Social and Sustainability Reporting Guide

2007

INSTITUTO ETHOS

Patrocinadores

Abradee
The Brazilian Association of Electric Power Distributors – Abradee - has annually granted its associates, since 2000, the Abradee Social Responsibility Award, using the Ethos Indicators on Corporate Social Responsibility as its main assessment criteria. Along these seven years, the use of the Ethos Indicators has significantly supported over 30 electric power distributors in the achievement of important social and environmental advances.

Banco Itaú
Banco Itaú believes the Ethos Institute's *Management Tools* are critical to learning and consolidating the corporate social responsibility knowledge, and, for this reason, we have sponsored its publication in 2006 and 2007. Itaú's commitment to sustainability, besides being embedded in the business strategies, is also shown in its contribution to building and disseminating good social and environmental responsibility practices.

Medley
Medley is participating in the publication of the 2007 *Management Tools* because it strongly supports initiatives that aim to discuss, improve, and endorse the sustainability and corporate responsibility themes. The pharmaceutical sector, due to its own operating nature, has great opportunities to develop and foster responsible management culture. In our learning experience, these tools have been very important and, therefore, sponsoring publications such as the *2007 Management Tools* is one more opportunity to share these concepts in the search for a more sustainable society that can offer a more balanced growth to all its citizens.

Natura
Natura believes the Ethos Institute's *Management Tools* are valuable instruments to assist companies in establishing action plans and goals to be incorporated into their strategic planning in order to improve their socially responsible management.

Petrobras
Petrobras' performance is social and environmental responsibility-oriented, and seeks citizenship development coupled with the excellence of its operations in the oil and gas sectors. Therefore, it sponsors the *Management Tools* – developed by the Ethos Institute – which are important instruments for the consolidation of a socially responsible business management. The *Tools* are aligned with the company's performance in the dissemination of corporate social and environmental responsibility practices, and the establishment of partnerships for the construction of a sustainable development model.

Samarco
The Ethos Institute's *Management Tools* have consolidated themselves as critical to a mature and socially responsible business management. Samarco has been using theses tools for the last five years, especially the *Ethos Indicators*, which in 2006 were incorporated to measure its social and environmental performance linked with the company's strategic map. Sponsoring this initiative reinforces Samarco's commitment to sustainable development.

Sesi-SC
The Industry Social Service of the State of Santa Catarina (Sesi-SC) restates in 2007 its support to the Ethos Institute's *Management Tools*, an instrument it regards as critical to the dissemination and promotion of practices and values indispensable to sustainable development. Sesi-SC has applied these tools in the assessment of its socially responsible management model, which has been in force since 2002. Acting as a social services provider to industrial companies, Sesi raises companies' awareness of the importance of social responsibility for maintaining business and a quality relationship with all its stakeholders.

Suzano
We support the Ethos Institute's initiative to publish the *Management Tools* for we believe the organizations need to develop a broad and integrated vision of all the instruments that assist them in managing corporate responsibility, so that they can improve and develop this practice in their relationship with society.

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EMPRESAS E RESPONSABILIDADE SOCIAL
BUSINESS AND SOCIAL RESPONSIBILITY

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Important clarifications on the activities of the Ethos Institute

1. The orientation given to the companies is a voluntary work free of charge.
2. We do not render consultancy services or authorize, or accredit any professional to offer any kind of service on our behalf.
3. We are neither a social responsibility certifying entity, nor give a "seal" for that purpose.
4. We do not allow any entity or company (whether associated or not) to use the Ethos Institute logo without our prior knowledge and express written authorization.

If you have any doubt or wish to consult us on the activities of the Ethos Institute, please contact us through the link "Fale Conosco" (Talk to Us), at www.ethos.org.br.

Contents

Introduction

The Ethos Institute, while publishing the Social Reporting Guide for the last seven years, has been encouraging the organizations to realize how intrinsically the preparation of a social report[1] is related to corporate social responsibility (CSR) management. Here is where the two pillars of the CSR definition[2] converge: the **ethical and transparent relations** with all stakeholders[3], and the **establishment of business goals** compatible with the sustainable development of the society.

As far as the social responsibility theme is concerned, publishing a report that covers, besides the financial issues, economic, environmental and social[4] dimensions related to the business management meets two major objectives: being a **management tool**, allowing a better measurement of the management performance under the perspective of social responsibility, and being a **stakeholder dialogue tool** that aims at the construction of and continuous improvement in stakeholder engagement.

A company interested in social reporting should understand, in this sense, that the publication intends to go beyond a one-way communication. It is the opportunity for the company to understand how the actions disclosed are in tune with its strategic vision and with the commitments to sustainability made by its leaders, besides providing deeper knowledge of the company management, and establishing closer relationships with several stakeholders.

This guide, from this edition on called *Social and Sustainability Reporting Guide*, was created with the objective of raising the quality, consistence and reliability of business reports, explicitly enhancing its main characteristic, which is to enable companies to understand the relevant items for consistent social reporting (or sustainability reporting) and find the opportunities offered by the existing models to improve their own management.

The Ethos Institute supports social reporting, and encourages the use of the models presented herein as complementary, rather than opposing options. The Ethos Institute has chosen to reinforce the nature of guide of this publication, as part of its strategy to ensure companies that their efforts to contribute to sustainable development will be effective and efficient.

This guide will provide information on the most widely used Brazilian social report model – the Brazilian Institute of Social and Economic Analyses (Ibase) model –, and also on the international model that is most disseminated worldwide – the Global Reporting Initiative (GRI) one. Both initiatives aim to foster the discussion on transparency and responsible management, and strongly contribute to the definition of themes to be presented to the whole society.

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[1] The term "social report" was used in this document to refer to non-financial corporate reports. Companies often use expressions such as "sustainability report", "social and environmental report" and "social audit", among others, all of them equivalent to the type of document described here, provided their approach includes the three sustainability dimensions, through which the economic, environmental and social aspects of the organization's performance are addressed. The term "sustainability report" will be used here only when referring to the Global Reporting Initiative (GRI) model, since this is the term adopted by them.

[2] According to the Ethos Institute definition, "corporate social responsibility is the way of conducting business defined by ethical and transparent relations with all stakeholders and the establishment of business goals compatible with the sustainable development of the society, conserving environmental and cultural resources for future generations, respecting diversity, and promoting reduction in social inequalities."

[3] Stakeholders are defined broadly as those groups or individuals whose actions can reasonably be expected to affect the organization through their opinions and actions; or that can reasonably be expected to be significantly affected by the organization: workforce, suppliers, customers and consumers, community, government, shareholders, etc. There is an increasing trend to consider stakeholders as those who feel as such, and the company should map the stakeholders involved in each situation.

[4] The alphabetical order of the three dimensions comprising the triple bottom line concept aims to show they are equally important to the sustainable development.

The Challenge of Transparency

There is a growing trend for CSR-oriented companies towards making social reports more coherent with their proposals. Non-governmental organizations and companies representing the various sectors of the economy are clearly interested in having their social reports recognized as a credible and verifiable document.

Companies have been gradually adopting this report model, but it is still common to find reports that excessively describe good actions and avoid presenting negative aspects. It is a consensus among entities that diffuse and encourage the publication of accountability reports that, by emphasizing only this aspect, the company misses the opportunity of strengthening its relations with its stakeholders through a more consistent, trustworthy document.

When defining transparency and veracity as core principles, the company chooses to establish a mature relationship with its stakeholders. In addition, it discloses its goals towards sustainability, and increases the commitment of some of these stakeholders towards the same direction.

Social Reporting Stages

[5] For further information on how to carry out this consultation, refer to Annex 2.

Information Contained in the Social Report

Since 2001, the Ethos Institute has been publishing in its Social Reporting Guide suggestions of items and information to be disclosed by companies in their social reports. Such items and information, especially the performance indicators, have always been totally in tune with the qualitative and quantitative data of the Ethos Corporate Social Responsibility Indicators – a company's management learning and self-assessment tool to incorporate social responsibility practices –, in an effort to show the cyclical and continuous nature of these practices.

In this guide we reaffirm the existing relationship between the Ethos Indicators and the social report models. Find out about the convergence of themes and the possible combined use of these tools in the chapter "What to Consider in Social Reporting."

Contact us

For further information on this publication, to clear doubts or send suggestions, email the Ethos Institute at relatorio@ethos.org.br.

About the Social Report

Following the consolidation of corporate social responsibility, several social actors, such as civil society organizations, companies and public institutions, have developed methods and standards to assess the economic, environmental and social performance of organizations with the purpose of meeting society's growing demand for transparency, understood as a key element in the process of socially responsible management. Social reporting is currently recognized as the tool that meets such expectation.

Social reporting is a survey of the company's main economic, environmental and social performance indicators. It broadens the dialogue with stakeholders and explains the company's past, present and future objectives. Social reporting also allows increased importance of social responsibility in the corporate strategy, for showing stakeholders' expectations in addition to assessing the company's performance.

Publishing a social report is critical for the organizational life because, besides broadening the dialogue with society, it helps the company incorporate ethical and transparent attitudes, identify medium- and long-term challenges, compare its performance to other organizations, evaluate the effectiveness of its investments, and integrate its economic, environmental and social objectives.

Background

The 1970s brought the first social reporting experiences in the world. In 1977, in France, a law was enacted determining that companies with more than 750 employees had to publish an annual report of their labor practices.

In 1978, Brazil entered the debate through the Business Development Institute, currently called Social and Business Development Institute Foundation (Fides). After a series of discussions on the role of companies in the development of society, the entity started to promote this type of report, organizing two years later a pioneering international seminar on this theme. In 1984, Nitrofértil, a chemical company, produced the first Brazilian social report, whose target public was its workforce. The discussion in Brazil started to gain momentum in 1997, when Ibase conducted a campaign for the voluntary disclosure of social reports.

Since its creation in 1998, the Ethos Institute participates in the discussion of social reporting as a management tool for socially responsible business practices, having published guides and participated, together with other organizations, in initiatives such as the *Prêmio Balanço Social* (Social Report Award), whose objectives were to diffuse the relevance of this management tool for the transparency of business actions and to generate a benchmark of excellence practices in this sense.

Follow in this timeline the landmarks of social reporting in Brazil and in the world.

Social report milestones

1919

The Weimar Constitution (Germany) introduces the idea of “social function of property”

1960

Social responsibility movements appear in the USA

1965

The Association of Christian Business Leaders (ADCE) publishes in Brazil the “Charter of Principles of the Christian Business Leader”

1972

UN Economic and Social Council Resolution 1721 generates studies on the role and effects of multinational corporations in emerging countries' development process and their interference in the international relations. In addition, the creation of a code of conduct for multinational corporations is discussed.

Singer publishes what was later recognized as the first social report in the world

In the USA, Europe and Latin America, several studies suggest social report models

The paper *Da Sociologia da Contabilidade à Auditoria Socioeconômica* (From Sociology of Accounting to Social and Economic Audit), by Alberto Almada Rodrigues, is published

1976

The Social and Business Development Institute Foundation (Fides) and ADCE study the social responsibility theme

1977

In France, Act no. 77.769/77 determines the publication of the social report (bilan social) aimed at labor relations

1978

Fides presents a social reporting proposal

1980

Fides organizes the International Seminar on Social Report and launches the book *Balanço Social na América Latina* (Social Report in Latin America)

1981

The Brazilian Institute of Social and Economic Analyses (Ibase) is founded

1984

Nitrofértil makes the first social report in Brazil

1985

In Portugal, Act no. 141/85 makes social reporting mandatory for companies with more than 100 employees

1986–94

An international group called The Caux Round Table – created by economic leaders of Europe, United States and Japan – develops and disseminates ethical principles for business – The Caux Round Table: Principles for Business*

1988–93

The Interfaith Declaration is created*, code of ethics on international trade for Christians, Muslims and Jews

1990

In the USA, the Domini 400 Social Index does not allow the participation of companies involved with tobacco, alcohol, gambling, weapons and nuclear energy generation

***The Caux Round Table and the Interfaith Declaration state the importance of having responsibility to all stakeholders in addition to returning profits to shareholders. Both present detailed sections on the companies' obligations to all its actors – workers, customers, suppliers, investors, community, local and federal governments – as well as obligations to the owners.**

1992

The II United Nations Conference on Environment and Development, known as Rio-92, generates the Agenda 21, a document that translates the commitment of nations to changing the development standard in the next century

As a result of the Eco-92, the ISO 14000 standard is created, establishing guidelines for environmental management

The Getúlio Vargas Foundation (FGV) creates the Center of Studies on Business Ethics

1996

The Institute of Social and Ethical Accountability (Isea) is founded aiming to promote innovations in accountability to improve CSR practices as well as increase transparency on the part of government and civil society organizations

In Denmark, act requires that some listed companies publish environmental report verified by external auditors

1997

The Global Reporting Initiative (GRI) – an international movement for the adoption and standardization of economic, environmental and social reports published by companies — is founded

Social Accountability International (SAI) creates the SA8000, a certification standard aimed at working conditions

Bill no. 3.116/97, put forward as Bill no. 32/99, intends to make social reporting mandatory for government entities and companies

Herbert de Souza (Betinho) and Ibase organize events, propose a social report model and encourage its publication

Several municipal and state acts encourage social reporting by companies

1998

The Ethos Institute – Business and Social Responsibility is founded

In Porto Alegre, State of Rio Grande do Sul, Municipal Act no. 8.116/98 creates a social report model for the companies based in the city

1999

The 1st National Conference of the Ethos Institute – Business and Social Responsibility is held

Isea launches the AA1000 standard

In the Netherlands, an act determines that companies belonging to certain risk sectors shall publish an environmental report

The São Paulo City Council launches the seal "Empresa Cidadã" (Citizen Company) to be awarded to companies with quality social reports

The Dow Jones Sustainability Index (DJSI) is created in the USA. It is the first index to assess the financial performance of the world's leading sustainable companies

2000

The UN launches the Global Compact, which implements ten principles in the areas of human rights, labor, environment and anti-corruption

The *GRI Sustainability Reporting Guidelines* are launched

The first version of the *Ethos Indicators on Corporate Social Responsibility* is launched

2001

The Ethos Institute launches the *Production Guide for Corporate Social Responsibility Annual Report and Statement*

2002

The Brazilian Association of Business Communication (Aberje), the Association of the Investment Analysts and Professionals of Capital Market (Apimec), the Ethos Institute, Fides, and Ibase organize the first edition of the Social Report Award

A new version of the *GRI Sustainability Reporting Guidelines* is launched

In France, an act requires that listed companies include "social and environmental effects" in their annual reports

2003

Isea launches the AA1000 Series, including the *AA1000 Assurance Standard*, for sustainability reports

FGV founds the Center for Sustainability Studies (GVces)

2004

The Portuguese version of the *GRI Sustainability Reporting Guidelines* is officially launched in Brazil

The International Organization for Standardization (ISO) decides to create the ISO social responsibility standard – ISO 26000. The work group for the development of the standard is co-chaired by Brazil – through the Brazilian Association of Technical Standards (ABNT) – and by Sweden – through the Swedish Standards Institute (SIS)

The Brazilian Association of Technical Standards (ABNT) creates the Brazilian Standard on Social Responsibility (ABNT NBR 16001)

2005

The Corporate Sustainability Index (ISE) is launched as a tool for comparative analysis of the performance of companies listed in Bovespa (São Paulo Stock Exchange) with respect to corporate sustainability

2006

GRI organizes events to encourage public comments on its new version – the G3. Two of them are held in Brazil

The third generation of the *GRI Sustainability Reporting Guidelines* is launched in October. The Portuguese version in launched in December, with the support of Aberje, GVces and the Ethos Institute

The Models

Adjusted to the business realities and improved so as to promote its continuous application, the social report models aim to support the company's content definition and goal- and objective-setting process. The choice of the model ensures to the organization a safe orientation on what to inform, national or international comparability, and the alignment with legitimate environmental and social commitments. It is important to stress, however, that the company's discussion and assessment of its impacts and stakeholders' expectations will actually establish the contents and information presented in its social report.

Below we present the most widely used social report models in Brazil, the Ibase and the GRI models.

The Ibase Model

Launched by the Brazilian Institute of Social and Economic Analyses (Ibase) in 1997, this model is a statement through which the companies are invited to present to the society information on its internal and external investments in corporate social responsibility actions.

In ten years of existence, the model has gone through three revisions that involved consultants, social organizations and companies. Its format, however, has not been changed. The objective of a one-page social report model, according to the institution, is to keep its comparability and its two main features: simplicity and user-friendliness.

The Ibase model consists of a spreadsheet comprising primarily quantitative indicators regarding information on financial, social and environmental investments. That means the company that adopts it will have in a single management tool a set of information to be disclosed to its stakeholders and to the society as a whole. Some of this information can be easily gathered in the company's accounting and people management systems; others, such as diversity information, involve change in the company's practices and management.

More comprehensive data and information on how the company manages its social responsibility actions are required by some multiple choice qualitative indicators. Ibase recommends that model users include supplementary, numerical or descriptive information in the last item, "Other Information."

The institute provides guidance on how to report on the indicators by informing what elements to present in each of the seven sets of indicators, explaining in detail those that can raise more doubts.

Ibase understands that its social report model is essentially a **transparency and accountability** tool. The company should publish it as a way to periodically present to the society its actions and its evolution in addressing themes that are relevant to the Brazilian context, such as education, health, diversity promotion, environmental conservation, contributions to employees' quality of life and work conditions improvement, development of community projects, poverty eradication, and employment generation. The institute neither suggests data collection protocols nor requires that the information presented be audited.

As a means to assure wide publicity to the information, and encourage data verification on the part of the society, Ibase created in 1998 the "Ibase/Betinho Social Audit Seal", a label offered to medium-sized and large companies that choose its model and follow certain criteria. This seal guarantees that the organization has fulfilled all the established criteria for completion and publication of the social report in this format, and, therefore, does not aim to certify or evaluate the company's social responsibility actions.

In order to obtain the seal, the company has to publish all the information required. It cannot state that a certain data is unavailable or not applicable to their operations. In addition, the company needs to expressly declare, in a document signed by its legal representative, the non-use of child labor or labor that is similar to slavery or degrading, the non-involvement in prostitution or sexual exploitation of children or adolescents, non-involvement with corruption, and its commitment to valuing and respecting diversity. This declaration has to be sent to Ibase and must be included in the social report, in the item "Other Information."

In addition, the company must publish its social report in a large regional or national newspaper or magazine, according to its size and reach. The information must also be available on the Internet, as well as be available to all the company employees and their unions. The workforce and the unions have to be given an individual printout.

In 2006, Ibase included as a criterion for granting the seal a two-month public comments period, whose objective is to effectively engage civil society organizations and unions in the analysis of the data presented by the companies. The information disclosed is reviewed by civil society organizations of several sectors and is available on the "Social Report" website (www.balancosocial.org.br), so that anyone can criticize or make comments. In its first year, the social reports of 54 companies were posted for public comments, of which only two were not granted the seal.

The "Ibase/Betinho Social Audit Seal " is not granted to manufacturers of weapons, alcoholic beverages or tobacco. In addition, Ibase has the right to suspend, withdraw or not grant the seal to any company involved in, accused of or sued for corruption or violation of human, social or environmental rights related to declarations and conventions of the International Labour Organisation (OIT), the United Nations (UN), and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, as well as to all the Brazilian laws related to these rights and duties.

Table 1: Ibase-based social reports in Brazil – medium-sized and large companies

1997	1998	1999	2000	2001	2002	2003	2004	2005
21	38	57	125	173	174	211	212	200

Source: Ibase Social Report Database – 2006 (subject to changes until December 2007)

Table 2: "Ibase/Betinho Social Audit Seals" granted

1999	2000	2001	2002	2003	2004	2005
8	24	21	40	58	63	52

Source: Ibase Social Report Database – 2006

Ibase Model Framework

The current Ibase model comprises 43 quantitative indicators and eight qualitative indicators, divided into seven categories, presenting data and information of two fiscal years of the company.

Calculation Basis

These are the three pieces of financial information on which all the following indicators will be based: net revenue, operating result, and gross payroll.

Internal Social Indicators

Include all the company's voluntary and mandatory investments that benefit their employees: food, compulsory social charges, pension plan, health, education, culture, capacity building and professional development, day care or day-care assistance, and profit sharing.

External Social Indicators

These are all the company's investments that have the society as beneficiary: education, culture, health and sanitation, sports, food and nutritional security, day care, among others.

Environmental Indicators

Refer to the company's investments to mitigate or offset its environmental impacts, and also those aimed at environmental quality improvement, such as technological innovation and internal environmental education programs. They also include a box for the company to inform about projects and actions not related to the production/operations and a multiple choice qualitative indicator on the establishment of annual ecoefficiency targets.

Staff Indicators

Identify how the company relates with its workforce concerning employment generation, outsourced labor, diversity, and top positions held by groups historically discriminated in the country, such as women, afro-descendants and people with special needs.

Relevant Information on Corporate Citizenship

The expression "corporate citizenship" refers to a series of business actions related to the company's stakeholders, with great emphasis on the workforce. They are mostly multiple choice qualitative indicators, through which some of the guidelines and processes developed in the company regarding its social responsibility policies and practices are presented. The terms "corporate citizenship" and "social responsibility" are frequently interchangeably used in the several discussions about the contribution of organizations to sustainable development. In general, the term "corporate citizenship" refers more strongly to emergency relief actions or corporate participation in public policy. In the Ibase model, however, the term is more related to the social responsibility concept, primarily referring to business management issues.

Other Information

Gathers relevant data for the understanding of how the social responsibility practices are incorporated into the organization. Companies that apply for the "Ibase/Betinho Social Audit Seal" must present a declaration of non-use of child labor or labor that is similar to slavery or degrading, non-involvement in prostitution or sexual exploitation of children or adolescents, non-involvement with corruption, and its commitment to valuing and respecting diversity.

In this item, the company must also present its identification and classification, as well as inform the name, telephone and email address of the person responsible for the information

The Ibase Model Applied to Other Types of Organization

Ibase has also developed, in partnership with several organizations, other social report models in the last few years: one specific for micro and small companies, one for cooperatives, and one for educational institutions, foundations, and non-profit social organizations (third sector-oriented). These proposed models follow the same framework of transparency and accountability, aiming to encourage organizations to present data on their actions, origin of the funds, nature of the expenses, and relationship with employees, disclosing to the society as a whole what they have been doing to contribute to sustainable development and strengthen citizenship.

For further information, access www.balancosocial.org.br or email ibase@ibase.br.

The GRI Model

The Global Reporting Initiative (GRI) is an international organization whose objective is to develop and improve sustainability reporting guidelines to enable reporting on economic, environmental, and social performance by all organizations, regardless of size, sector or location to become as routine and comparable as financial reporting. This initiative started in 1997.

Originally launched in 2000, the *GRI Sustainability Reporting Guidelines* were revised twice – in 2002 and in 2006 –, with broad participation of several types of organizations, such as companies and civil society entities of several countries, in consensus-seeking processes.

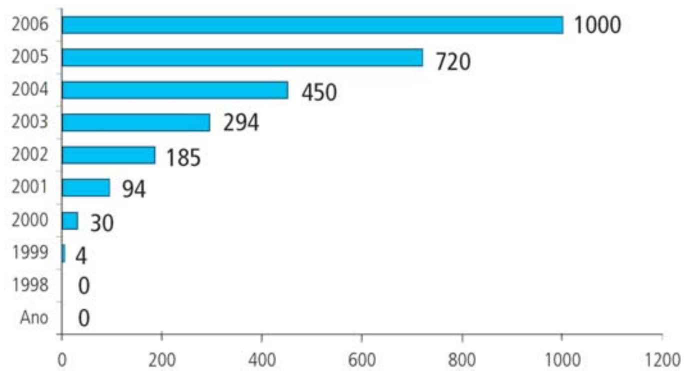
Its latest version – that of 2006 – was called G3 to indicate it was the third generation of the guidelines. This new version was developed to meet the expectations of several users of sustainability reports (companies and non-companies) that recommended changes through a structured feedback process for about two years.

Among these recommendations was the perceived need for a tool that could be friendlier and more easily harmonized with other social responsibility standards and patterns. Another recommendation for the guidelines was to better focus their indicators on performance, since the indicators were considered too many and hard to compile. It was recommended reducing the number of indicators and guiding their compilation through data collection protocols. The qualitative indicators should present more application tips so that the organizations could better understand how to select the disclosure items most relevant to their stakeholders.

The challenge of meeting such expectations was faced. The current GRI Reporting Framework (G3) consists of reporting principles and orientations, as well as guidance for defining report content. Performance indicators (and their respective protocols) and other disclosure items called Disclosure on Management Approach (DMA) guide and standardize the minimum information required in the descriptive items, so that the organization will present data that better contextualizes and facilitates the understanding of its performance in a specific theme.

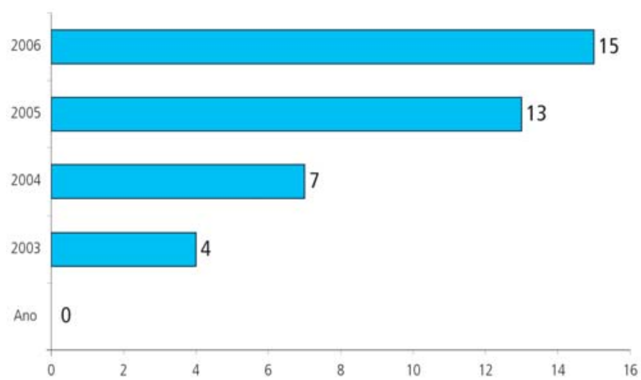
Besides these elements, common to any organization, the GRI Reporting Framework also comprises sector supplements, developed to complement the information disclosed by organizations with the presentation of sector-specific questions. Soon national annexes will be developed, more specifically addressing the existing particularities in the different geopolitical areas the reports are made.

Figure 1: Use of the GRI Guidelines in the world (2000-2006) [6]



Source: Global Reporting Initiative

Figure 2: Use of the GRI Guidelines in Brazil (2003 – 2006) [7]



Source: CorporateRegister.com

6 This data refers to the organizations that self-declare the use of the GRI Guidelines in the preparation of their social report or sustainability report. The exact number of organizations applying the GRI model is unknown.

7 See previous note.

The choice of the GRI Model has been growing all over the world due to its proposal of establishing an international reporting standard. The uniformity through a single reporting standard is extremely positive, once it enables a higher and more accurate level of comparison among several organizations in the different contexts in which they are located.

GRI Model Framework

The GRI sustainability reporting framework guides organizations on how they can disclose their sustainability performance. In order to adapt it to their needs and to their stakeholders' interest, reporting organizations choose among the elements of this guidance those that better suit their reporting objectives.

Sustainability Reporting Guidelines

Consisting of principles and guidance, besides the themes that should be addressed by the company in its report, the guidelines outline content that is broadly relevant to all organizations regardless of size, sector or location.

Indicator Protocols

They guide organizations on how to report on each indicator. They are organized by a standard framework and provide an explanation for each indicator about its relevance, how to compile it, definitions of terms used, guidance for the documentation, and references for deeper understanding of the issue.

Sector Supplements

They complement the guidelines and address sector-specific sustainability themes, including a discussion on challenges and opportunities. The sectors covered up to 2006 were Financial Services, Logistics and Transportation, Mining and Metals, Public Agencies, Tour Operators, Telecommunications, and the Automotive Sector. At present, GRI is performing application tests in two of them – Financial Services and Public Agencies. There are sector supplements underway for Apparel and Footwear and Energy Utilities, and soon a specific one will be developed for non-governmental organizations.

National Annexes

Annexes will be developed in the future by the GRI to be used in conjunction with the Guidelines. They will contain questions that are specific to a certain country or area, so as to allow unique sustainability issues faced in the region to be properly addressed.

Highlights

One of the greatest innovations of this new framework is the approach taken by the GRI to the **sustainability reporting principles**, being more explicit in the emphasis given to their relevance for consistent sustainability reporting. Such principles were organized in two broad groups, according to the function they perform: defining report content or ensuring report quality. Besides an explanation as to its relevance, each of the ten principles is followed by a short list of self-tests that can be used to correctly apply the principle.

The GRI principles, which are complementary and, therefore, should be used in an integrated way, are an indispensable route to be followed so that the sustainability report can consistently meet its objectives. They are briefly presented below.

Principles for Defining Report Content

Materiality

This term is, in financial reporting, commonly thought of as a threshold for influencing the economic decisions of investors. In the GRI proposal, it is concerned with a broader sense, covering issues that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders. Further information on "materiality" is presented in the following chapter.

Stakeholder Inclusiveness

It refers to the exercise the organization must do to identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests. In this sense, the GRI stresses the need to balance the specific interests/expectations of stakeholders who can reasonably be expected to use the report with broader expectations of accountability to all stakeholders. In other words, the fact that some stakeholders are not report users should not lead to omitting relevant information on them.

GRI states categorically that reporting without the inclusion of stakeholders' expectations significantly compromises the report's credibility.

Sustainability Context

The comments and results presented in the report should be in the wider context of analysis, so as to enable economic, environmental, and social issues regarding the place where the organization operates to be addressed and related to its performance. The sustainability context allows the report user to understand the organization's evolution as compared to its strategic objectives, both in relation to its overall performance and with respect to the different economic, environmental, and social settings where it operates.

Completeness

Completeness primarily encompasses the dimensions of scope, boundary, and time, and concerns the extension and accuracy of the coverage of the material topics, which should provide stakeholders with enough information on the economic, environmental and social impacts of the organization, so that they can appropriately assess its performance.

"Scope" refers to the range of sustainability topics covered in a report, which should be defined on the basis of the principles of materiality, and stakeholder inclusiveness; "boundary" refers to the range of organizations whose performance is represented by the report, which should be selected according to the level of control and influence the reporting organization exercises over them[8]; and "time" refers to the need for the selected information to be complete for the time period specified by the report.

Principles for Defining Report Quality

Balance

This principle aims to ensure that the overall presentation of the report's content should not be limited to favorable results of the reporting organization, thus allowing stakeholders to appropriately assess the data disclosed. The report should include both favorable and unfavorable information on the organization's performance, and should clearly distinguish between factual presentation and the reporting organization's interpretation of information.

Comparability

It refers to the need for the organization to establish and maintain methods used to compile data that will allow comparison of the information reported with the organization's past performance, as well as with the performance of other organizations of the same sector and of other sectors.

Accuracy

The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance. The accuracy of quantitative information may depend on the specific compilation methods, whereas the accuracy of qualitative information is largely determined by the degree of clarity and balance in presentation.

Timeliness

Reporting should occur on a regular schedule and should enable stakeholders to effectively integrate it into their decision-making; the timing of release also refers to its proximity to the actual events described in the report. GRI suggests that the schedule of sustainability reporting and financial reporting should be aligned, so that stakeholders' assessment can encompass both perspectives.

[8] For further information on boundary, refer to the GRI "Boundary Protocol", available at www.globalreporting.org.

Clarity

It refers to the way the report should be presented, and the usefulness of information, which should be made available in a manner that is understandable and accessible to stakeholders. Besides being accessible to all stakeholders, the report should provide reference to specific or more detailed information on certain issues.

Reliability

It refers to records and documentation that should be made in the preparation of a report so as to assure stakeholders that the information disclosed could be substantiated by evidence and subject to examination.

The report's reliability is related to its content, as well as to the processes that defined it, such as the use of the principle of materiality and the stakeholder engagement processes, which should also be documented.

Application Levels

G3 also innovates with the creation of the GRI Application Levels, through which the organization can measure to what extent the GRI Reporting Framework elements have been applied in the preparation of the report, and also understand how to better apply the GRI along the years.

The classification in each one of the Application Levels is made through self-assessment: the organization assesses its own report content against the criteria in the GRI (available at www.globalreporting.org and briefly described below), and determines to which application level its report corresponds. The organization can choose to assess its report content as level C, C+, B, B+, A or A+. Each one of these categories has a series of requirements to be met, as follows:

Global Reporting Initiative (G3) Application Levels

Item	What Must be Included in the Report	Application Level Achieved	
Profile	Items 1.1; 2.1 a 2.10; 3.1 a 3.8; 3.10 a 3.12; 4.1 a 4.4; 4.14 y 4.15	C	C+ (If external assurance has been applied to the report)
Management Approach	Not required		
Performance Indicators & Sector Supplement [9] Performance Indicators	A minimum of 10 Performance Indicators, including at least one from each Indicator Category – social, economic and environment.		
Omissions[10] are not accepted in any item of Level C			

[9] The existing sector supplements are not deemed final version by the GRI for being based on the 2002 Guidelines. Therefore, their disclosure is not considered mandatory to obtain a level A. The first sector supplement required was "Financial Services", to be launched soon.

[10] The GRI refers to explicit data omission. The company that chooses not to include or report on an indicator must clearly give the reasons for doing so. It is no longer possible to use the terms not applicable (N/A) or no data available (NDA). Examples of acceptable explanations: the indicator was excluded for not following the materiality principle; the indicator was not answered due to lack of data systems to generate the required information, but we aim to report on this Indicator in next report; the indicator was not answered, but the information is elsewhere (in this case, the company must provide the exact hyperlink or reference to other materials).

<table>
<tr><th>Item</th><th>What Must be Included in the Report</th><th colspan="3">Application Level Achieved</th></tr>
<tr><td>Profile</td><td>Items 1.1; 1.2; 2.1 to 2.10; 3.1 to 3.13; 4.1 to 4.17</td><td rowspan="3">B</td><td rowspan="3">B+</td><td rowspan="3">(If external assurance has been applied to the report)</td></tr>
<tr><td>Management Approach</td><td>Management approach disclosures for each Indicator Category</td></tr>
<tr><td>Performance Indicators & Sector Supplement Performance Indicators</td><td>A minimum of 20 Performance Indicators, including at least one from each Indicator Category – economic, environment, human rights, labor, society and product responsibility</td></tr>
<tr><td colspan="5">Omissions are not accepted in any item of Level B</td></tr>
</table>

<table>
<tr><th>Item</th><th>What Must be Included in the Report</th><th colspan="3">Application Level Achieved</th></tr>
<tr><td>Profile</td><td>Items 1.1; 1.2; 2.1 to 2.10; 3.1 to 3.13; 4.1 to 4.17</td><td rowspan="3">A</td><td rowspan="3">A+</td><td rowspan="3">(If external assurance has been applied to the report)</td></tr>
<tr><td>Management Approach</td><td>Management approach disclosures for each Indicator Category</td></tr>
<tr><td>Performance Indicators & Sector Supplement Performance Indicators</td><td>Each core G3 and Sector Supplement Indicator with due regard to the materiality principle to report on the Indicator or explain the reason for its omission</td></tr>
</table>

Adapted from Sustainability Reporting Guidelines – "GRI Application Levels"

External Assurance

A "plus" (+) indicates the report has been submitted to an external assurance process conducted by groups or individuals external to the organization who are demonstrably competent in both the issue matter and assurance practices. According to the GRI, the external assurance process should follow objective and documented procedures, so as to assess whether the report provides a balanced presentation of the organization's performance, from selection of content to data presentation.

For each level, GRI has created an icon to be inserted in the report. The icon that shows that the report is self-declared and the one that informs that external assurance has been applied to the report are available for download on the GRI website ("Reporting Services" section) for each one of the categories (C, C+, B, B+, A, and A+). GRI-Checked icons will be made available to the organization at the completion of the check.

The "Application Levels" concept replaces the 2002 version "In accordance" report self-declaration. All organizations that make GRI-based reports should identify their application level through the presentation of the Application Levels grid that shows which items were disclosed, and the content index, that lists all the standard disclosures and indicators presented, as well as the page numbers where they can be found.

It is very important to understand that such application levels do not aim to create a report ranking, but rather to identify how the guidelines are being applied and the difficulties organizations find in fully applying them. For this reason, GRI recommends that it should be informed by the company about the publication of its report. Send an email to guidelines@globalreporting.org and gterreo@ethos.org.br and inform us about the publication of your social report.

Application Level Check

The report can also be checked by the GRI, who provides a special icon (GRI Application Level Check) to be included in the report, showing that the data provided was assessed by the GRI, who confirmed that the organization's self-declared application level is consistent. The GRI check covers only the disclosure items, and not the report content, not being equivalent to external assurance. The GRI Application Levels check is performed for a fee, which is waived for GRI organizational stakeholders.

Other Publications

The Global Reporting Initiative Learning and Services area has developed an educational series to assist organizations in sustainability reporting. The first manual is called *The GRI Sustainability Reporting Cycle: A handbook for small and not-so-small organizations*, and can be purchased on the GRI website.

For further information on the model and other documents that support the sustainability reporting, access www.globalreporting.org.

Understanding the Models Relationship

The choice of a model to be used in the social reporting should take into account the organization's strategic objectives on making it. In Brazil, organizations often find it difficult to make a GRI-based report due to its preparation complexity. The new application levels proposal makes the process easier, and the application of the reporting principles ensures the document's reliability to the stakeholders.

The most applicable approach to several realities of the organizations does not disregard, however, the publications of an Ibase-based social report. This model, whose main features are simplicity and penetration into the several spheres of the society, can – and should – also be used as a means to show the organization's stakeholders what has been done towards sustainable development. In case your organization chooses the Ibase model, we recommend that the GRI reporting principles – all of them applicable to the Ibase model – be considered in the reporting process. The "balance" principle, for instance, will ensure that none of the items is omitted or classified as not available. As for the "materiality" principle, it will make the relevant information on the company's social responsibility practices contain data that can influence the stakeholders' decisions.

What to Consider When Preparing the Social Report

When preparing its social report, the organization should carefully think over its approach to conducting the business. This will enable the organization to assess the evolution of its performance and consider the impacts of its actions aimed at integrating sustainability issues into strategies, mechanisms, policies, and management processes. This understanding has been gradually incorporated by the companies, but the practice and the reports available show there is still a long way to go.

A recent research carried out by the Dom Cabral Foundation (FDC)[11] raised an important issue: 55% of the companies whose social reports were analyzed still associate the sustainability issue to social investment and to their relationship with the workforce. These companies present their social responsibility actions highlighting good actions and omitting challenges and failures. Out of the remaining 45%, only 14% understand the issue in a more comprehensive and business-integrated way.

In a research carried out by the British think-tank SustainAbility[12], there was another relevant finding: out of the 50 leading reports assessed, 48% were formally "in accordance" with the *Global Reporting Initiative 2002 Guidelines*, and all of them referred to these guidelines in their reports. The research, carried out before the G3, shows there was a 100% increase in the number of companies using this model. It also allows, together with the data from the Brazilian research, the following observations:

- The organizations need a guiding model in their social reporting process. This helps them define their approach to the document which must be developed in line with the principles and criteria presented by these models. In addition, this will ensure, both to the stakeholders and to the organization itself, comparability of performance regarding economic, environmental and social issues;

- The social reporting process must be aligned with the company's strategic objectives. The social report should not be merely seen as a communication tool, but also as a means to present performance data that assists the organization's stakeholders in their decision-making processes. The absence of unfavorable, although relevant, data about the organization is usually seen as inability of the company to openly address its dilemmas.

[11] *Balanços Sociais: Analisando a Evolução da Comunicação da Responsabilidade Corporativa*. Nísia Werneck. Fundação Dom Cabral, 2004.

[12] *Tomorrow's Value: The Global Reporters 2006 Survey of Corporate Sustainability Reporting.* SustainAbility, UNEP and Standard & Poors. This research rates the fifty best sustainability reports in the world.

The Importance of a Good Diagnosis

Addressing dilemmas is, in fact, a major issue in corporate social responsibility, once, by definition, CSR refers to a broad set of variables and stakeholders the company relates with. Therefore, the Ethos Institute has developed since 2000 social responsibility self-diagnosis and action planning indicators – the Ethos Indicators on Corporate Social Responsibility –, which have become along the last years a management tool that encourages the evolution of socially responsible practices. Their use as a **diagnosis** tool truly helps companies to decide which issues must be prioritized and addressed, besides assisting them in the identification of stakeholders' expectations.

The Ethos Indicators were inspired by the Deming cycle (or PDCA cycle)[13], through which actions are performed seeking continuous improvement. This approach also includes action **planning** and **implementation**, benchmarking and **assessment**, and finally **transparency** and **learning**[14] stages.

We consider that using the Ethos Indicators as a tool for identifying stakeholders' expectations is a relevant option for the organizations, once this diagnosis tool enables the understanding of common expectations among stakeholder groups of most organizations, and leads to the discussion of the latest social responsibility themes.

Ibase Model and Ethos CSR Indicators[15]

Most of the themes proposed by Ibase in its social report indicators are also addressed by the Ethos Indicators. The combined use of both tools provide the company with a broader picture of its practices, as well as help it identify policies and mechanisms that can be developed or improved to boost certain social responsibility actions.

As mentioned above, the Ibase model consisted primarily of information on financial investments, some of them not found in the Ethos Indicators, especially those concerning economic impacts of business activities. Nevertheless, the Ethos Indicators can help the company think over the themes and understand the variables involved in each one of the aspects addressed by the Ibase model.

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13 The Deming or PDCA cycle is a management method developed in the early 20th Century aimed at organizational processes control. It is a continuous quality improvement model for managing and making activities more effective. It comprises four main stages: Plan, Do, Check, and Act.

14 The Ethos Institute suggests management tools for each one of these stages to help companies implement and monitor social responsibility actions.

15 The correlation shown between the Ibase social report model and the Ethos Indicators aims to simply illustrate the common points between the two tools, and should not be used for any other purpose.

Relationship between the Ibase model and the Ethos Indicators

Ibase Model	Existing Relationship with the Ethos Indicators ✔	Indicator it Relates to
Calculation Basis		
Net revenues		
Operating result		
Gross payroll	✔	Indicator 15
Internal Social Indicators		
Food	✔	Indicator 15
Compulsory social charges		
Pension Plan	✔	Indicator 19
Health	✔	Indicator 16
Occupational health and safety	✔	Indicator 16
Education	✔	Indicator 17
Culture	✔	Indicator 17
Capacity building and professional development	✔	Indicator 17
Day care or day-care assistance	✔	Indicator 10
Profit sharing	✔	Indicator 15
Other		
Total – Internal Social Indicators		
External Social Indicators		
Education	✔	Indicators 34, 35 and 39
Culture	✔	Indicators 34, 35 and 39
Health and sanitation	✔	Indicators 34, 35 and 39
Sports	✔	Indicators 34, 35 and 39
Food and nutritional security	✔	Indicators 34, 35 and 39
Other		
Total contributions to society	✔	Indicators 34, 35 and 39
Taxes (excluded social charges)		
Total – External Social Indicators		
Environmental Indicators		
Investment in the company's production/operations	✔	Indicator 20
Investment in external programs and/or projects	✔	Indicator 21
Total environmental investment	✔	Indicators 20, 21 and 22
As for the establishment of "annual targets" to minimize residues, reduce general consumption in production/operations, and increase efficiency in the use of natural resources, the company does not have targets reaches from 0 to 50% of the targets, from 51 to 75%, or from 76 to 100%	✔	Indicator 22

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>>>CONTINUATION

Staff Indicators		
Total no. of employees at period end	✔	Indicator 18
No. of people hired during the period	✔	Indicator 18
No. of service providers	✔	Indicator 14
No. of interns	✔	Indicator 17
Number of employees over 45	✔	Indicator 11
No. of women working in the organization	✔	Indicator 13
% of top positions held by women	✔	Indicator 13
No. of afro-descendant employees in the organization	✔	Indicator 12
% of top positions held by afro-descendant employees	✔	Indicator 12
No. of people with disabilities or special needs	✔	Indicator 11
Information Related to the exercise of Corporate Citizenship		
Ratio of highest to lowest compensation in the company	✔	Indicator 15
Total number of occupational accidents	✔	Indicator 16
The social and environmental projects developed by the company have been defined by the board, board plus managers, or by all employees	✔	Indicators 34 and 35
Occupational health and safety standards have been defined by the board plus managers, by all employees, or all employees plus CIPA (Internal Commission for Accident Prevention)	✔	Indicator 16
As for freedom of association, right to collective bargaining, and internal workers representation, the company does not interfere, follows the ILO regulations, or encourages and complies with the ILO	✔	Indicator 7
The pension plans include the board, board plus managers, or all employees	✔	Indicator 19
The profit sharing includes the board, board plus managers, or all employees	✔	Indicator 15
When selecting suppliers, the same ethical and social responsibility and environmental standards adopted by the company are not considered, are suggested, or are required	✔	Indicator 25
As for employees' participation in volunteering programs, the company: does not interfere; supports; organizes; encourages them	✔	Indicator 35
Total number of consumers' complaints or claims at the company, at Procon, and in court	✔	Indicator 29
Percentage of complaints and claims handled or resolved	✔	Indicator 29
Value Added Statement		See Annex 1

GRI Model and Ethos CSR Indicators[16]

The Ethos Indicators can facilitate the GRI-based reporting process by presenting items related to it and by adopting a learning approach focused on local sustainability issues.

Although not all GRI Guidelines' items are addressed by the Ethos Indicators, the self-assessment process that precedes report preparation can help the company understand its stakeholders' expectations and how such issues can be incorporated into its daily policies and operations.

a) Economic Dimension

The economic dimension of sustainability in the GRI Guidelines, concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The economic impacts are divided into capital flow among different stakeholders and the main economic impacts of the organization as a whole. The Ethos Indicators do not explicitly address the economic impacts deriving from the business performance, although this concern is implicit in some qualitative items, such as the impacts caused by the organization on the surrounding community, its actions to minimize negative impacts, etc.

Relationship between the GRI model and the Ethos Indicators

GRI	Existing Relationship with the Ethos Indicators ✔	Aspects of the Ethos Indicators it Relates to	
Category (Theme)		**Sub-theme**	**Theme**
Economic Performance		See Annex 1	
Market Presence			
Indirect Economic Impacts			

b) Environmental Dimension

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. In the GRI Guidelines, the approach addresses performance related to inputs and outputs; in the Ethos Indicators, the approach addresses the company's initiatives aimed at mitigating and managing environmental impacts, either by processes revision or by environmental education and awareness-raising.

16 The correlation shown between the GRI model and the Ethos Indicators aims to simply illustrate the common points between the two tools, not being its use recommended for any other purpose.

GRI	Existing Relationship with the Ethos Indicators ✔	Aspects of the Ethos Indicators it Relates to	
Category (Themes)		**Sub-theme**	**Theme**
Materials	✔	Responsibility for Future Generations	Environment
Energy	✔	Environmental Impact Management	
Water	✔	Environmental Impact Management	
Biodiversity	✔	Responsibility for Future Generations Environmental Impact Management	
Emissions, Effluents, and Waste	✔	Environmental Impact Management	
Products and Services	✔	Responsibility for Future Generations	
Compliance	✔	Environmental Impact Management	
Transport	✔	Environmental Impact Management	
Overall			

c) Social Dimension

In the GRI Guidelines, the social dimension is organized in four categories: labor practices and decent work, human rights, society, and product responsibility. In the Ethos Indicators, this dimension is presented in several themes, according to the stakeholders approach. The correlation below presents the themes in which the GRI aspects and indicators can be found in the Ethos Indicators.

GRI		Existing Relationship with the Ethos Indicators ✔	Aspects of the Ethos Indicators it Relates to	
Category	**Aspect**		**Sub-theme**	**Theme**
Labor Practices and Decent Work	Employment	✔	Respect for the Individual; Decent Work	Workforce
	Labor/Management Relations	✔	Dialogue and Participation	
	Occupational Health and Safety	✔	Dialogue and Participation; Decent Work	
	Training and Education	✔	Decent Work	
	Diversity and Equal Opportunity	✔	Respect for the Individual	

CONTINUE>>>

Human Rights	Investment and Procurement Practices	✔	Selection, Assessment, and Partnership with Suppliers	Suppliers
	Non-discrimination	✔	Respect for the Individual	Workforce
	Freedom of Association and Collective Bargaining	✔	Dialogue and Participation	
	Child Labor	✔	Respect for the Individual	
		✔	Selection, Assessment, and Partnership with Suppliers	Suppliers
	Forced and Compulsory Labor	✔	Selection, Assessment, and Partnership with Suppliers	
	Security Practices			
	Indigenous Rights	✔	Respect for the Individual	Workforce
		✔	Relations with the Local Community	Community
Society	Community	✔	Relations with the Local Community	Community
	Corruption	✔	Political Transparency	Government and Society
	Public Policy	✔	Political Transparency; Social Leadership and Influence	
	Anti-Competitive Behavior	✔	Transparent Relationships with Society	Values, Transparency and Governance
	Compliance			
Product Responsibility	Customer Health and Safety	✔	Social Dimension of Consumption	Consumers and Customers
	Product and Service Labeling	✔		
	Marketing Communications	✔		
	Compliance	✔		

When reporting on the Ethos Indicators, the company interested in better understanding the relationship between the Ethos Indicators and the GRI Guidelines can, through its diagnosis report, have access to a more detailed study that shows the convergence between the two tools, and the related items already fulfilled by the organization.

Reporting Stages

As mentioned in the introduction of this publication, the social reporting process has several stages. All of them need to be aligned with the organization's strategic objective and be seen as a cyclical process towards continuous improvement. We propose for each stage a series of statements to be considered, so as to consolidate the process internally as part of the organizational management.

1st Stage: Work planning and choice of the framework

	No	Partially	Yes
The social reporting objectives were defined in line with the organization's strategic objectives			
The planning considered the discussion and presentation of issues specific to the organization's sector			
The organization established the principles to guide the social reporting, considering the ones proposed by the models and the ultimate goals of the process			
These principles were defined in a consensus-building process with the senior management			
The process planning was based on criticism, suggestions or recommendations from the organization's stakeholders			

2nd Stage: Setting up internal work group, defining external stakeholders to be engaged (including, for instance, suppliers, customers, community, investors, government, environmental organizations, among others), and aligning objectives and commitments with senior management and teams

	No	Partially	Yes
The internal and external work groups were mobilized for the performance of the tasks			
The social reporting principles were communicated to these groups			
The work was developed so as to allow the **organization's** dilemmas to be considered in all stages of the process			
The work was developed so as to allow the dilemmas of the organization's **sector** to be considered in all stages of the process			
The work was developed so as to allow the dilemmas of the **geopolitical context** in which the organization is inserted to be included in all stages of the process			

3rd Stage: Data gathering and consolidation

	No	Partially	Yes
In this stage, the principles of comparability and relevance[17] were considered			
The data gathering took into account the completeness (time and geographic location) of the social report, so that differences in the evolution of practices along different units of the organization, for instance, could be easily seen by the user			
The targets set were appraised as feasible when submitted to the company's strategic planning			

4th Stage: Report writing and analysis

	No	Partially	Yes
The principles of clarity and materiality[18] were considered when writing the text			
The descriptive information followed a common data presentation pattern, addressing formal policies and mechanisms for the performance of practices, their maintenance and continuous improvement – but were not limited to them			

5th Stage: Information verification and auditing

	No	Partially	Yes
The verification was performed by external organization with sound knowledge in verification and social responsibility			

6th Stage: Report publication and diffusion

	No	Partially	Yes
Communication of the material took into account the different stakeholders' expectations, and the data was selected according to their relevance to each stakeholder			
The printed material enables the reader to look up additional information on certain issues on websites, for instance			
The published information refers to the persons responsible for the issues addressed, in case the reader wishes to get deeper knowledge of the initiative, process, etc.			

17 For further information on principles, see the GRI model section "Models", in "Highlights".
18 See previous note.

Engaging Stakeholders

The organization's relations with its stakeholders are closely linked to socially responsible management. Understanding and including their expectations enables the organization to foresee and innovate its business conduction. This knowledge is the result of a previous process of stakeholder identification caused by legal responsibility, influence, proximity or dependence on the company[19]. This process should not be limited to the social reporting, once it allows for risk prevention and business opportunities identification.

As a process proposed by the AA1000 standard[20], stakeholder engagement should follow a cycle through which the organization acknowledges the relevant issues for these parties concerning its activities, products, services and operations (both regarding its management and results thereof), and sets goals and devises strategies so that the engagement can strengthen relations with the key groups and take into account mutual risks and opportunities.

The Ethos Indicators application dynamics helps the company visualize its attitude towards its stakeholders and the most pressing issues to be prioritized.

Testing Issues Materiality

Deciding whether or not to insert issues in the social report should follow the organization's understanding of the most relevant issues for its stakeholders, as well as the identification of issues that, if omitted, might harm their decision-making processes. The application of the materiality principle helps the organization define themes that should be included in the report. The materiality test[21] presented below can be used for an adequate selection of issues. The classifications below should be used by the company to organize its stakeholders' opinions about specific themes.

In the example given below, the company will discuss Genetically Modified Organisms (GMOs) with its stakeholders. The first table suggests a theme categorization, organized according to different analysis perspectives on a certain issue. After the discussion about GMOs, the stakeholders raise and evaluate issues with short-term direct financial impacts (A), those for which the organization has strategic policies (B), those comparable within the sector (C), those the stakeholders consider important enough for the organization to take corrective or proactive measures (D), and those covered by social standards and regulations (E).

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19 Adapted from AA1000: *AA1000 Stakeholder Engagement Standard*, Accountability, 2005.

20 See previous note.

21 This test, taken from *The Stakeholder Engagement Manual – Volume 2: The Practitioner's Handbook on Stakeholder Engagement*, was adapted by Gláucia Terreo and Beat Grüninger for the Work Group created in Brazil to disseminate the Global Reporting Initiative G3 Guidelines (GT GRI G3) as one of the activities for the application of the GRI Reporting Framework. The GT GRI G3 activities were carried out from 2006 to 2007, thanks to a GRI-supported partnership involving the Ethos Institute, the Center for Sustainability Studies at the Business School of São Paulo – Fundação Getúlio Vargas (GVces), and the Associação Brasileira de Comunicação Empresarial (Aberje).

Theme Classification

A	Themes with short-term direct financial impacts
B	Themes for which the organization has strategic policies (usually through commitments to key stakeholders)
C	Comparable themes that organizations consider relevant within a specific context (sector, for instance)
D	Themes the stakeholders consider important enough for the organization to act upon (at present or in the future), impacts, risks or sustainability opportunities
E	Social standards and regulations (acts, bills, standards, certifications, trends, etc.)

After raising and classifying the different issues concerning the theme, the company should seek to classify, together with its different stakeholder groups, the relevance level of each aspect, scored as follows:

0	Not relevant
1	Of little relevance
2	Of medium relevance
3	Relevant
4	Very relevant

Following group discussion and gathering of considerations and evaluations concerning a certain issue, the company makes a new classification for each aspect of a certain theme in order to obtain a visual indication of the urgency to address that issue. We suggest a classification by color.

Classification
Relevance Level by Color

	Not relevant
	Of little relevance
	Of medium relevance
	Relevant
	Very relevant

In order to organize the information in a single document, insert the aspects and related indicators or insert a strategic objective and related themes; insert the classification according to the relevance level and evaluate stakeholders' perception[22] following the model below.

[22] This information can be gathered in panels with stakeholders, meetings or similar activities with this purpose. At this point, the company should have its main stakeholders identified.

Example: Company X Genetically Modified Organisms (GMOs)

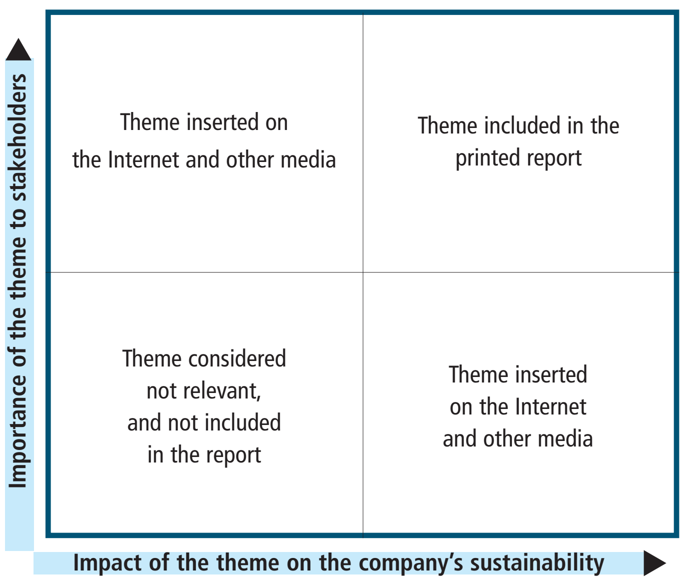
Strategic objectives and themes		Materiality test					Stakeholder group 1	Stakeholder group 2	Stakeholder group 3	Stakeholder group 4	Stakeholder group 5
Strategic objective for engagement	**Theme**	**A**	**B**	**C**	**D**	**E**	**Consumers**	**NGOs**	**Suppliers**	**Surrounding Community**	**Workers**
Include stakeholders' expectations regarding GMOs	Food Security						4	4	4	3	4
	Impact on biodiversity						3	4	3	4	3

The materiality will be easily visualized according to the colors and the scores. This matrix will also allow the company to know the relationship between the theme and the stakeholder: the organization lists the performance indicators proposed by the GRI and identifies the relevance of each one for the several stakeholder groups consulted. The implicit issues and the local approach to each indicator must be discussed, so that the issues can be addressed according to the stakeholders' expectations.

Example: Company X Materiality Assessment of GRI Model Indicators

Strategic objectives and themess		Materiality test					Stakeholder group 1	Stakeholder group 2	Stakeholder group 3	Stakeholder group 4	Stakeholder group 5
Aspect	**Indicator**	**A**	**B**	**C**	**D**	**E**	**Consumers**	**NGOs**	**Suppliers**	**Surrounding community**	**Workers**
Biodiversity	EN 14						4	4	4	4	3

When performing the materiality test, the company obtains information on what themes and indicators should be included or not in the report. Next, we present a matrix adopted by several benchmark companies in their reporting process. These companies organize the relevant information and publish it according to its importance to their stakeholders and its impact on the company's sustainability.



Annex 1 - Value Added Statement

The economic performance indicators that should always be part of the social report are those related to wealth generation and distribution on the part of the company, which show the company's contribution to local economic development. The value generation is obtained from the total income by subtracting the goods produced by third parties used in the company's production process, as well as from the income generated by others and transferred to the company.

As important as wealth generation is its distribution, considering the disparity of resources distribution among the company's sustainability agents. The value added obtained will be the basis for the development of value added distribution-related indicators for the agents that generated such value added, including workers, government, third parties, shareholders, and the retained earnings.

I. Wealth Generation and Distribution

Wealth Generation	2005	2006	2007	2008 Target
(A) Gross Income				
(B) Goods and services acquired from third parties				
(C) Gross value added (A – B)				
(D) Retained earnings (depreciation, amortization, depletion)				
(E) Net value added (C – D)				
(F) Transfers Equity equivalence Equity interest result Financial income				
(G) Distribution of value added (E + F)				

Distribution by Stakeholders	2005	2006	2007	2008 Target
Government				
Taxes less subsidies (exemptions)				
Workers				
Salaries				
Social security taxes				
Pension plan				
Benefits				
Profit sharing				
Investors				
Return on investors' capital				
Shareholders				
Interests on own capital and dividends				
Retained				
Retained earnings/loss for the year				

FILLING OUT INSTRUCTIONS

1. Wealth Generation (in thousand R$)	
(A) Gross income	Total income obtained through the company's operating activities. (Financial income should not be included)
(B) Goods and services acquired from third parties	It refers to all expenses in the acquisition of goods and services necessary to the company's operating activities (consumed raw materials + cost of products and services sold + materials, energy, outsourced services + assets loss/recovery)
(C) Gross value added (A – B)	-
(D) Retained earnings (depreciation, amortization, depletion)	Loss of any asset value due to wear and tear, technological obsolescence or market price reduction (machinery, equipment, and buildings)
(E) Net value added (C – D)	-
(F) Transfers Equity equivalence Equity interest result Financial income	Income obtained through the company's non-operating activities
(G) Distribution of value added (E + F)	-

2. Distribution by Stakeholders (in thousand R$)	
Government	
Taxes less subsidies (exemptions)	Taxes paid to federal, state, and local governments (ICMS, IPI, ISS, IPTU, IR, IOF, etc.). They are considered remuneration for the support of government institutions to the social, political, and economic structure that provides the company with operating conditions in its environment.
Workers	
Salaries	Total value of gross salaries paid by the company
Social security taxes	Social and labor charges paid by the employer (FGTS, indemnification, etc.)
Pension plan	Employer's expenses with pension plans
Benefits	Total benefits offered to employees (medical care, food, day care, etc.)
Profit sharing	Paying a portion of the company's profits to employees
Investors	
Return on investors' capital	It is the remuneration of third party capital in the form of interest. Interest is the means of remuneration for certain assets (loans, liabilities, time deposits, and negotiable instruments)
Shareholders	
Interests on own capital and dividends	Total dividends paid to shareholders
Retained	
Retained earnings/loss for the year	Profit or loss in the period

II. Productivity

Productivity indicators	2005	2006	2007	2008 Target
Gross margin				
Net margin				
Asset turnover (sales/average asset)				
Return on assets (ROA) (Operating profit / average asset*)				
Indebtedness ratio (loans + financing / net equity)				
Liquidity ratio				

* Operating profit = net revenue – cost of products or services sold – sales expenses, general expenses, and management expenses.

III. Investments

Investment Items	2005	2006	2007	2008 Target
Research and development				
Productivity improvement				
Increase in production capacity				
Education/training				
Programs for the community				

Annex 2
Suggested Guide for Stakeholder Consultation and Comments on the Social Report[23]

This stakeholder consultation process aims to guarantee that future social reports increasingly add value to the readers, the organization, and all the stakeholders. Besides, the questionnaire can be used as one more tool for dialogue with and engagement of stakeholders, thus further strengthening the trust and partnership relationship between them and the company.

The consultation below should be made after the social report publication, so that the suggestions for changes can be considered in the social reporting of the following period. We stress, however, that the stakeholders should also be engaged in other stages of the process, as mentioned in the section "What to Consider When Preparing the Social Report."

We recommend that the consultation be performed through personal interviews or on the telephone, and that participants receive the questions beforehand so as to allow them some time to think.

It is critical to identify the main stakeholders that affect the organization or are affected by it (such as employees, suppliers, customers, consumers, shareholders, the surrounding community, the academic community, unions, NGOs, multilateral organizations, government officials, etc.), as well as the key person(s) involved in the social responsibility and sustainable development area in each of these groups.

It is also recommended that the identified stakeholders be geographically distributed according to the organization's activities reach.

> **Notes:** (1) It is recommended that all interviewees receive a summary of the consultation process. (2) In case quotes from interviewees are going to be used in the following social report, with or without identification, previous authorization must be requested. (3) In order to encourage honest and frank comments, interviewees should be offered the possibility of remaining anonymous. (4) It would be also interesting to publish in the following social report a summary of the stakeholders' consultation process results.

[23] Adapted from materials developed by Tarcila Reis Ursini.

Introduction

Name:
Organization:
Position:
Date of Interview: ____/____/____

1. Have you received and read our organization's social report?
2. In case you have read only part of the social report, what sections called your attention most?

Information about the Stakeholders

1. How much do you know about our organization?
2. What is the relationship between your organization and ours?
3. Where do you usually find information on organizations' ethical values and principles, as well as on their environmental and social impacts?
4. What is your overall impression about social reports and their value, and where, in your opinion, do they fit in the communication process with stakeholders?
5. What is the most important information you would like to obtain from a social report?

Overall impressions

1. What is your general impression of our organization's 2007 social report?
2. Has this publication helped you better understand our organization?
3. Is the information presented in this social report consistent with other data about our organization that you might have received from other sources?
4. In case you have received from other sources information on social responsibility principles and practices of our organization, what was it?

Issues Covered by the Social Report/Relevance

1. Are the issues covered by this social report balanced?
2. What themes are most effectively covered?
3. What themes are missing or were addressed superficially?
4. What themes could have been excluded?

Depth of the Issues Covered by the Social Report/Relevance

1. Does this social report provide the right amount of details of the topics covered? Are there too many details or are there details missing in any of them?
2. What section of this social report could have been addressed more deeply?

Context and Commitments

1. Does the social report clearly describe our organization's vision of social responsibility and global sustainable development?
2. Was the social responsibility and global sustainable development strategy of our organization made clear?
3. Was the organization's business rationale for meeting the global commitments well presented?
4. Are the organization's sustainable development challenges well described?
5. Are the performance indicators clear?

Management Quality

1. Has this social report provided you with a clear idea of how our organization manages its dilemmas?
2. Was it clear who the people in charge of social responsibility strategy and performance in our organization are?

Performance

1 To what extent has the social report allowed you to have access to the organization's performance in:
- environmental issues?
- social issues?
- economic issues?

Clarity and Reliability

1. Is the social report easy to read?
2. Is the social report easy to understand?
3. Is it easy to find information in this social report?
4. Is the information presented well balanced?
5. Do you think our organization discloses reliable information?
6. What could make the social report more reliable and transparent?

Comparability and Timeliness

1. Based on what you know about social reports in general, do you think our organization's social report rates among the outstanding ones, or is it just ordinary/indifferent?
2. How do you compare it to social reports of other organizations of the same sector?
3. In what areas or topics do you consider we are a leading organization?
4. In what areas or topics do you consider we are an ordinary or indifferent organization?
5. What social reports could be inspiring for our organization?

Recommendations for Future Social Reports

1. What could be two main recommendations for future improvements in our organization's social report?
2. How do you see the social reports evolution in the future (if possible, both in Brazil and in the world)?

Final Comments

Would you like to make any comment you consider important for our organization, or for our organization's leaders, within this social report context, or even in the overall context of social responsibility and sustainable development?

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