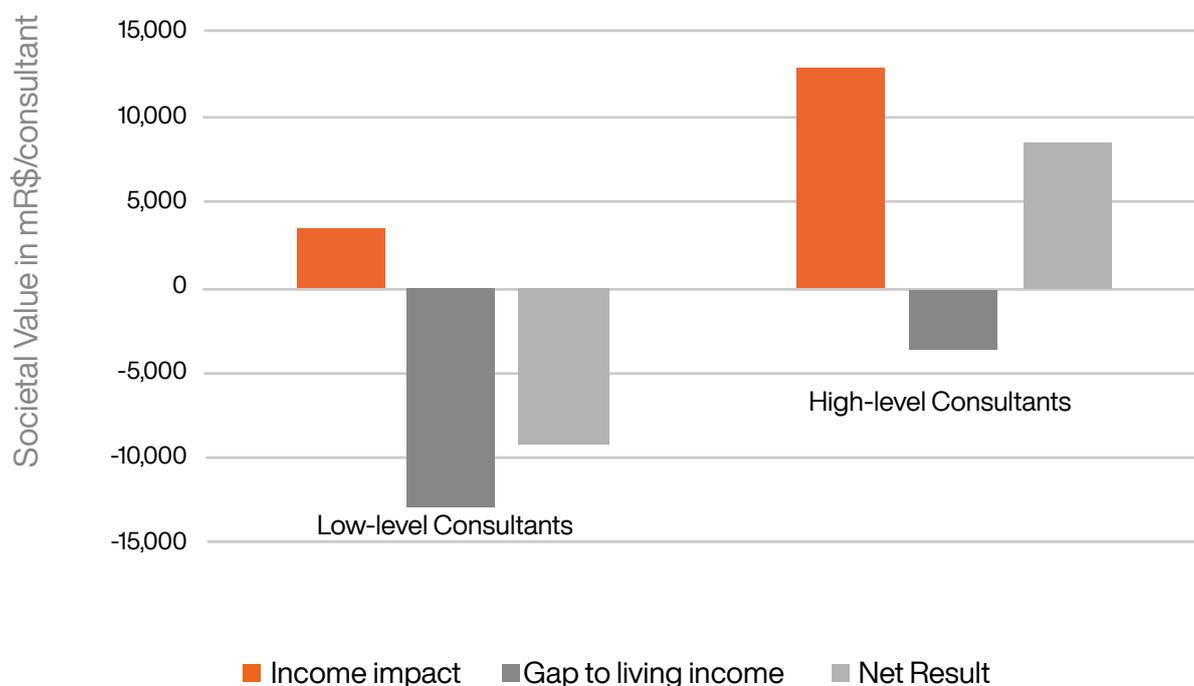


Figure 6 - Impact valuation results only for Brazilian consultants per level and per individual

When considering the volume of consultants in the results for Brazil (Figure 6, overall results table for consultants above), the results show a net positive impact for the higher levels counterbalanced by the net negative impact for initial levels, driven by the volume of consultants. An in-depth exploration has been undertaken internally to understand the dynamic of those consultants who are not necessarily working for the income but who might be consuming most of their purchases. The statistics we used excluded as far as possible the consultants not working primarily for the income. In the model we excluded 24% of the consultants from the gap analysis for the living income because they already have family incomes above the living income benchmark. This was a sample survey that can be improved, as well as the data in relation to the time dedicated to the consulting activity that is self-reported and may be over or underestimated due to the difficulty of estimating the time in this type of activity. Other considerations such as the seniority level of the opportunity cost of the income generated will be explored in more depth. In the future, it will be important to develop a more granular

analysis of the income driver for the consultants, although the data for this is lacking at the moment.

The consultants' results are again the biggest drivers of Natura's IP&L results and have the potential to generate higher positive impact in the future through a variety of strategies under discussion internally. These strategies will target product margins, income diversification, training and skills, turnover rates and upward mobility, etc.

5.3. Deep dive into More Beauty, Less Waste: Carbon offsetting strategy

Natura's carbon neutral strategy has existed for a number of years, in parallel with its GHG emissions reduction efforts. Natura purchased 356,800 credits this year, however not all credits are equal from the perspective of benefits to society. The credits correspond to the avoidance of the emission or the sequestering of one tonne of CO₂e.

Building on the Natura IP&L impact valuation model, we accounted for the societal benefit in terms of ecosystem services (from environmental protection, impact reduction or forest conservation/reforestation efforts), education and skills, human health impact reduction, job creation and community development (various values). Figure 7 shows that the value generated by each type of carbon credit bought over the years varies significantly. Eco-efficient cooking stoves represent the type of carbon credit delivering the maximum value per unit of credit, thanks to the human health benefit on the one hand (since indoor air quality is significantly improved) and community development on the other, which in this case relates to the productivity gain for women due to having a more efficient stove (saving time for other tasks, for instance)

A similar trend is seen for the insetting project in place in the Amazon region involving extractive communities supplying ingredients to Natura. The community development value is driven by investment at the cooperative level in various fields, while the ecosystem services are delivered by the protection of forests and ecosystems where the ingredients for Natura are sourced. The credits with the least impact are those related to wastewater treatment, fuel switching and REDD+. As primary data were collected from the specific projects from which Natura purchased the carbon credits, it is likely that the variability of the results is important when considering similar projects in different contexts and locations. These results should not be used as a general conclusion within the wider carbon market.

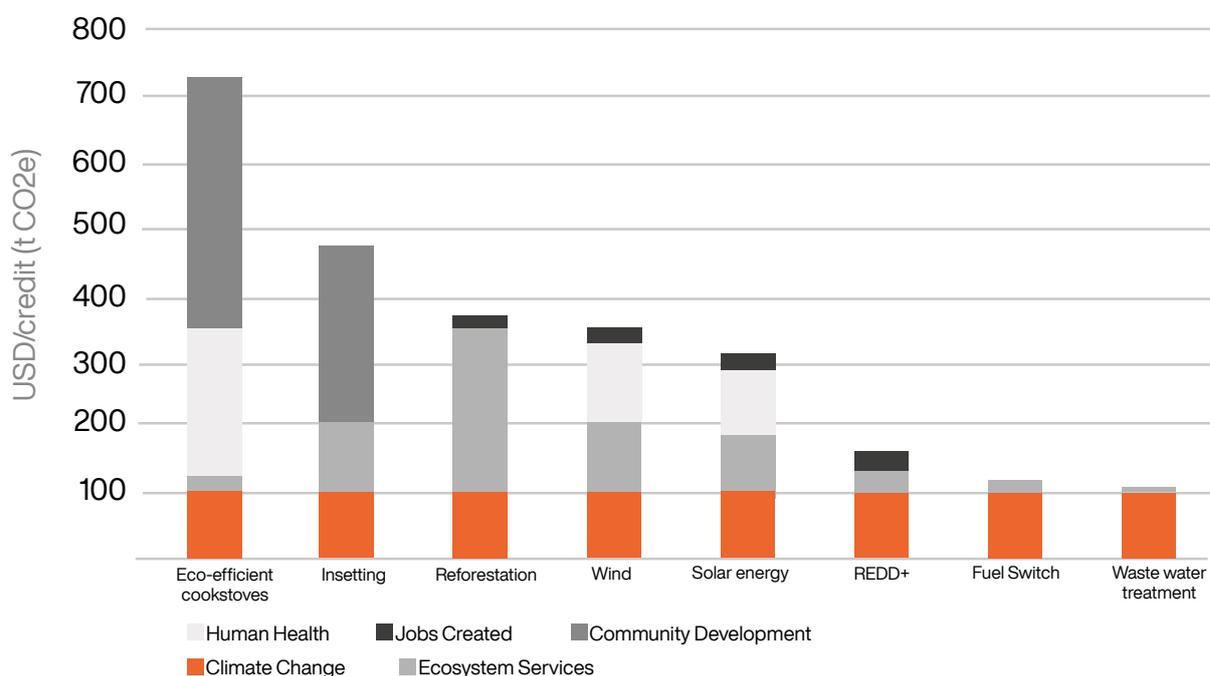


Figure 7 – Comparison of societal value distribution per impact driver and per type of credit

The results per carbon credit, when applied to the entire volume of credits purchased by Natura in 2021 by type of credit are shown in Figure 8. The higher impact is generated by solar energy, followed by insetting and REDD+. In the case of solar energy, we accounted for the

substitution of other sources in the national electricity matrix and their negative externalities by solar energy (while still accounting for the negative impact generated by the installation and operations involved in solar energy).

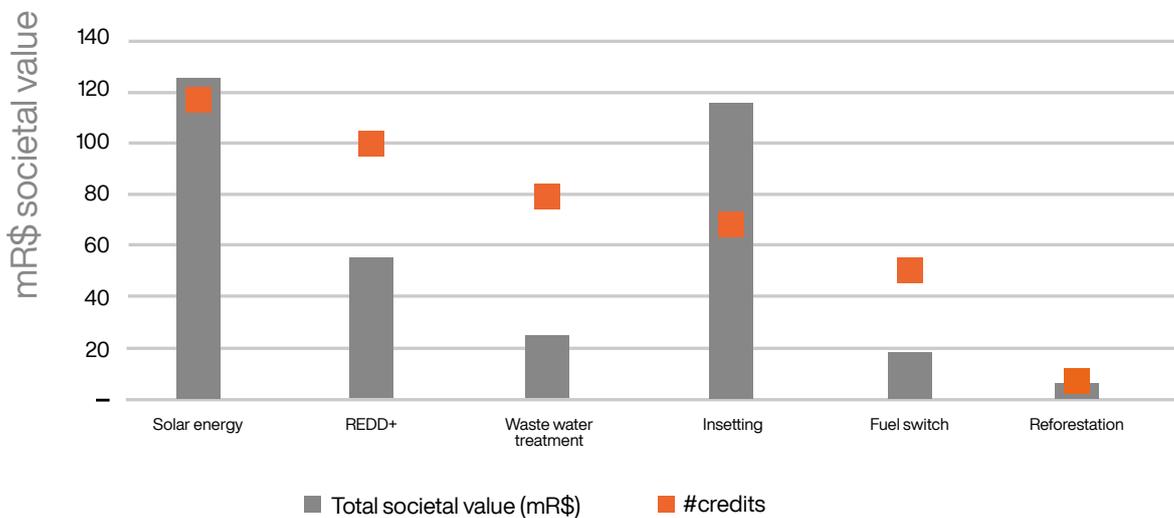


Figure 8 – Distribution of the volume of carbon credits purchased in 2021 per type of credit compared to the aggregate societal value generated by the same credits

This analysis provides insights for the Natura carbon credit purchase strategy and carbon neutrality strategy. When compared with other purchase drivers such as price, availability,

reputation, location and connection with the Natura value chain for instance, better decision making can be made and societal value can be optimized.

Appendix

IP&L Methodology

Appendix IP&L methodology

General introduction

The IP&L methodology relies mostly on the Natural Capital Protocol and the Human and Social Capital Protocol (Capitals Coalition, 2016, 2019). Impacts are best measured when defined using impact pathways, a collection of which creates an impact framework.

An impact pathway defines the path from input, activities and output towards outcomes and impact as illustrated in Figure 9. It connects what we usually do and know well, our daily operations as a business, to their direct outputs (e.g. use of cosmetic products, generation of income) with more long-term, life changing outcomes and impacts (e.g. change in personal well-being).

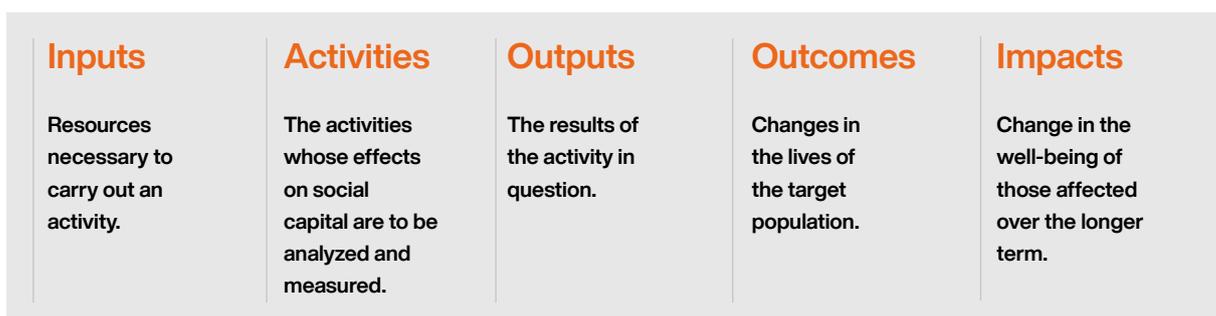


Figure 9 – Illustration of a standard impact pathway (adapted from the Human & Social Capital Protocol, 2019)

Measuring activities, inputs and outputs is usually straightforward as these can be observed directly. The complexity comes from measuring outcomes and impacts, which are often experienced over the long term and are usually the result of various activities or outputs. These are complex to isolate and measure, so very often they are modeled based on similar observed effects described in the scientific literature.

In our experience, it is critical to define a consistent, comparable and relevant impact indicator which in our case reflects “the change in well-being of those affected over the longer term”. The unit to measure such a unique impact indicator is based on the Disability Adjusted Life Years (DALY) or Quality

Adjusted Life Years (QALY) measurement units, adapted for the purpose of this impact framework.

Disability or Quality Adjusted Life Years (DALY/QALY) are units that measure a change in life quality over a period of time (in years equivalent). They are often used in public policy decision making, research and other fields. The indicators have been promoted by the World Health Organization and The Lancet in particular. The DALYs/QALYs use multipliers for comparing and adding life lost together with life disabled. Logically, a year of life lost is equal to one DALY. But when a disability is experienced, whether it is physical (e.g. broken bone, back pain, etc.) or psy-

chological (e.g. depression, anxiety, etc), multipliers, also called weights (defined between 0 and 100%), are used to express a fraction of a DALY. To give an example of a calculation, one DALY would be equivalent to ten persons losing 10% of their life quality over the period of one year, or 2 persons losing 50% of their life quality over the same period. These indicators are a way of capturing both life expectancy changes (full DALY/QALYs) and life quality changes (weighted DALY/QALYs). A set of weights for a wide range of medical conditions is provided by the WHO, and other weights can be derived directly by the comparison between different physical or psychological conditions. Calculating DALYs can also be done based on socio-economic models, or utility models, as we will explain in the detailed methodology description below.

Overall Impact Framework

The impact framework developed covers four main steps, from 1. activities, 2. impact drivers, 3. valuation pathways up to 4. impact as illustrated in Figure 10.

The activities covered basically reflect the Natura value chain, from its supply chain and extractive communities in the Amazon region, to its direct operations (manufacturing and offices), Natura consultants (sales activities), the products used and product end of life. In the case of Natura, we also covered the carbon offsetting program, with a portfolio of carbon credits delivering various societal co-benefits (including some in the Amazon region linked to the extractive communities), and the Instituto Natura, which supports education in Brazil in general.

The impact drivers are categorized per type of capital: human, social and natural capital. One impact driver can potentially

have an impact on more than one capital, although we have categorized them based on their main contribution towards one specific capital. The impact drivers correspond to either activities or outputs that can be measured across the entire Natura value chain. For instance, the “income impact” can be measured for suppliers’ employees, direct Natura employees and consultants, based on the same principles.

Valuation pathways reflect how we connect impact drivers to the chosen impact indicator (change in quality of life). There are two main pathways possible: direct health/well-being effects and economic outcomes. The first one, direct health/well-being is used when the output, the direct result of an activity, affects human health. We consider both physical and psychological effects and cover change in quality of life as well as life expectancy (see description of DALY/QALY unit in the previous chapter). These pathways are used to measure the value of safety activities which reduce the frequency of occupational accidents or fatalities. They can also be used to measure more complex issues related to happiness, life satisfaction, self-confidence and so on. Finally, these pathways can also measure the social utility of products (which is not yet modelled by Natura in this version of the IP&L).

In parallel with direct health effects, valuation pathways also cover economic outcomes which are pathways that are measured through an economic effect either in the short or long term, or affecting individuals (e.g. income, costs) or an entire population (e.g. taxes and social benefits). In order to translate these economic effects into an impact, using the definition of wellbeing, we need to use “utility models”. Utility models are specific to different categories of economic effects, which we can categorize into either income or tax-related effects. These models are described in detail in Appendix.

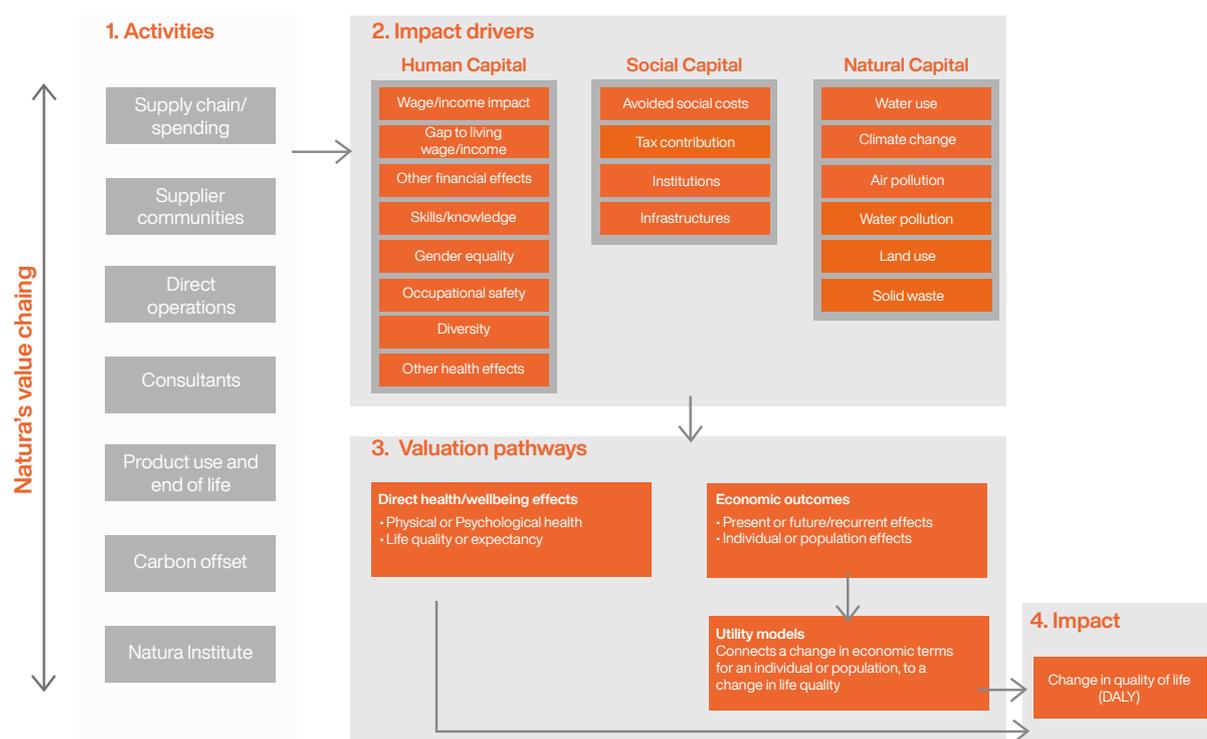


Figure 10 - Impact framework for the Natura IP&L

Natura activities pathways

- Supply chain/Spending

Natura's spend is significant and is directed at buying ingredients, packaging and other materials for the manufacture of its cosmetic products, as well as services, such as marketing, sales, logistics and other professional services. This spend is distributed throughout various countries in the world and covers thousands of suppliers. Considering direct and indirect suppliers, we calculate that approximately 50,000 jobs (full-time equivalent) are sustained by Natura's spending. We used an input output model (Exio-base) to calculate this employment figure. An input output database is a mirror of the economy in the format of a large matrix table, which contains economic data on exchanges between sectors of economic activity. These tables provide, for instance, information of how a dollar spent in one sector will be distributed among other sectors (through the demand for goods and services). These are typically published by national statistical offices and combined in a global model of the economy by a number of research and academic institutions or collaborations. More information can be found in a recent paper from the Value Balancing Alliance . The model allows us to calculate the total employment generated by Natura, based on spending and employment, which is classified by skill level, as a proxy to employment income levels. Income levels were derived from the world income inequalities database and applied to macroeconomic statistics to derive estimated levels of income per country and skill level. The income generated by

employment was also used to derive personal tax contributions (personal income taxes and employer social contributions), using average tax rates per country (source: PwC/KPMG). The income impact and gap to living income are valued using the Health Utility of Income model (HUI, see in appendix Income and tax health utility models). The taxation and social contribution are valued using the Health Utility of Tax model (HUT, see in appendix Income and tax health utility models).

We added safety statistics (injuries and fatalities per sector and country) to the input output model to derive a total number of injuries and fatalities over the jobs sustained. Finally, the input output model also provides data on corporate tax contributions which we used directly. We estimated the gravity and duration of injuries as equivalent to the rates at Natura (5% DALY weight with an equivalent 27 days of lost time). For fatalities, we estimated 30 years of life lost on average (equivalent to 30 DALYs per fatality).

The natural capital impact was derived from another input output model which was automated some years ago at Natura and which is updated with activities data annually (including for 2021). The natural capital valuation model is described in Appendix.

Ideally, other human and social capital values should be captured in the supply chain, such as diversity and training, however statistics and data are lacking to capture those indirect effects at this moment.

Figure 11 shows the supply chain impact pathway map.

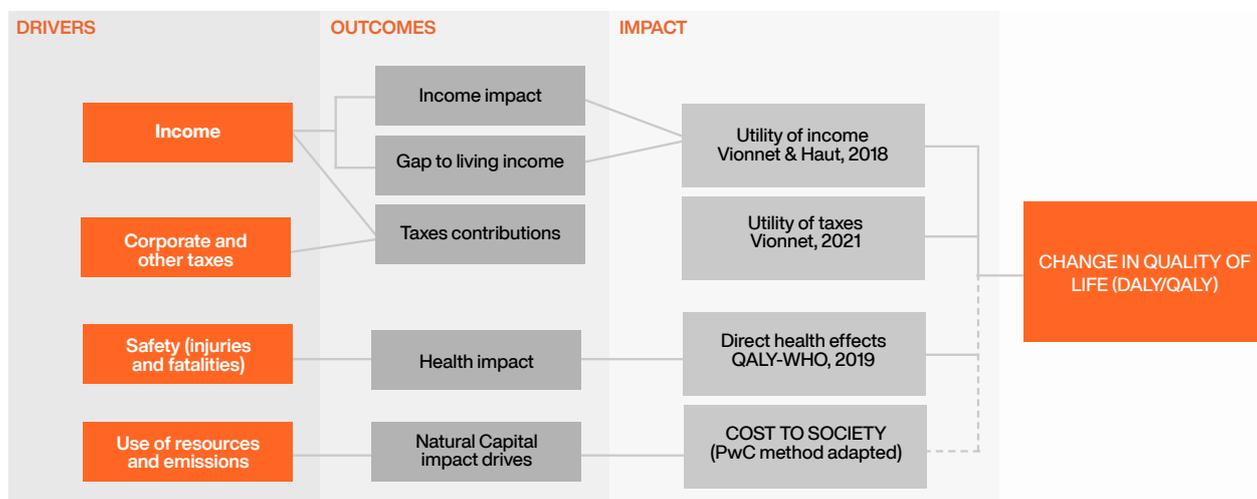


Figure 11 – Impact pathways for the Natura supply chain (excluding Amazon communities)

• **Supplier communities/
Amazon**

Natura’s business model includes the sourcing of key ingredients from the Amazon region in particular (but also in other regions of Brazil) and from extractive communities, involving more than 8,000 families, with a cumulative spend of over two billion R\$ over the past ten years.

Some of the key results of this trade with extractive communities are the income generated, benefit sharing and forest protection (see Figure 12). Natura’s purchase of ingredients grown in agroforestry systems generates an income for the communities, which we further break down into income from labor, local economic spending (cost of production which often translates directly into income for third parties) and taxes (e.g. various sales taxes). We used the direct spend data as well as information on the split of the price in labor, cost of production and taxes to distribute the community’s income in these latter components. An additional benefit from the use of biodiversity resources is the benefit sharing scheme (which is mandated by law in Brazil). A fraction of the sales generated returns to the communi-

ties through direct investments at the cooperative level in a wide range of projects in education, housing, production capacity, nature conservation and so on. We assessed a selection of these investments to derive a general social return on investment (SROI) ratio that we used as a multiplier for the benefit sharing generated in 2021 by Natura. The average SROI ratio is 16:1, although a broad variability was observed depending on the activity. Forest protection is another direct effect of trade, as most of the ingredients are produced by or in the vicinity of trees, using the natural ecosystem as the foundation of production. This ensures that forests are protected in and around the communities’ land. Natura estimated that two million hectares of forest in the Amazon region are protected, for which we calculated the deforestation risk avoided translated into maintained ecosystem services. We valued these ecosystem services based on an avoided replacement or mitigation cost, at an average of 3,301 R\$/ha (adapted from de Groot, R., Brander, L., van der Ploeg, S., et al. (2012) Global Estimates of the Value of Ecosystems and Their Services in Monetary Units, and considering regulating and cultural services, as well as selected provisioning services).

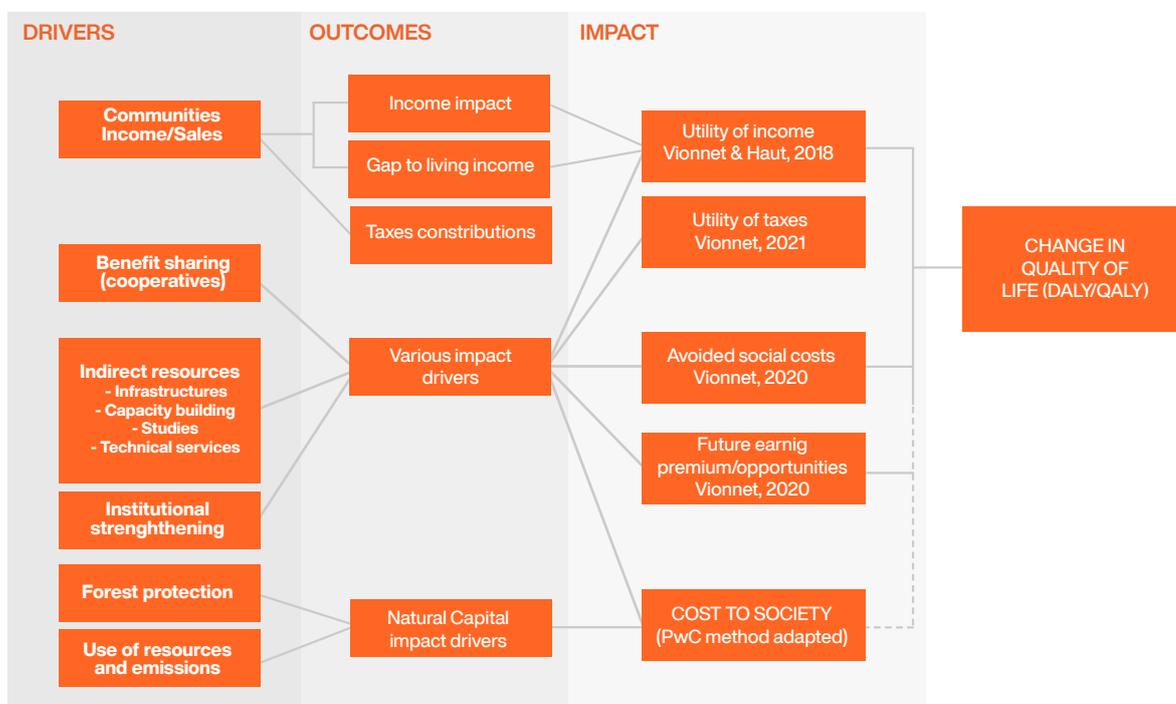


Figure 12– Impact pathways for Natura’s sourcing from extractive communities (Amazon and Brazil)

The natural capital impact of this sourcing was also considered in a similar way to the rest of supply chain sourcing (see methodology Appendix).

Other activities, called “indirect resources” by Natura, are also captured in our model and relate to infrastructure investment, capacity building, the realization of studies and

technical services for the communities. They also encompass institutional strengthening activities. Each of these topics was covered by a specific modeling, involving various impact pathways and indicators. Overall, the average SROI ratio for these activities is 13:1, which was also used as a general multiplier for institutional reinforcement.

• Direct operations

Direct operations at Natura encompass all the direct employees, the manufacturing sites and offices in different countries. The positive impact of the businesses on society is mainly driven by the generation of employment opportunities and the payment of taxes. However, in contrast, businesses consume natural resources (e.g. land, non-renewable resources and water) and emit pollutants into the air, land and water (greenhouse gases, ozone, water pollutants, etc).

among Brazilian employees, 56% of the workforce are women, 7.03% of the employees have some form of disability and 38% of the workforce come from an under represented community (i.e. non-white or Latino). Finally, the workforce suffered 27 accidents in total in 2021, which is relatively low compared to the industry average and to the total workforce.

In terms of statistics related to the direct operations, Natura has a total of 7.176 employees, mostly in LATAM countries, 62% of whom are in Brazil. In terms of diversity

The impact pathways considered for Natura's direct operations are presented in Figure 13. Drivers include income, tax, diversity (gender, the disabled, minorities), safety, training and natural capital in general.

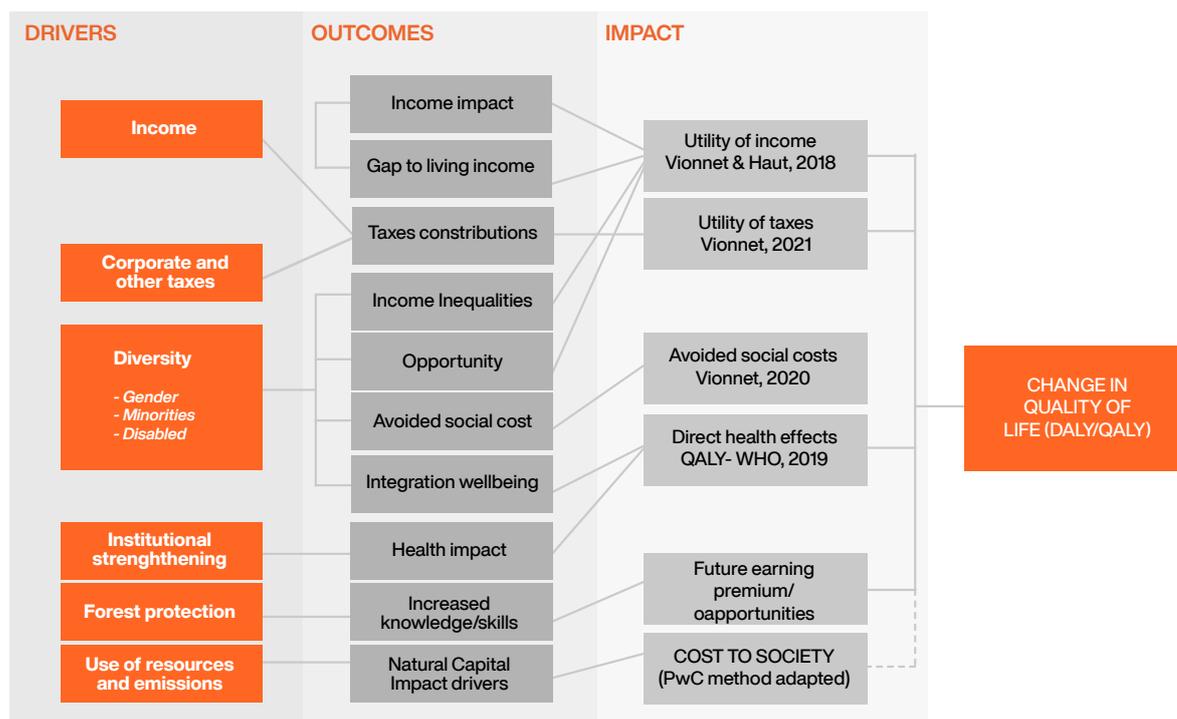


Figure 13 – Impact pathways for Natura's direct operations

Firstly, we considered the income generated through the wages paid to employees (excluding bonuses), based on the specific country and region (for Brazil) in which they work. The wages led to the income impact, the gap to a living wage (when the wage was lower than the living wage threshold, defined by country and by regions in Brazil) and personal income tax contributions (based on average tax rates per country). In terms of taxes, we also considered the corporate and sales taxes generated by Natura activities in all countries, leading to significant tax income for the governments. These taxes, together with the personal income taxes, were valued using the Health Utility of Tax (HUT) model, which makes the utility of taxes explicit in terms of quality of life at the population level (see in Appendix for more info).

drivers of income inequalities require consideration (education, seniority at Natura, and so on) but it was not possible to explore this topic further in this version of the IP&L. Gender inequalities were found to be both negative and positive at Natura depending on the country, employee age group and role. Opportunities of work generated, valued as the income gap that exists between specific employee groups (disabled, minorities and gender) were considered as well. This work opportunity was considered only for the portion of employees beyond the parity (gender) or the expected diversity threshold (% of disabled persons participating in the workforce, % of minorities in Brazil). For the disabled we also considered the social cost avoided as a result of the work opportunity generated, which in some cases leads to avoided social benefit payments (a benefit for the state), as well as a gain in wellbeing, reflected in a better psychological state and the feeling of integration in society that this work opportunity provides. Minorities and the disabled were only modeled for Brazil due to an internal data gap for the Hispanic Latam countries, which will be addressed by Natura in the future. Gender income inequalities were addressed for all the workforces.

In terms of employees, diversity was valued using various techniques. Income inequality was considered for gender data using an analysis of Natura's human resources database, identifying the gap that exists between genders when classifying the wages by age group (reflecting employees) and by role in the company. Obviously, other

Employee safety, based on the low number of accidents in the workforce (total of 27 in 2021), was valued based on their contribution to DALYs by estimating the gravity of the accident and the duration of the disability, to calculate an equivalent year of life disabled (YLD). Other costs to society were not addressed in this case due to the likelihood of their inexistence for various reasons.

Training was valued based on the volume of training received by employees. The model estimates the future earning premium (i.e. increased income in the future) expected as a result of the level of training received, using international

statistics from the World Bank . We used a weighting factor to account for the utility of the training in the job market, as various training programs are more useful for Natura than for the employees' careers. The earning premium was then calculated over a period of twenty years and without a discount rate. The income was then valued in terms of change in quality of life using the HUI model.

The use of resources and emissions into nature were assessed using the natural capital model (more details in Appendix).

• Consultants

The consultants are at the core of the Natura business model, since they are the main sales channel for Natura products. There are approximately two million consultants working for Natura across Latin America (see Table 1).

Table 1 – Consultant numbers per country

Country	# consultants
Brazil	1,087,092
Argentina	232,742
Chile	87,487
Colombia	114,951
Mexico	307,252
Peru	94,813
Total	1,924,336

Natura's value proposition for the consultant body encompasses economic opportunities (income generation from the sales activity), integration into a social network and sharing in Natura's purpose. The most direct impact is generated by income received from sales activities, which is also supported by the training received (commercial training provided by Natura and life skills training provided in partnership with the Instituto Natura). The direct support, such as the COVID relief activities which were in place from the beginning of the COVID19 pandemic, was also captured, both as a contribution to consultants' income and health (through product donations). On the other hand, the integration into a social network and sharing Natura's purpose are harder to capture as impact because data is lacking. We believe that these impacts, expressed as a feeling of empowerment and integration in society are very important and should be valued in the future development of the Natura IP&L. Figure 14 illustrates the impact pathways mapping for the consultants.

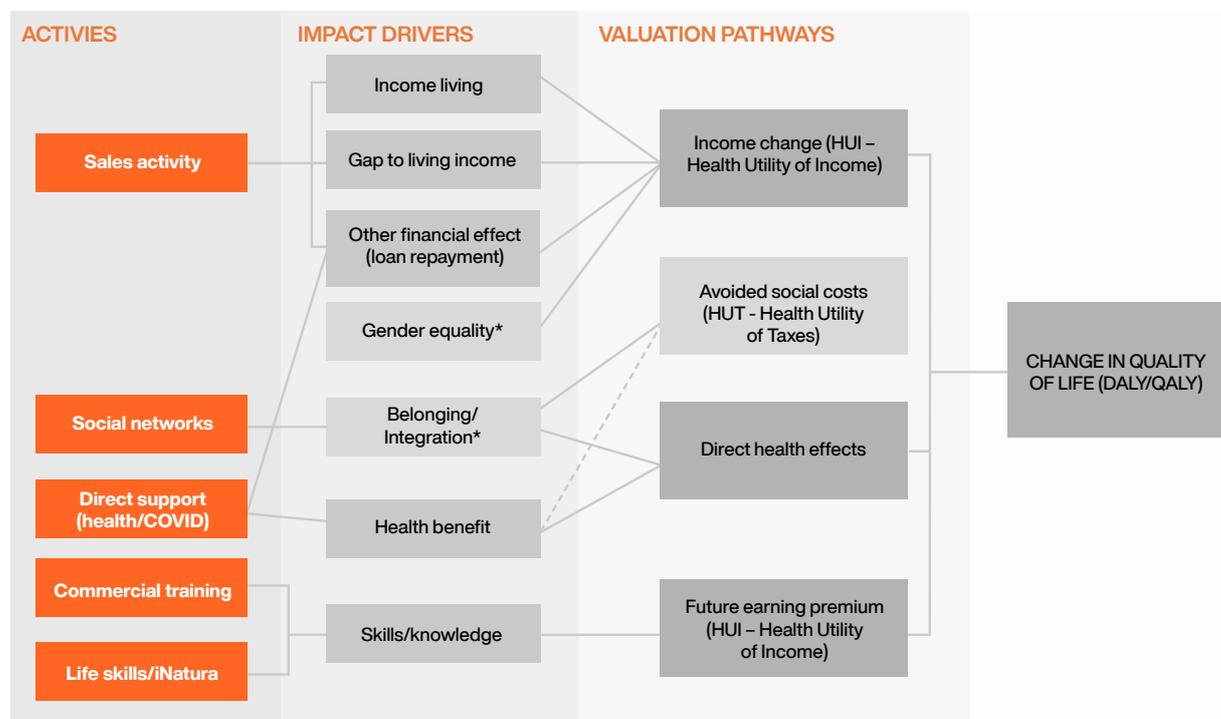


Figure 14 – Impact pathways for Natura consultants. “*” indicates the pathways that it was not possible to cover in this version of the IP&L but which will be considered in the future.

The sales activity relates to the income generated, the gap to a living wage for a fraction of the consultants and the impact of loan repayments. The income generated creates a positive impact for consultants, accounting for the time dedicated (mostly a part-time activity), while for some of the consultants the gap to a living wage creates a negative impact. Loan repayment addresses the very small fraction of consultants who must pay an extra fee for late repayment of the credit offered by Natura, which also contributes negatively to the overall value. All these impact drivers are valued through the Health Utility of Income (HUI) method (see in Appendix), which translates a change in income into a change in well-being.

Direct support for consultants was captured in 2021 as related to the COVID relief activities, comprising product donations and direct cash transfers in some cases. We developed a method to quantify the reduction in COVID cases, translated into DALYs, thanks to the hygiene products donated, using the Brazilian rate of contamination for COVID 19 in 2020. We considered the direct cash transfers as having a direct impact on the consultants' income and valued this impact through the HUI method.

Commercial training (provided by Natura) and life skills training (in partnership with Instituto Natura) are important activities that generate skills and knowledge for consultants, which will improve their livelihood in the future. Skills and knowledge translate into a potential income premium in the future. We used international statistics (World Bank, 2014) on the value of education in terms of income premium at a regional level, for different types of education. The valuation is done over a period of time during which the skill/knowledge will generate an income premium, usually between ten to twenty years, depending on the training and the beneficiary.

The consultant social networks created by Natura also generate opportunities for integration and belonging for the consultants. However, these are relatively complex to account for at the moment due to the lack of data measuring this effect. We still believe they can be part of the framework in the future but did not consider them in the 2021 IP&L results. Gender equality is also a potential benefit, as the vast majority of consultants are women and generating income for them might help in closing the existing income gap in our society, although at the moment, we lack data to be able to capture this effect. As a consequence, we did not consider it in the 2021 IP&L either.

- **Product use and end of life**

Natura product use is mostly associated with the use of water and the energy to heat this water. The model considers an estimate of the water use per kg of product, per product category. Based on product sales per region, we can calculate how much water is used in each region (es-

timated at approximately half a billion m³ yearly in total over all markets). The valuation of the consumers' water use considers the balance between demand and supply of water per region, assuming that below a specific threshold (assumed to be 40% demand over supply ratio in this study) the impact generated by the water use is minimal (below 5% of total water use is considered to create an impact, while 50% of water use creates a water stress impact of between 40 to 80%, and 100% creates a water stress impact of over 80%). We used the Aqueduct Baseline Water Stress and the standard seasonal deviation of water stress as a key indicator to inform this threshold and associated multipliers. In all the locations of Natura's activities, only 8.5% of the total water use was considered to have a significant cost to society. Water valuation is based on a mitigation cost approach, using a cost curve derived per watershed and country, deployed at global level from the publication of the WRI and Valuing Impact .

The consumer use phase also considered indirect water use and the natural capital impact from energy use to heat this water. Heating rates and energy mixes (gas vs electricity mix) were considered per region, depending on the local climate (i.e. a higher average temperature implies less heating energy used). The volume of water that was used in the energy production process (e.g. cooling systems for fossil power plants) was equivalent to approximately half of the water used by consumers. The valuation approach used was the same one as the direct water used by consumers, although the cost curve of mitigation solutions was adapted to the industrial context of energy production and resulted in slightly different valuation factors (e.g. higher valuation factors in Brazil for industry compared to domestic water use).

The product end of life was assessed using the standard waste management streams that exist in the different markets where Natura products are sold. National statistics on waste treatment streams were used combined with the Natura natural capital valuation model (see Natural capital model in the Appendix). However, the model was refined this year to better cover the plastic waste stream leaching to freshwater water bodies and oceans. We used the methodology from the Plastic Leach Project (PLP, 2020) to derive the amount of direct littering and mismanaged waste and estimated a leaching rate to water bodies and oceans. The amount of post-consumer packaging waste that is mismanaged or littered and ends up in waterways and oceans is above 860 tonnes per year. This amount is partly offset by Natura's investments in projects to recover recyclable materials from waste in various countries (i.e. it is estimated that approximately 100 tonnes of plastic were recovered in 2021). The average valuation factor used for plastic leaching was derived from Beaumont 20195 and is equivalent to US\$18,150/tonne of plastic in the oceans.

- Carbon offsetting

The Natura carbon neutral strategy resulted in the purchase of 356,800 carbon credits in 2021. The credit types are quite diverse (see Figure 15) and each credit was assessed according to a range of impact drivers, using the Natura IP&L impact framework. Data were collected mostly from carbon credit registry documentation, using selected projects as proxies, and complemented with a literature review.

Figure 15 provides a summary of the types of credits purchased by Natura and of the different impact drivers considered. Climate change is of course a constant across all credit types. We used the social cost of carbon from the Natura natural capital method to value the latter. Income impact was valued using the HUI model. Education/skills impact was modeled using the earning premium model described for consultants and direct operations. Communi-

ty development was modeled based on the benefit sharing modeling applied for Amazon Communities. Finally, human health and natural capital impact drivers were valued based on a Life Cycle Assessment method (ReCiPE) of the avoided impact (for instance from avoided use of the national electricity matrix for wind, hydro and solar) and from additional positive impacts (e.g. health benefits, related to the reduction in respiratory diseases due to cookstoves). The indicators for natural capital covered included land use, abiotic resource depletion, freshwater eutrophication, acidification and ecotoxicity, marine eutrophication and water depletion. For human health, the indicators covered included toxicity, particulate matter and photochemical oxidant formation.

The model was built originally in 2018 for Natura by Valuing Impact and has been updated in line with the latest IP&L impact framework.

		Waste-water treatment	Hydro	Wind	Forestry	Cookstoves	Solar	Fuel Switching	Insetting
Climate change		✓	✓	✓	✓	✓	✓	✓	✓
Jobs created			✓	✓	✓				
Human health		✓	✓	✓		✓	✓		✓
Ecosystem Services		✓	✓	✓	✓		✓	✓	✓
Community development						✓			✓
Education/Skills/Technology						✓			✓

Figure 15 - Credit types (in columns) matched with impact drivers considered

- Instituto Natura

The Instituto Natura uses the proceeds from a Natura product line called Crer Para Ver to invest mainly in education activities in Brazil. The investment through partnering organizations and the government reached approximately one million students in Brazil, supporting both literacy and full-time secondary school programs. The Instituto Natura also invests in delivering life skills for its sales consultants. This impact was also considered but was reported directly in the consultant impact framework in Appendix.

Literacy was assessed considering both the educational

value which generates income opportunities in the future and the direct well-being gain observed through Instituto Natura research. Secondary full-time education was only assessed in terms of future income opportunities. For both activities, the future income tax contributions were assessed based on the earning premium estimated. We also considered avoided social costs from decreased welfare benefits distributed by the government due to the increase in education benefits and opportunities created. The income effects were valued using the Health Utility of Income model (HUI) and the tax contributions and avoided social costs using the Health Utility of Tax model (HUT).

• **Natural capital model**

The natural capital impact valuation model was developed by PwC UK and BR in a past project for Natura. The methods and model have been updated yearly since its creation through the development of an internal calculation model by the Natura team. The model is updated annually based on consideration of key Natura activities data. The model accounts for all activities from raw material production, supply chain, logistics, operations, use phase and end of life.

The natural capital model was developed based on:

- sales of all products, classified in the product subcategories and categories (split by “single” sales as well as “kit” sales);

- the ingredients and packaging materials from which these products are made; and
- multiple value chain tiers and across multiple locations (including all the Brazilian states, relevant Latin American countries and additional countries in the Natura supply chain) covering product purchased and other services.

The impact drivers are valued across six impact areas: Greenhouse Gases, Air Pollution, Land Use, Water Pollution, Water Use and Waste. Table 2 below provides a summary of the impact drivers and their valuation method; the final column lists parameters which typically drive a higher valuation.

Table 2 - Valuation of natural capital impact drivers & valuation approaches

Indicators Measure	Resulting Environmental Change	Impacts Valued (note: only valued where applicable)	Which factors tend to drive a higher valuation coefficient?
Air Pollution (volume and type)	Increased pollutant concentrations, smog, deposition	Impacts on human health (respiratory and cardiac), impacts on amenity and visibility, reduced agricultural yields	High population density Low wind speed High temperature / sunlight hours Low or infrequent rainfall High incomes High baseline levels of VOCs or Sox
Greenhouse Gases (volume)	Climate change - higher temperatures, sea level rise, more frequent storms	Impacts on human health (from heat, cold and disease), damage to infrastructure	N/A – no variation in Societal Cost of Carbon within an EP&L
Land Use and biodiversity (area and quality)	Change in flora, fauna and soils relative to historic land coverage	Change in public ecosystem goods and services relative to historic land coverage	Low biomass and species richness of land use type relative to natural ecosystems in the impact location High proportion of population living in rural areas High scarcity of biome that is being conserved/has been converted
Solid Waste (volume and type)	Land and water contamination, visual intrusion, noise, odour, pests, and impacts of GHGs and air pollution from waste	Disamenity from proximity to waste sites, costs of contamination, and climate and air pollution impacts	High population density and close proximity to waste sites High proportion of unlined landfills High average house prices High cost of air pollutants (see air pollution factors) High inorganic carbon content of waste Low levels of methane capture from landfill Low levels of energy recovery from landfill incineration
Water Pollution (volume and type)	Reduced water quality - nutrient overload, acidification and increased toxicity	Impacts on human health from ingestion, reductions in fish stocks, impacts on amenity, recreation and property values	High population density or coastal population High incomes and property values High rates of consumption of fish and shellfish High persistence and bioaccumulation potential of the pollutant High human toxicity of the pollutant (ED50 value) High pollutant fate factor, based on the chemical properties of the pollutant High pollutant fate factor, based on the geophysical characteristics of the receiving environment
Water Consumption (volume and source)	Reduced surface and municipal water availability, depleted groundwater	Increased costs of water for other users and future generations, reduced agricultural yields and malnutrition, disease from drinking dirty water, impacts of the water supply sector	High Water Stress Index (WSI) Poor quality water infrastructure and weak local or national governance Presence of multiple competing water users and high variability in water supply High baseline levels of malnutrition and dependence on locally produced agriculture High baseline prevalence of waterborne diseases Low levels of health spending and healthcare provision

Income and tax health utility models

The focus on a consistent, relevant and comparable impact, which Valuing Impact defined as quality of life, requires innovative methods to translate the effects of income change, taxes and social costs in general. These are called utility models and translate economic outcomes such as income and taxes into a measure of the change in quality of life that they generate. They account for the local socio-economic context (defined per country, for instance) among other parameters.

Figure 16 illustrates the pathways that the models used in the Natura IP&L assess. We differentiate between wage (or income) and tax (or social costs). The two models are called the Health Utility of Income and the Health Utility of Tax. They are factors (i.e. utility factors) that translate a change in wage or tax into a change in quality of life at individual (for wages) or population (for tax) levels.

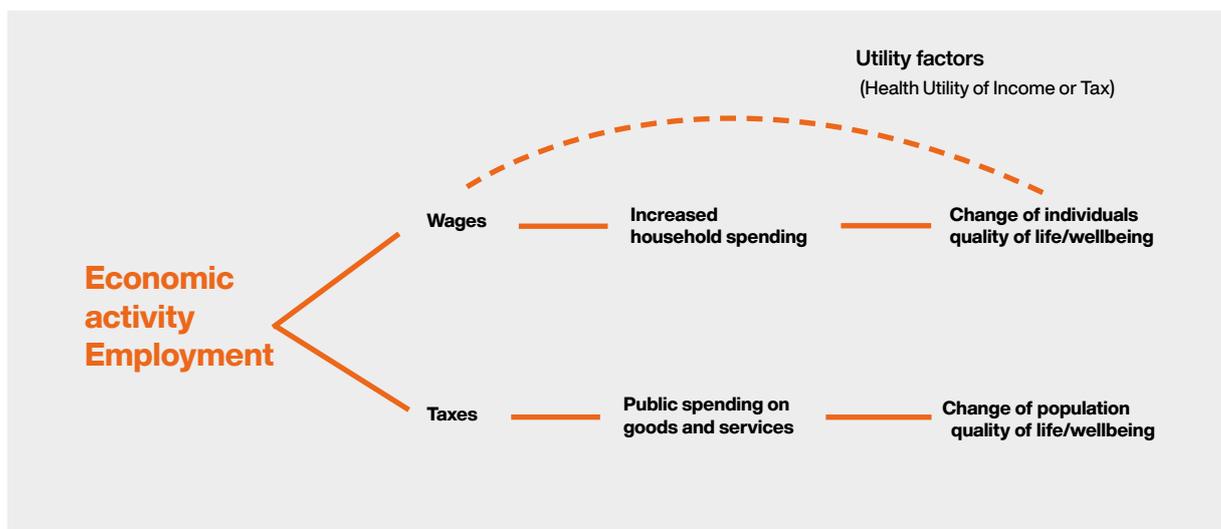


Figure 16 – Illustration of the pathways for the Health Utility of Income and Taxes.

The following chapters describe the basic principles, data sources and modeling to obtain the utility factors for wages and taxes. This description was copied and adapted from another publication of Vionnet et al. 2021 .

Health Utility of Income

There are many drivers that impact human well-being, some of them direct, such as safety and health-related initiatives and others indirect, like income, taxes, and public spending. Employment is often cited as a key benefit from our economic system, which relies on the exchange of wage against labor. For this reason, understanding the value of employment and wages as a contribution to human well-being is critical.

With support from Novartis, a global healthcare company, Valuing Impact has developed a new approach to translate a change in income and taxes (or public budget) into a change in well-being for a targeted population. Valuing Impact first published this model called the Health Utility of Income (HUI) in 2018. The HUI model relies on research

developed by the World Health Organization on the social determinants of health, encompassing income, among many other factors. This relies on data correlating health outcomes (life expectancy and quality) to income inequalities within a country. In summary, the health utility of income takes into account the following considerations:

- The **health gap**, due to income inequalities, varies based on the country or socio-economic context. Usually, in high-income countries, the health gap is much lower than in developing countries for a similar income gap.
- The **utility of income** depends on a person's income level, as a poor person derives more utility from the income than a more affluent person.
- The baseline defining positive or negative impact is the **living wage**. The effect of wage is split into two components in Natura's IP&L. On the one hand, the income generated delivers a positive impact in all situations. On the other, any income below the living wage will have an additional component considering the negative impact linked to this gap. Both components are valued using the same Health Utility of Income factors.

Figure 1 illustrates the behavior of the (health) utility of income in relation to different income levels. The living wage (LW) is used here as the baseline, which determines a positive or negative impact. The utility of income is the highest from the living wage viewpoint and decreases with the increase in income. This means that for a person living on a relatively low wage, the utility of the income received is relatively high in terms of improved quality of life.

However, for a person earning more than 100,000 USD/year, the utility of the income received above that point falls to almost zero. Put more simply, a person with a high income will not improve their life quality by earning more money. On the other side of the figure, we can observe that utility can be negative, if the income is below the living wage threshold. This means that the person receiving this wage will not achieve their normal potential in terms of equality and human rights standards.

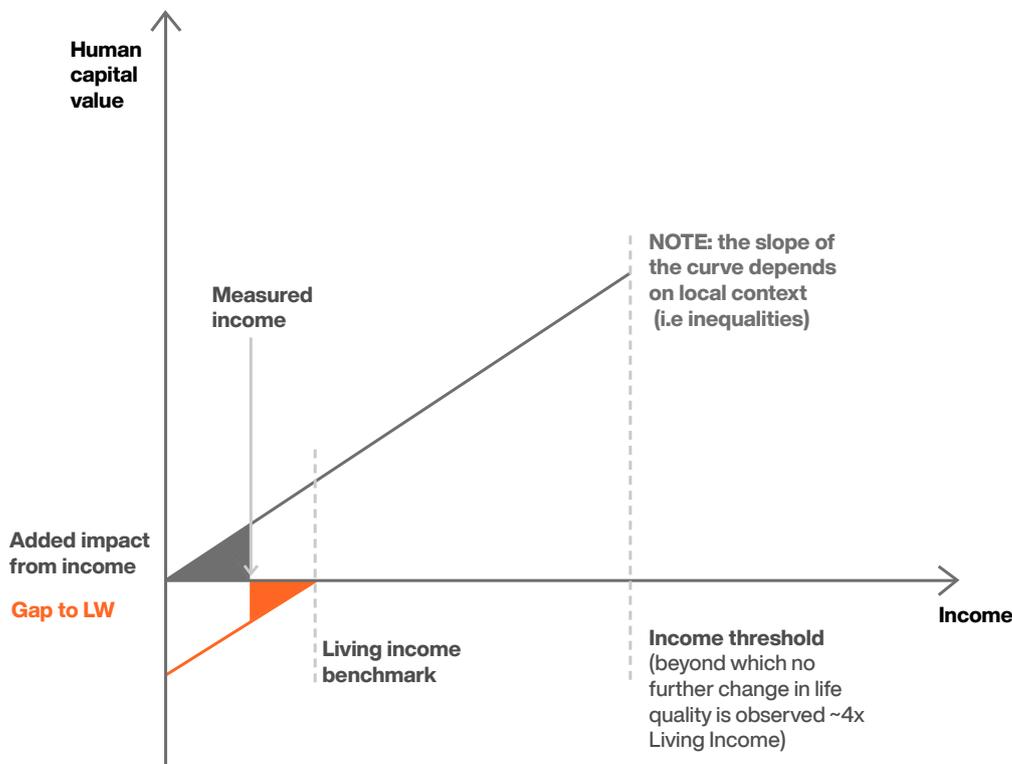


Figure 17 - Illustration of the health utility of income dynamic, with the positive contribution from income generation and the negative impact from the gap to LW.

Other researchers have adopted some of the base concept of the Health Utility of Income since then, in particular the Harvard Business School initiative called the Impact Weighted Accounts, which in 2020 published a paper on the valuation of human capital which uses a similar, although simpler, concept.

Health Utility of Taxes

The model on taxes called the Health Utility of Taxes relies on similar principles to the Health Utility of Income, but captures the effect of a change in resources for a government (typically taxes or avoided social costs) on its population's well-being, through the impact of public spending. The model thus relies on the correlation between public spending and life quality and expectancy differences over time. We explain this correlation using three generic drivers, which are:

- Global trends are influencing life quality, such as scientific breakthroughs (e.g. vaccine development), educational achievements, amongst others.
- Economic development, which leads to increased income for the population.

- The state's spending on direct or indirect health-related investments, such as health care, and infrastructure, such as transport and energy.

We can isolate the first driver (global trends) by comparing countries with different quality levels in education or access to medicines, for example, and comparing countries with low and high economic development or tax spending over a number of years. The second driver (economic development) can be isolated using economic statistics on the change in income per capita connected to the Health Utility of Income model (which allows the translation of a change in income into a change in well-being). We can then assume that the remaining health gap is correlated with state public spending.

Although this model represents an approximation, in reality, many more factors influence health; it provides an estimation of the impact of taxes and public spending on a population's health outcomes.

Figure 18 presents the direct comparison between the HUI and HUT factors. We can compare them directly as they represent the value of money paid in income or taxes, translated into well-being in a specific country. We can observe that the high-income countries usually have a low utility of income but a high utility of taxes. On the contrary, low-income countries have a high utility of income and a low utility of

taxes. It would be expected that high-income countries, which have a better socio-economic status, have higher tax revenue and invest it better for the benefit of their population. At the same time, high-income countries have a low utility of income, as their social system is already working relatively well for their populations, leading to a change in income that might not influence well-being in a significant way.

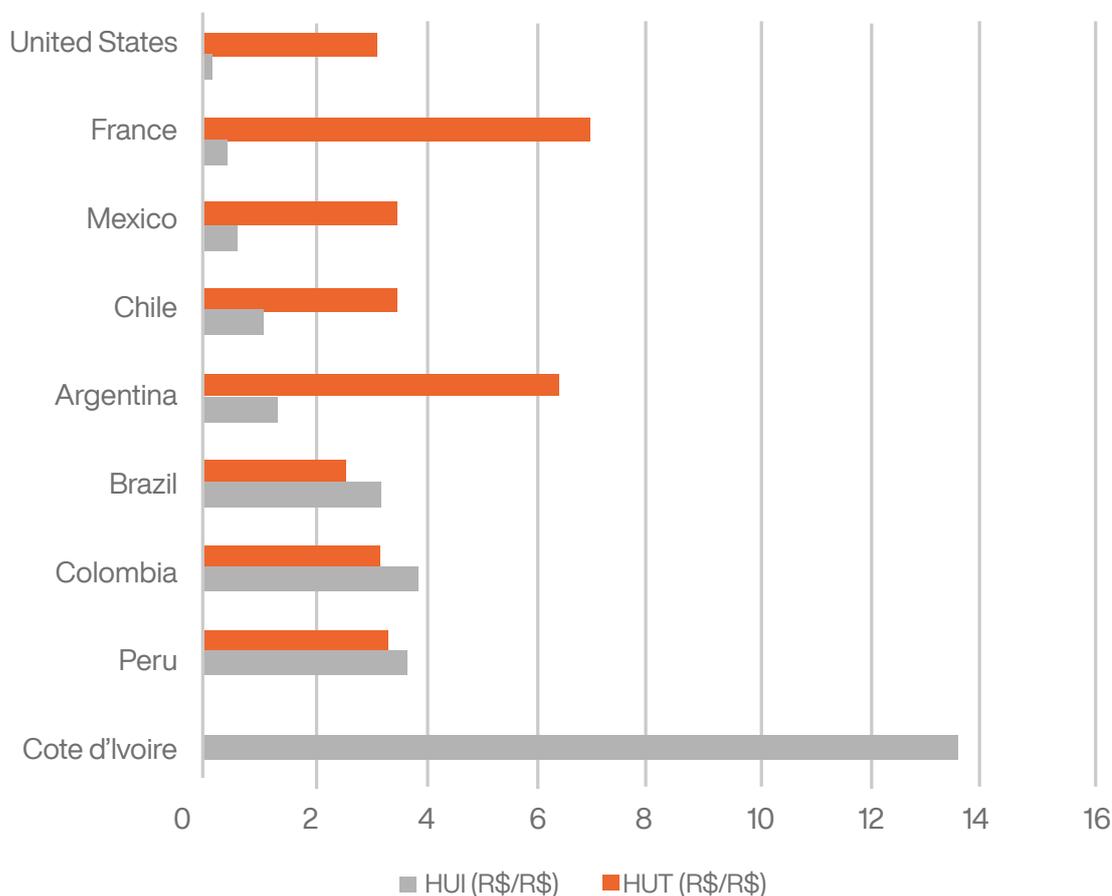


Figure 18 – Comparison of the HUI and HUT for a selected number of countries, expressed in R\$ (wellbeing) per R\$ (income or tax).

Valuation approach considerations

- Valuation of well-being

The impact indicator chosen is expressed in the change of well-being (i.e. DALY/QALY). This indicator needs to be translated into monetary units, for the purpose of easier communication, integration and interpretation, providing a connection to financial reporting in particular. The valuation step does not influence the results relative to each other, but only influences the magnitude of the absolute impact. In other words, it affects all results by the same amount.

Natura uses the Statistical Value of Life (SVL) as the valuation technique for well-being. The value of a statistical life (VSL) is the marginal rate of substitution between income (or wealth) and mortality risk. It is usually measured by

asking a wide range of people about their willingness to pay to prevent a specific health condition. By analyzing different data points across population groups and health conditions, it is possible to estimate the full value of a life. The average value of one year of life is R\$ 843,803 per DALY/QALY (reference year 2021, adapted from an OECD publication on the SVL (OECD) 2015). This value is updated annually accounting for the inflation in Brazil only, as all the countries' results are translated into DALYs/QALYs before they are expressed in R\$ to be compared directly with financial results which are also expressed in R\$. This way, exchange rates do not influence the final results, as all local impact calculation is done in local currency.

- **Discounting**

When calculating value realized in the future, the use of discount rates is quite standard practice, in line with financial accounting practices. However, prioritizing shorter-term societal value creation at the expense of long-term societal value does not fit the authors' view of long-term value as a critical foundation of sustainability. In some cases, we could even use a potentially negative discount rate reflecting our long-term priorities opposed to our short-termism. In this study, no discount rates were used (or a discount rate of 0% was applied, which is the same), allocating an equal value to short- and long-term values. We adjusted the accounting periods according to the expected duration of the impact assessed.

- **Baseline**

In order to measure Natura's impact, in particular for human and social capital, a baseline needs to be defined. There are different baselines that could be used, such as a historic baseline, business as usual or industry average, and so on. In our case, we considered a baseline assuming that all Natura activities are additional, or said differently, assuming that without the operation of Natura, those activities would not exist.

- **Reporting structure**

In order to report the IP&L results, we propose to present the different capitals' impact valuation in parallel to the income statement. The value perspective chosen for this IP&L is the value to society and not the value to the business, which means that we cannot add the human, social and natural capital impact values to Natura's financial results. This would be misleading and would send the wrong message. These are different values for different stakeholders, although they are related.

We believe that it is possible to develop the IP&L further and to assess the rate of internalization of externalities (positive and negative impact); however, it would require more work in a direction that we have not yet explored in detail at Natura. The current parallel reporting structure proposition is better at maintaining transparency and correspondence between financial and societal value, highlighting potential trade-offs, risks and opportunities for the business.

Glossary

Health Utility of Income

The contribution of income to an individual's wellbeing in a given location.

Health Utility of Tax

The contribution of taxes to a population's wellbeing in a given location.

Health

State of physical, mental and social wellbeing. Health is sometimes defined more narrowly, encompassing only physical and mental health (based on medical definition). In this report, we define health as including wellbeing, representing an absolute measure of wellbeing.

Human capital

The knowledge, skills, competencies and attributes possessed by individuals that contribute to their wellbeing (adapted from: the Social and Human Capital Protocol, 2019).

Impact

A positive or negative contribution to one or more dimensions of well-being.

Impact pathway

A logical series of cause and effect chain of events that describe how a specific activity results in changes in natural or human capital. An impact pathway is described in terms of input, activity, output, outcome and impact.

Impact valuation

Assessment and accounting of the relative importance, worth, utility or usefulness of natural or human capital to people and society. Valuation can be monetary or non-monetary (e.g., expressed in physical metrics or quantities).

Outcome

Changes in the lives of those in a target population or natural ecosystem (e.g., difference of income from a living wage, additional income opportunities derived from skill's acquisition).

Output

Direct measurable result of an activity (e.g., income, access to healthcare, hours of training received, emissions of GHGs).

Social capital

Public institutions, infrastructure, resources, social networks and their shared norms, values and understanding in a society (adapted from: the Social and Human Capital Protocol, 2019).

Wellbeing

State of being comfortable, healthy, or happy. Wellbeing can be measured in absolute or relative terms related to a person. In this methodology, we use an absolute measure of wellbeing which encompasses both quality of life and life expectancy.

Acronyms

DALY	Disability Adjusted Life Year
HDI	Human Development Index
HUI	Health Utility of Income
HUT	Health Utility of Tax
ILO	International Labour Organization
GDP	Gross Domestic Product
OECD	Organisation for Economic Co-operation and Development
SVL	Statistical Value of Life
VBA	Value Balancing Alliance
WBCSD	World Business Council for Sustainable Development
YLD	Year of Life Disabled
YLL	Year of Life Lost