

ANNUAL REPORT 2013-04-05

Member organisation's name:	Natura Cosméticos SA
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COMPANY DESCRIPTION

Natura is a Brazilian company in the personal care products, perfumes and cosmetics area with a strong presence in Latin America. Since our founding in 1969, we have built a culture of valuing. We base our relations and corporate behavior on promoting sustainable development and raising awareness about the responsible use of innovative and biodiversity assets.

We seek to generate value from solutions and new opportunities identified in a shared, through co-creation and partnership, always oriented to the best equation between the social, environmental and economic aspects of our business.

We have adopted the direct selling business model because we believe in our ability to generate and distribute income, provide development alternatives and mobilize over 1.2 million consultants in spreading our value proposition to our customers.

We have over 7,000 professionals. Our corporate headquarters is located in Cajamar (SP) and we have five sales offices in Brazil: Salvador (BA), Campinas (SP), Alphaville (SP), Rio de Janeiro (RJ) and Porto Alegre (RS). We have factories and research and technology centers in Cajamar and Benevides (PA), and, since 2006, we have an Advanced Technology Center in Paris. In Brazil, our products are delivered to consultants and consumers from distribution centers located in Cajamar (SP), Jundiaí (SP), Canoas (RS), Matias Barbosa (MG), Uberlândia (MG), Simões Filho (BA), Jaboatão Guararapes (PE), and Castlebay (PA).

We own operations in France, Argentina, Chile, Colombia, Mexico and Peru. Through local distributors, our products are also sold in Bolivia, Guatemala, Honduras and El Salvador. In 2010, we began expanding our international manufacturing in Argentina through local partners. We also have the Natura Houses, spaces to support the work and training of our consultants, where consumers can learn about our products. We have seven in Brazil, concentrated especially in the state of São Paulo, and 15 abroad.

We are a publicly-traded company since 2004. About 40% of our shares are available in the New Market of the Stock Exchange of São Paulo (Bovespa) and for five consecutive years figured in the Corporate Sustainability Index of Bovespa

"Because of its corporate behavior, the quality of the relationships it establishes, and the quality of its products and services, Natura will be an international brand, identified with the community of people who are committed to building a better world, based on better relationships with themselves, with others, with nature of which they are part, and with the whole."

The Natura believes:

"Life is a chain of relationships. Nothing in the universe exists alone. Everything is interdependent."

"We believe that valuing relationships is the foundation of an enormous human revolution in the search for peace, solidarity, and life in all of its manifestations."

"Continuously striving for improvement develops individuals, organizations, and society."

"Commitment to the truth is the route to perfecting the quality of relationships."

"The greater the diversity, the greater the wealth and vitality of the whole system."

"The search for beauty, which is the genuine aspiration of every human being, must be free of preconceived ideas and manipulation."

"The company, a living organism, is a dynamic set of relationships. Its value and longevity are connected to its ability to contribute to the evolution of society and its sustainable development."

UEBT MEMBERSHIP OBLIGATIONS

Steps	Dates <i>Historical/expected</i>	Verification Body
UEBT audit 1	2009-03-12 & 2009-09-19	Imaflora
Provisional Membership, if applicable	NA	
Work-plan approval	2010-08-30	Imaflora
Membership status granted	2007-05-08	
Annual report 1	2010-11-06	
Annual report 2	2012-03-30	
Audit 2	2013-02-22	Ecocert SA
Annual report 3	2013-04-05	
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Implementation indicators submitted to UEBT? Yes No

Documents annexed for public use? Yes No

If so, number of annexes: 2

Description of the annexed documents:

1. Annual report in portuguese
2. Annual report in english

PROGRESS IN IMPLEMENTATION OF UEBT MEMBERSHIP OBLIGATIONS

Progress made in the implementation of the Ethical BioTrade Sourcing Targets

Please provide a short up-date on where your organisation stands in the development and then implementation of its Ethical BioTrade Sourcing Targets. In case of development process, please provide a target date when they will be publically released.

The goals Natura has with the Amazon Program are: commitment with business development related to sociobiodiversity in the region, with an increase from 10% to 30% in purchase of biodiversity inputs, and move about R\$ 1 billion reais in resources in the region, helping to create social value and sustainable businesses, thus benefitting about 10,000 agroextractivists in their supply chain, until 2020. Besides that, we will provide a set of networks where we intend to involve over 1,000 researchers from Brazil and worldwide.

The program's vision is to be a vector in the creation of sustainable businesses using science, innovation and entrepreneurship, focusing on sociobiodiversity and value of traditional knowledge and culture of the region. This places Natura's brand at the service of creating sustainable development proposals for the Amazon region, which includes its inhabitants and preserves the rainforest.

Our priorities are 6 performance axes: Education, entrepreneurship, social justice and citizenship, public policies, culture and preservation, value and sustainable use of biodiversity.

We have already implemented in the company the strategy of monitoring biodiversity performance indicators. These indicators are: the percentage of use of Brazilian biodiversity regarding the product (with palm and without palm), total number of families involved in communities in Brazil and in the Amazon, distribution of wealth in the communities and notes from the BioQlicar program.

In 2012, we increased the number of families and communities involved (from 3,235 to 3,571), increased resources given, including supply of raw material, benefit sharing and projects that support local training and development, of 20%, going from, roughly, R\$ 5 million to R\$ 6 million. Besides that, the BioQlicar program indicated a growth in its index, from 3.77 to 3.80, which indicates that we are reaching our rural suppliers development goals in terms of supply performance and local sustainability.

Progress made on the Biodiversity Management System (BMS)

Please provide a short summary on the progress made in the creation and/or implementation of your organisation's BMS based on the previous audit key findings.

We published the new Natura Policy of Sustainable Use of Biodiversity, which includes aspects related to internal flows of information regarding biodiversity and forums on the topic. The policy includes several guidelines for Natura's work with sociobiodiversity, which are: Research and Development, Benefit Sharing, opening and developing Relationship with Communities, good practices and ethical commerce in Supplies, as well as guides for communication and marketing areas. Several internal trainings were carried out so that this policy would be more and more taken in by every area and process within the company.

In 2012 we published our image Use Policy, which includes the communication activities that involve rural communities. This policy summarizes and puts in practice each learning Natura

acquired during the past decade. The procedures must remunerate people for declarations and use of image, whenever they have a commercial purpose.

Throughout the year, we reorganized the area of services, follow-up and development of work with supplying communities, focusing on strengthening supply processes, forming leaders and organizational strengthening. This reorganization seeks to support sociobiodiversity's growth in Natura as well as increase the quality of services and relationship with the several partners of supply and innovation chains.

Progress made in the use of the Ingredient Portfolio Assessment (IPA)

Please provide a short update on where you stand in the completion of the Ingredient Portfolio Assessment.

In 2013 we completed our first IPA. During that process, we used a world of more than 1,500 raw material from Natura and gave priority to the ones with greatest impacts in business or preservation of biodiversity. 101 supply chains involving 38 input groups and over 72 raw material were taken into consideration, since they were considered as most critical for Natura.

We took into consideration the following input groups: Açai, Alecrim, Alfabisabolol, Aloe Vera, Andiroba, Aroeira, Babaçu, Breu Branco, Buriti, Cacau, Café Verde, Calendula, Camomila, Capim Limão, Capitiu, Castanha, Copaíba, Cupuaçu, Estoraque, Gengibre, Ginkgo Biloba, Hortelã, Jambu, Macela, Maracujá, Mate Verde, Murumuru, Palo Santo, Paramela, Passiflora Alata, Pataqueira, Pitanga, Poejo, Pripioça, Salvia, Sapucainha, Ucuúba and Cumarú.

Progress made on the implementation of the UEBT principles on patents and biodiversity

When applicable, please provide a short update on the implementation of the UEBT principles on patents and biodiversity in your patent policy and portfolio.

According to Brazilian law, protection of natural inputs is not allowed per se, including the inputs of the Brazilian Biodiversity. In that sense, Natura's technological developments that involve material from biodiversity and/or associated traditional knowledge, will be object of patent protection respecting the limits of the Industrial Property Law, of the Convention on Biological Diversity, of the Provisory Measure n. 2.186/01 and other applicable laws and regulations, agreements with participants and the conditions of NATURA Policies, especially the Sustainable Use of Biodiversity and Associated Traditional Knowledge (PO-049) Policy.

Percentage of the Ethical BioTrade work-plan implemented

Which % of your organisation's total Ethical BioTrade work-plan has been implemented? Please provide a realistic estimate.

Following the work-plan of 2010 regarding the initiatives in years 1 and 2 (2011 and 2012), we've already had initiatives implemented in 67% of the indicators. We have already planned the short-term accomplishment of 27% of these, with previously established initiatives.

Progress in the implementation of the Ethical BioTrade work-plan

Please indicate what are your prioritized supply chains.

Natura has prioritized the supply chains based on rural communities to which we have direct relationship. We have focused on a set of 25 communities for us to develop specific work-plans towards the improvement of traceability, relationship management and the

implementation of good management practices on the field. To reach this goal, we are supporting the development of field assessments for us to evaluate the best strategies to reach high levels of compliance with the UEBT principles. This work is being carried out in 2013 with involvement of the communities in its application and future working plans.

Please provide a brief indication of the progress that your organisation has made in the implementation of the Ethical BioTrade work-plan.

Progress should be reported upon at the level of the Principles of the Ethical BioTrade Standard. If possible, please distinguish between the work carried out at the level of your organisation's management system and at the level of your prioritized supply chains.

Principle 1. Conservation of biodiversity

<p>Management system</p>	<p>In 2009 Natura established the Sustainable Use of Biodiversity and Associated Traditional Knowledge Policy, which was reviewed in 2012. It establishes the guidelines concerning the use of inputs and benefit sharing, like, for example, mandatory extraction using sustainable practices, like by extractivist systems or systems based on family agriculture and on the organization in communities. Through the Policy, Natura sees the need to preserve the biological diversity that exists today. Our contribution to the preservation of ecosystems is done through the recognition of the environment and the sustainable exploration of innovation that exists in biodiversity's genetic heritage, whose potential we research, reveal and share with society and whose benefits we share with the communities.</p> <p>We understand that the human element is key in the equation that'll allow for the preservation of biodiversity, beginning with the recognition and awareness of those who will work and already work to preserve the ecosystems that today give shelter to the genetic variation. By recognizing the work and sharing benefits for the knowledge they share with us about nature, we open the path for these sustainable forms of living together with ecosystems to be spread and improved, thus accomplishing the goal of preserving the biological diversity.</p>
<p>Supply chain</p>	<p>Natura's choice in using plant species from biodiversity in its products is to make available inputs with a competitive edge and promote the recognition and preservation of local biological diversity, and the development of the people involved in this effort. In order for this intention to become a reality, we chose the supplying communities of those inputs based on technical and quality criteria, and through socioenvironmental performance indicators (through the BioQlicar program). That way, we maintain as partners those with greater potential of preserving natural resources at the same time that we generate positive social impacts.</p> <p>Concerning tracking, according to the USB Policy, the inputs used or tested for product development, be it developed by Natura or by suppliers, must preferably be from areas with good practices of plant production and seek that the origin be proved by tracking, thus</p>

	<p>ensuring the supply chain's sustainability. We will give preference in every case to ingredients that have or can have a certification of origin.</p> <p>In Supply Chain we seek to preserve biodiversity through environmental certifications, sustainable handling and advertisement and training about good cultivation practices. We ended 2012 with about 24 biodiversity species with certification of production and origin. This process is part of our Plant Raw Material Certification Plan. This shows our commitment to respect the ecological limits of input production that we acquire from supplying communities. This way, we make sure that production is done within the environment's capacity and that threats are being identified and treated. Natura, through reviewing the strategy of sustainable use of sociobiodiversity, seeks to guarantee that the priority raw material at this moment follow the good practices of ethical biocommerce.</p> <p>The Manaus Innovation Nucleus finished its first announcement of projects in the Amazon, and will implement these projects as of 2013 together with local science and technology partners, as well as rural communities.</p>
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Principle 2. Sustainable use of biodiversity

<p>Management system</p>	<p>We give full priority to the supply of biodiversity inputs through the communities we develop. We seek to ensure sustainable supply and tracking in areas where Natura works. Through the BioQlicar Program, Natura qualifies its products by tracking of production, quality and other supply parameters, and also monitors the resources that the communities have for the sustainable development of the regions.</p> <p>We improved our internal monitoring system of sociobiodiversity indicators in the management forum targeted at these topics.</p> <p>We validated our territorial performance strategy foreseen in the Amazon Program, which will help us strengthen our business model in that region of the country and in the biome as a whole. This strategy, besides promoting supply chains and research projects, expects performance in key areas for the sustainable development of the region, which are local organizations, education and entrepreneurship, as well as structure issues, such as land property.</p> <p>We had several in-company trainings to improve how we incorporate the Natura guidelines and policies in all the areas and processes.</p>
<p>Supply chain</p>	<p>In 2010 we created BioQlicar, a program to monitor and develop rural suppliers. The program monitors the local development of communities,</p>

as well as the performance of input supply. The program contributes so that the communities can organize themselves, thus stimulating their development and helping Natura develop its action plans in the communities.

This tool includes two indicator categories: Bio (economic, physical, environmental, social and human resources), and Qlicar (monitors the productive development of suppliers). The BioQlicar program allows to identify gaps and establish goals and actions plans for the community's development. Here are some examples of initiatives implemented in the communities: Training on good handling practices, improving cost spreadsheet, building processing headquarters and structures, improvement in child schooling, provide certification support, etc. We also promote the harmonious relationship between the rhythm of the communities and their capacity to support the environment, with our way of producing, our cycles and rhythm. For this, our demand planning must respect their specific traits, profile and needs. The supply contracts must consider the limits of production for each one, as well as the seasonal cycle of what they produce. To reduce impact of market fluctuation in life and income of the communities that we work with, we estimate our demand in a 3-year period. During that period, we can change the values, once every 12 months, in order to reflect possible fluctuations in the demand of our products. However, in every case we guarantee the purchase of a minimum amount in percentage, which is initially agreed upon and we don't demand exclusivity of supply, which gives our partners the freedom to sell any possible excess they have.

In October 2012, eight partner communities participated in the annual event that awards suppliers for their work. In this occasion, two of them were awarded publicly - one for their level of meeting the sustainability and supply criteria, and the other for the development of their index in the 2011/2012 period.

Through the BioQlicar program, workshops/interviews and self-evaluations with the relationship communities, we identified priority lines of action, which are:

- Forming leaders and organizational strengthening;
- Qualification in Administrative Management and Technical Exchanges;
- Training in Health, Work Safety and Labor Relations, including studies on the involvement of young people in the production world;
- Improvement in infrastructure and local value addition;
- Structure the support processes and monitor good handling practices and tracking;
- Structure the value chain;

Improvement in the processes to hire and purchase inputs from

	<p>communities.</p> <p>Overall, in 2012 we continue to support the structure of production chains, attention to good handling practices, as well as management and safety trainings together with all the partner communities.</p>
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Principle 3. Fair and equitable sharing of benefits

Management system	<p>According to the Sustainable Use of Biodiversity and Associated Traditional Knowledge Policy, we share the benefits for the use of the genetic heritage of native species from the Brazilian biome as well as for the use of traditional knowledge associated to it, according to Brazilian law, which regulates the Convention on Biological Diversity. Our goals are to promote a sustainable preservation and use of biodiversity, value genetic heritage and traditional knowledge, and to develop supplying communities.</p>
Supply chain	<p>We will follow up continuously on the application of shared benefits with traditional communities, groups of family farmers and sustainable use units. If necessary, we count on the support of third party organizations. This way we can follow up on resources paid, with the goal of investing in projects that promote local and group development.</p> <p>In 2012, we paid approximately US\$ 1.5 million concerning the contracts we have signed with communities supplying genetic heritage and/or traditional knowledge.</p> <p>Although we understand that supply of raw material and added local value are the main vectors of economic development in the community, the resources of benefit sharing have been an important means to promote guidelines and collective projects with the communities. Benefit sharing has been used, for example, for activities like building social headquarters for co-ops, investing in production structures and equipment, financing trainings and education for people from the communities, systematizing knowledge, valuing culture, improving management and solving administrative liabilities.</p> <p>Lastly, it's important to note that Natura has participated in the managerial groups and talks with other segments of society, including traditional communities, in the debates regarding the review of the national law concerning the access and sharing of benefits.</p>

Principle 4. Socio-economic sustainability

Management system	<p>We are a publicly-traded company since 2004. About 40% of our shares are available in the New Market of the Stock Exchange of São Paulo (Bovespa) and for five consecutive years figured in the Corporate Sustainability Index of Bovespa. Since 2007, Natura is part of the</p>
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	<p>Company Circle of Latin American Corporate Governance, an association composed of a group of Latin American companies, chosen by the International Financial Corporation, of the World Bank, due to the quality of their governance practices.</p> <p>In terms of Quality Management, we have a policy with the quality requisites that include a set of requisites that approaches quality principles and socioenvironmental responsibility, having won several awards by its good practices.</p> <p>Our sustainability management is structured with a transversal approach whose role is to define positionings and socioenvironmental guidelines for the entire organization. We understand that education, the definition of goals and continuous follow-up of our socioenvironmental performance are key to transforming the organization and decision-making patterns. They also generate new business opportunities, transforming the socioenvironmental challenges into value for Natura and our stakeholders.</p> <p>That evolution is part of our Strategic Planning and goes together systematically by high management. The main socioenvironmental indicators, with short and long-term goals, are included in the company's strategic goals and reflect in the commitments we take on: water, education, sustainable entrepreneurship, climate change, quality of relationships, solid waste and sociobiodiversity.</p>
Supply chain	<p>We constantly follow up on our quality indexes of biodiversity inputs in the supply chains and we annually have indicators that measure the investments in supplying communities, be they direct investments (supply, benefit sharing and image use), or indirect investments (funds and support, certification and handling plan, training and studies, and advising), where the goal is always to increase the investments, thus generating more shared value for all.</p> <p>The BioQlicar Program also measures socioeconomic aspects of the supplying communities, and we see that they are growing thanks to various reasons that are linked to their relationship with Natura.</p> <p>The quality of the relationships with the communities is also measured through a survey where various aspects are inquired, such as satisfaction, loyalty, intention of continuing, among others.</p> <p>All this information is shown by indicators that measure the performance of our actions, in terms of quality of relationships, BioQlicar and investment in communities, always seeking to increase each year.</p>

Principle 5. Compliance with national and international legislation

Management system	The Sustainable Use of Biodiversity and Associated Traditional Knowledge Policy, created in 2009, gathers performance guidelines that apply both locally and internationally. It also contains other internal
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	policies that establish ethical work guidelines for the entire company.
Supply chain	We demand from all our suppliers, through a contract, a declaration of compliance with the local environmental legislation in vigor before the environmental agencies, as well as minimum criteria regarding the laws that are required at the beginning of the relationship with supplying communities.

Principle 6. Respect for the right of actors

Management system	Natura, through its relationship principles, seeks to value the individual, respecting their characteristics, preferences and interests. We include and stimulate diversity and reject any type of discrimination. Through its USB Policy, Natura gives privilege to local actors to create a regional development basis, providing social including and cultural appreciation.
Supply chain	<p>We are preparing a diagnosis of labor relations in the communities, which aims to investigate and identify potential points to develop in our supply chains and thus create action plans to work with these communities.</p> <p>Natura sees its social responsibility and therefore is committed to check the current law regarding social responsibility and children's rights in each community. We make sure that any involvement of children or teenagers in supply chains – traditionally exist for cultural reasons in some communities – does not get in the way of a formal education or leisure, is not a risk to health and safety, and that the child or teenager can develop themselves through family activities with the purpose of being educational/cultural and not economical, not being the traditional and local communities censured by society. In 2012 we had dialogue activities with the communities to evaluate potential challenges and improvements, as well as conducting studies to diagnose the quality of labor relations and the wholesomeness of the labor conditions in 25 rural communities. In 2013, these studies will be concluded and action plans will be elaborated together with the communities.</p>

Principle 7. Clarity about land tenure, right of use and access to natural resources

Management system	Natura, by means of a quality audit, plans to check if the land situation is in order, legal reserve, if the surroundings and native vegetative cover are adequate, the source and use of energy and water resources.
Supply chain	Again, the BioQlicar program is the tool that evaluates and maps out the territories of communities, brings information about the right use of the earth and natural capital, related to the vitality of the ecosystems and environmental quality of the handling of natural resources.

Changes in Ethical BioTrade work-plan

If any significant changes have been made in the Ethical BioTrade work-plan, please indicate them here, together with the nature of these changes and the rationale.

No Changes

ADDITIONAL INFORMATION

Natura seeks to increase its performance in the Amazon with the Amazon Program, which intends to work strongly in several aspects, such as local development, institutional strengthening, Science, technology and Innovation, education and sustainable entrepreneurship. It seeks to increase the number of supplying communities and families.

This way, all the principles and practices adopted by Natura will become greater with the increase of biodiversity purchase, always looking out for their sustainability.