

**GRI ASSESSMENT: NATURA 2005 Annual Report**  
**UBC MBA CLASS: BASD 502**

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## **0.1 Executive Summary**

As part of a voluntary evaluation program organized by the Global Reporting Initiative (GRI), a team of 23 MBA Students at the University of British Columbia in Vancouver evaluated Natura's public reporting on sustainability within their 2005 annual report according to the guidelines and standards set forth by GRI. As evaluators, we have tried to view the report through the eyes of potential stakeholders or investors. We hope that the constructive criticism contained within this report will assist Natura in its efforts of continuous improvement in sustainability reporting.

Overall, we were impressed with the breadth and depth of sustainability efforts occurring at Natura. We noticed significant improvements in the presentation of performance data over the 2004 report, and many of the previous year's evaluators' suggestions were at least partially addressed. These are the main areas in which we feel there is still room for improvement:

- **Readability:** A separation of the sustainability report from the financial report may increase clarity and readability for Natura's stakeholders and other interested parties. We also recommend improving the readability of the sustainability reporting section itself, with a larger font size, clearer headings and subheadings, and consistent formatting from year to year.
- **Benchmarking:** We recommend using industry benchmarking to track Natura's performance relative to other comparable businesses. Additionally, we recommend an increase in the number of sustainability metrics tracked, and a full shift from absolute numbers to ratios so that the relative impact of each effort can be understood.
- **Stakeholder Relations:** we recommend some expansion of the consideration of stakeholders, in addition to improved reporting on stakeholder feedback mechanisms and the use of such feedback in Natura's decision-making.
- **Reliability:** In addition to the specialized forms of independent assurance that Natura already utilizes, such as EcoCert or Forest Stewardship Council certification, we recommend the use of an overarching independent auditor for all non-financial content.
- **Accessibility:** The sustainability report and a main point of contact at the organization should be easier to locate on the web site, and print copies should be available by mail or pick up.

This report includes: this executive summary; a description of the evaluation team; the detailed evaluation of Natura's 2005 annual report according to GRI guidelines; a summary table of the scoring of the report; and a set of additional comments highlighting relevant sustainability issues not necessarily covered by the GRI guidelines, but which may be useful to Natura in the further development of its sustainable business practices.

## **0.2 General Statement**

In the interest of constructive criticism and in an attempt to aid Natura in continually improving its reporting beyond the high caliber it already achieves, the evaluation group on occasion refers to examples from other company's reports to better illustrate a particular point. It should be noted that doing so in no way implies a judgment as to whether another company has produced a superior report to Natura. These references simply serve as tangible examples of potential changes that could help to clarify or improve a particular section of Natura's report. This is obviously a subjective issue but we hope it adds a level of detail to our critiques that we might otherwise fail to convey.

### **0.3 Evaluation Team**

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Czempiel, Gregor  
Froehlich, Charles  
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Hoffman, Eva  
Kantowicz, Chris  
Lamont, Sonia  
Larson, Chadwick  
Leung, Mark  
Ma, Yanbin

Mathews, Renee  
Murray, Anna  
Pearson, Rebecca  
Peng, Cheng  
Peng, Ju-Cheng  
Richardson, William  
Sharma, Saurabh  
Sherwin, Brian  
Stancu, Doru  
Stipic, Matt  
Qiu, YanYan

Our Global Environmental Issues class is comprised of students who are in the final year of course work for their Masters of Business Administration degree. Though we are a somewhat diverse group, the majority of us are of North American or Asian descent. We would like to extend our thanks to Natura for providing us with the opportunity to work together as a class towards the creation of a research document analyzing Natura's Corporate Social Responsibility initiatives based on the framework outlined by the Global Reporting Initiative.

While we have made every effort to offer insights and comments that are objective in nature and accompanied by appropriate examples where possible, it must be said that we have come to appreciate that we are viewing Natura's Annual Report through the lens of a North American perspective. We do not have a personal perspective from which to fully understand the intricacies and context of the society within which you operate. We are familiar with the corporate, political and social obstacles you face, all the while trying to implement socially responsible initiatives that are such a part of your company's philosophy. It is with this in mind that we at once extend our thanks to you and also hope that our feedback will be taken in the spirit with which it is given- from a place of learning and hope that we can all endeavour to create a world that is a better place for the generations to come.

## 1.0 CEO Statement

The Natura Annual Report contains a *Letter from the Board*. This statement provides an overview of Natura's vision, strategies, corporate initiatives and recent performance.

### 1.1 Commitment to Economic and/or Social and/or Environmental goals by leadership

(Score = 0.75)

Natura visibly highlights its dedication to social responsibility in the *Letter from the Board*. It conveys the message that the CEO and the Board of Directors are dedicated to the betterment of the company in all areas of sustainability.

- **Economic**

Natura outlines its economic contributions in a very clear manner. It emphasizes its financial performance as well as the positive business relationship it has with its consultants. It clearly highlights its growth within the Brazilian and global economies.

- **Social**

Natura indicates that it sees business as a means for social change and a more "egalitarian society"<sup>1</sup>. In the *Letter from the Board*, however, it does not give any concise examples of how it, as a company, is carrying out any of its stated social objectives. In the future Natura may want to provide more examples in its letter from the board to clearly emphasize their commitment to social responsibility.

- **Environmental**

In the *Letter from the Board* Natura points out that its consultants have implemented a number of socially and environmentally responsible programs but it does not give any corporate examples. It would aid the reader if at least one to two specific efforts for environmental responsibility were included in this section.

### 1.2 Highlights of performance (Score = 0.75)

The performance highlights of Natura for 2005 are well summarized. Highlights include:

Financial: in gross revenues of 27.7%, growth in earnings of 32.2% and stock appreciation of 38%.

Industry: Leader in Brazilian Cosmetics and countries largest direct seller

Business Model: Growth and importance of consultants and customer base

Expansion: Opening of Paris cosmetics house and entry into Mexican market

Natura is effective in conveying its performance highlights throughout the year and the *Letter from the Board* gives a very good general idea of the company's accomplishments in the past year. A possible clarification should be made in the statement regarding its sales volumes: Natura indicates it marketed 220 million items to 50 million customers. It should be clarified whether it sold 220 million *units* to its customers or whether it actually has 220 million items in its assortment (the former seems more probable). While Natura is great at emphasizing financial performance highlights, Natura needs to summarize more social and environmental highlights, to emphasize its triple bottom line.

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<sup>1</sup> Natura 2005 Annual Report, p. 7

**1.3 Major challenges for the business in terms of integrating responsibilities for financial performance with economic and/or social and/or environmental, along with the implications of this on future business strategy.**

The company has indicated that it takes corporate responsibility seriously. Natura acknowledges that one of its biggest challenges is aligning its socially responsible principles with its business practices. However, Natura does not mention challenges and stepping stones in its opening letter. It may want to consider adding that component to the letter, to incorporate all aspects of its business strategy right from the start of the annual report.

## **2.0 Executive Summary and Key Indicators**

### **2.1 Highlights of report and commitments to targets**

Natura reports its economic, social and environmental activity in an integrated format, in line with the goals for sustainable development of its business and with standards such as Brazilian Security and Exchange Commission (CVM) for economic performance and the Global Reporting Initiative's (GRI) models for social and environment performance. It introduces its reporting framework and highlights key economic, social and environmental indicators in "Methodology and key indicators" section. Natura provides a detailed performance description in terms of economic, environmental and social indicators and lists key results in accordance with committed targets and goals established in Natura's 2004 Annual Report in "Global Reporting Initiative" section. In general, we found that Natura's Annual Report for 2005 provides comprehensive information regarding the company's strong and laudable commitments to environmental and social goals.

### **2.2 Performance against benchmarks, previous year's performance, targets, and industry sector norms**

#### **• Balanced Structure of Quantitative and Qualitative Indicators**

In Natura's highlights and detailed indicator system, most indicators are presented by quantitative measures. While we recognize that quantitative indicators can offer more appropriate and direct impression to the audience, it may be difficult to measure performance on certain issues. For instance, Natura lists a comprehensive personnel distribution including people with disabilities, women and minorities as a percentage in different positions<sup>2</sup>. That is a good social indicator for Labor Practices and Decent Work. It would, however, be a complement if Natura could provide some qualitative description about how its formal workers are represented in decision making or management, including corporate governance, or how these minorities benefit from current policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organization's operations. In situations where quantitative measures are not effective, qualitative indicators would be complementary and essential to presenting a balanced and complete picture of the organization's economic, environmental, and social performance.

#### **• Adopting Ratios Charts as the Complement of Absolute Figures**

Ratio indicators provide information on the efficiency of an activity, on the intensity of the impact, or on the quality of a value or achievement.<sup>3</sup> For social and environment indicators, absolute value of water or energy consumption does not provide an appropriate measure of comparison to the different standards in different industries. The ratio of the decrease or increase in certain indicators would be more meaningful in analyzing the historical development of an organization or could be particularly useful for comparing two organizations of different scales.

#### **• Complete indicator system including industry norm, standard and benchmarks**

The continuous data over five years shows Natura's historical development. However, it is hard for the reader to judge how efficiently the organization operates in comparison with larger economic, environmental, and social systems of which it is a part. For example, in terms of job creation, Natura

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<sup>2</sup> Natura 2005 Annual Report, p. 100

<sup>3</sup> Sustainability Reporting Guidelines 2002, p. 82

could state its contribution to job creation as a proportion of the total number of jobs created in a certain region. Natura could benchmark their performance on industry standards or performance levels of other companies in similar business areas to present its generation of waste per unit sold.

**• Different aspects of financial indicators in traditional report and sustainability report**

Financial indicators mainly focus on reporting the return on investment of Natura to the management team and shareholders. The economic indicators in the sustainability report, however, emphasize more of the manner in which an organization affects the stakeholders than with whom it has direct and indirect economic interactions.<sup>4</sup> It would be helpful, if Natura used economic performance measurements to shed light on the relationship between the changing economic status of the stakeholders and the consequence of the organization's activities, instead of focusing on changes in the financial condition of the organization itself. To take another report as example, in its 2005 Environmental and Social Report, Unilever lists its Advertising and promotions 2001–2005 with a detailed description to demonstrate its efficient consumer communication on safety, information transparency and communication channel<sup>5</sup>. This is very clear to readers in understanding the relationship between its financial data and business operations.

**2.3 Easy reference guide to finding key performance indicators**

Natura could list more performance indicators that provided by other reference guide, other than the GRI index, as the company stated in the methodology section. Currently, Natura lists four financial indicators, two tables in financial performance and seven indicators of R&D in the key indicator part. It might be helpful, however, if Natura could restructure and highlight key financial, social and environmental indicators in the first part of report according to the requirements of reference guide it applies and elaborate on the detailed GRI indicators in latter part. Also, Natura could use some space to introduce its internal data reporting channel in order to demonstrate its compliance with the guidelines and models and to make it easier for the reader to track its efforts and improvements. Only with the declaration of data collection method and commitment to a data veracity auditing principles will Natura's indicator reporting system be effective. In addition Natura may consider having a summary of all the social responsibility measurements at the beginning of the CSR section, and perhaps even that summary again in the Letter from the Board.

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<sup>4</sup> <http://www.globalreporting.org/ReportingFramework/AboutReportingFramework/> (accessed: Feb 1, 2007)

<sup>5</sup> 2005 Unilever Environmental and Social Report, p. 23

### 3.0 Profile

#### Organizational Profile

##### 3.1 General profile (Score = 0.75)

(e.g.: major products and services, countries of operation, nature of ownership)

The company profile sufficiently summarizes its major products, services, and the nature of ownership. The “Products and Concepts,” section<sup>6</sup>, but sounds in places like an advertisement. Other countries of operations are mentioned, but there is no information about the levels of activities within countries besides Brazil, which makes it difficult to conclude from the Company Profile section<sup>7</sup> alone whether or not they consider themselves to be internationally competitive, rather than simply the “leader in the domestic industry of cosmetics, fragrance, and personal hygiene.”<sup>8</sup> If Natura intends to increase its business internationally, rather than simply maintain its success in Brazil, this needs to be clearer in the Company Profile, which must be a summary of an organization’s main goals and interests.

The Company Profile also discusses Natura’s pillars of responsible management<sup>9</sup>; they are, respectively, ethics, transparency and open communication channels and the establishment of targets compatible with sustainable development.<sup>10</sup> Open communication with the public and the establishment of targets compatible with sustainable development are strong principles, but it would be stronger to provide more specific plans for success; for example, how will Natura actually reach its set targets? Natura could mention in this section which targets the company has met in the past to increase its credibility and link this to the Milestones section<sup>11</sup> of the report, and then relate the achievement of these goals to the likelihood of future success, placing more emphasis on goals rather than on principles.

##### 3.2 Organization context (Score = 0.75)

(e.g.: number of employees, scale of activities, net sales, total assets)

Natura, in the profile<sup>12</sup>, indicates a high number of independent consultants (519,000) as compared to only 4,128 employees, but it seems unclear as to whether the company considers a direct sales business model to be linked to their success in the Brazilian market. In other sections of the report (for example, in the Executive Summary<sup>13</sup>, and in Strategy and Outlook<sup>14</sup>), Natura discusses the increase in independent consultants as useful for company values and sales, as well as to the benefit of the Brazilian workforce – but with little mention of these facts in the profile section. It remains unclear in the profile section as to how this business model relates to the overall success of Natura in Brazil. Although it might be difficult to discuss in detail their business model in the space of the company profile, it might help to mention in the profile the “Sales Consultants”<sup>15</sup> section later in the report. So the interested reader can easily find out

<sup>6</sup> Natura 2005 Annual Report, p. 43

<sup>7</sup> Natura 2005 Annual Report, p. 40-41

<sup>8</sup> Natura 2005 Annual Report, p. 40

<sup>9</sup> Natura 2005 Annual Report, p. 41

<sup>10</sup> Natura 2005 Annual Report, p. 41

<sup>11</sup> Natura 2005 Annual Report, p. 46

<sup>12</sup> Natura 2005 Annual Report, p. 41

<sup>13</sup> Natura 2005 Annual Report, p. 6-7

<sup>14</sup> Natura 2005 Annual Report, p. 38-39

<sup>15</sup> Natura 2005 Annual Report, p. 82-83

more about the sales business model, and understand in more specific terms how independent consultants benefit from the model and how the benefits of this business model might make it easier for the company to be successful in other countries.

### **3.3 List of stakeholders, key attributes of each and relationship to reporting organization (Score = 0.75)**

There is a stakeholders section<sup>16</sup> in the report, but major stakeholders and their influence are not mentioned in detail. To overlook major stakeholders as early as the Company Profile, for instance, might impact the transparency of a company like Natura, which prides itself both on fiscal success and on social responsibility – especially if it later comes up that the interests of major stakeholders conflict with the values promoted in the profile. More specificity about major stakeholders would not only improve the impression of Natura as a socially responsible organization, but would also give the company an opportunity to demonstrate how it works with stakeholders to promote better business practices in other organization. As it stands, the profile only indicates that the company is listed on the Sao Paulo Stock Exchange; and the profile spends more time discussing business practices than it does explaining business relationships. They do have a list of stakeholders, but no formal description of the stakeholders and their relationships to them,

### **3.4 Coverage of report (including specific limitations on the scope) (Score = 0.75) (e.g.: region, services, facilities, joint ventures, subsidiaries)**

Again, the Company Profile places more emphasis on Natura's competitiveness in the Brazilian marketplace, but leaves unanswered the question of what impact Natura's activities have on other countries. Because the profile suggests<sup>17</sup> that its business initiatives "belong to our dream of contributing to build a better world," there should be some mention of both current practices in other countries, as well as some indication of how Natura intends to expand its business on an international scope. This could, for example, involve a brief summary of international growth rates. Natura might use its profile as an opportunity to clarify its future outlook with regards to international expansion, and how that expansion would require changes to its social and environmental policies.

### **3.5 Significant changes in size, structure, ownership, or products/services that have occurred during the reporting period. (Score = 0.5)**

The profile section<sup>18</sup> sufficiently highlights the 27.7% growth in gross revenues. Other highlights are well introduced in the "2005 highlights" section<sup>19</sup>. However, all highlights pertain to financial and economic measurements, and none are related to sustainability. In the years to come Natura may want to include significant changes regarding sustainability, and incorporate that into highlights regarding financial measurements.

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<sup>16</sup> Natura 2005 Annual Report, p. 68

<sup>17</sup> Natura 2005 Annual Report, p. 41

<sup>18</sup> Natura 2005 Annual Report, p. 40

<sup>19</sup> Natura 2005 Annual Report, p. 46

### **3.6 Contact persons for report including e-mail and web addresses to obtain additional information (Score = 0.5)**

The Company Profile currently omits any reference to an appropriate contact for additional questions that might come up in response to the annual report. Providing some contact information would complement the company's responsible management practices, and also improve its efficiency in attending to comments and concerns

### **3.7 Public accessibility and how to obtain report(s) (Score = 0.75)**

The section "About Natura," on its website front page, mentions corporate responsibility and the annual report, but it was difficult to find the link to the annual report, which was embedded in another section of the website – on the Investor Relations page. While not everyone who visits the site will be interested in the annual report, it would not be difficult for Natura to provide a direct link to the report on both the front page and the Investor Relations page. Fortunately, the website provides an online overview of the annual report, which means that those less interested in the full document can quickly access an online version. Some attempt should be made, however, to improve the accessibility of the full report, and to provide a more efficient downloadable version than the current, rather large downloadable file.

Natura positions itself as a socially conscious corporation with good ties to the Brazilian public, and underlines this by providing a full Spanish and Portuguese version on its website of the annual report.

Since the rate of internet access in Brazil remains much lower than access in other parts of the world, the company should make hard copies of the report available, especially through their independent consultants, who have the most direct communication with the Brazilian population. This would strengthen their image as a responsive, responsible organization.

### **3.8 Creativity in presenting report in a relevant way for key readers (i.e., print-based, web-based, other) (Score = 1.0)**

The website features a short film regarding Natura's CSR. The film is meant to communicate the core values of Natura and targets the customer rather than potential investors. The film and the English version of the Annual Report might have an influence on the investment decisions of international green investors. Natura might consider focusing the English version of the report and the film on its key achievements and performance indicators that are most important for these investment decisions. For example, Natura might consider not telling the story of the two women at the beginning of the report and the film and instead present more investor related facts and highlights right away. There is no form on Natura's website to order a print-based copy of the report by mail, this might be another alternative for obtaining the report..

#### **4.0 Reporting and Accounting Policies**

##### **4.1 Basis of selection of Key Performance Indicators (Score = 0.75)**

Natura follows a variety of different standards that depend on the specific information being communicated. For its financial performance, Natura follows the Brazilian Security Exchange Commission (CVM) and the Associação Brasileira das Companhias Abertas (Brazilian Association of Publicly Traded Companies). For the information regarding its social and environmental performance, Natura use the guidelines provided by the Global Reporting Initiative (GRI) and the Instituto Ethos de Empresas Responsabilidade Social.

Key environment performance indicators are as follows:

- Water consumption
- Energy consumption
- Water reuse
- Generation of waste

The environment indicators appear to be reasonable and easily understood. The indicators clearly communicate to the reader that Natura is effectively monitoring their effect on the environment through a variety of methods.

In addition, Natura has incorporated key social indicators. They are as follows:

- Destination of funds per type of stakeholder
- Satisfaction of stakeholders (i.e. consumers, suppliers, consultants, and personnel)

Some areas for improvement in this area are to incorporate some industry and/or competitor benchmarking. This will communicate to the reader that Natura does in fact uphold higher than normal standards in terms of sustainability regarding economic, social, and environmental goals.

The time span used for each indicator should also be consistent. For example, the time interval used to calculate consumer satisfaction was March 2001/2002, October 2003, and January 2005, whereas the time used for supplier satisfaction was May 2002, January 2004, and June 2005.

The basis for using the specific performance indicators is not clearly communicated. It appears that Natura has devised a matrix to aid managers in making decisions, which take into account three major categories. These categories are:

- Fundamentals – monitoring Natura’s relationship with the public
- Socio-economical – promoting sustainable development
- Environmental – protection of environment

Additional information should be documented in the report regarding the basis for choosing these specific performance indicators and their strengths and weaknesses. Natura documents the use of funds within the above categories as well as how it is distributed to meet specific stakeholders' needs. The Natura stakeholders are:

- Personnel
- Consultants
- Suppliers
- Consumers
- Government
- Shareholders

However, a brief statement as to why the specific performance metrics were chosen would further support the reported data. This will ensure the reader is fully aware of Natura's justification to use these performance metrics and how it relates to stakeholder needs. For example, Vancity's 2005 Accountability report reads: "we measure our success by our financial, social, and environmental performance. By measuring and tracking how well we are doing, we can identify the key areas for improvement and set targets and action plans."<sup>20</sup> A simple statement such as the former will provide clarity as to the reasons why Natura has chosen these specific performance indicators and will minimize potential confusion.

**4.2 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations and other not (fully) owned organizations that can be controlled or influenced (including life-cycle). (Score = 0.50)**

The basis for reporting on all investments in subsidiaries are in accordance with Brazilian Generally Accepted Accounting Principles (GAAP). In addition, Natura has documented all investments in direct and indirect ownership of subsidiaries. It cannot clearly be understood how these investments in subsidiaries have a direct or indirect impact on sustainability regarding economic, social, and environment goals. In addition, it is not clear whether subsidiaries and other related organizations are also in compliance with Natura's sustainability policies, and if so, how these organizations are monitored.

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<sup>20</sup> 2005 Vancity Accountability Report – pg.16

#### **4.3 Basis for obtaining the reported data (measurement methods), definitions used and major underlying assumptions made (Score = 0.50)**

As we read the report there is no definite section which discusses the basis for the data which has been presented in the report, as well as definitions of measurement methods and underlying assumptions. Natura may want to include a section in its annual report which specifically targets these factors. For instance, a section that describes the ways which data has been collected for the various statistical figures which are presented in the report, pertaining to sustainability, for instance how was water consumption measured or how was waste management measured. In addition, a detailed definition section of various programs and methods would add depth to the report, and provides very clear information to the reader. Lastly, a set of assumptions could be added to the section, which will again add a factor of transparency, after all everybody functions under some level of uncertainty at any given time. All these suggestions would give greater depth and transparency to the report, and most of all give the reader a very clear picture of Natura and its operations. In addition this would also enable Natura to show its depth of involvement in sustainability.

#### **4.4 Explanation of the limitations in the accuracy of the data (Score = 0)**

There does not seem to be any explanation of the limitations in the accuracy of the data. There is insufficient evidence communicated regarding any potential weaknesses in the accuracy of the data collected. It is always a good idea to incorporate assumptions, and possible error deviations, especially when dealing with sets of data, such documentation and disclosure will provide the reader with clarity, and Natura with a clear and transparent annual report.

#### **4.5 Any significant changes in measurement (Score = 0)**

As stated in 4.4 above the reason for variances in measurement are too brief and should be further described the stakeholders. This will ensure that any significant changes from prior year are clearly justified and communicated to alleviate any potential misunderstandings. Instead of providing brief notes at the bottom of each chart/metric, Natura should have a dedicated section of the report explaining large differences from prior years and the reason for these differences. As stated in sections 4.4 and 4.5, detailed reporting of assumptions, errors, and changes in reporting always provides readers with greater depth of information, and provides a company with a report that is very transparent and in depth.

#### **4.6 Policy with regard to independent assurance (Score = 0.75)**

Natura's main method of ensuring independent corporate governance is through the use of an independent board of directors. In addition the CEO is not part of the controlling group of shareholders which further supports the independent objective. To complement the board of directors, Natura has established several sub-committees. They are as follows:

- Strategy and Corporate Governance Committee
- Audit Committee
- Risk Management Committee
- Financial Committee

To ensure full independence is disclosed, Natura should document the members who are part of the listed committees above. Having non-executive members as part of the corporate governance structure will provide unbiased insight into management performance. Providing a list of committees does not provide full disclosure as to whether independent assurance is maintained.

In addition, to strategic and financial assurance, Natura should consider independent assurance in regards to sustainability. This is a key to transparent and clear reporting in regards to sustainability. Having an independent assurance broker rate sustainability operations and the annual report, or sustainability report, gives readers an extra comfort level, and yes, assurance regarding a company's practices.

## 5.0 Vision and strategy

Natura addresses its corporate vision and strategy in both the CEO's statement in addition to section entitled "Strategy and Outlook" on page 21.

### 5.1 The reporting organisation sets out its vision and discusses how that vision integrates economic and/or environmental and/or social performance

**(e.g.: long-term vision of sustainability, a discussion of challenges and obstacles that lay ahead, an explanation of how economic and/or social and/or environmental values intersect and are balanced in the organisation). (Score = .50)**

Natura's sets out its strategies based on its four pillars system to include: commitment to sustainability, quality of relations established with its various stakeholders, concepts and products developed, and brand strength. Natura's strategy includes maintaining their leadership role in Brazil's domestic market, investing in international expansion, and reinforcing sustainable business platforms to include Research and Development. Natura also continues to invest in infrastructure, brand image promotion, the qualification of sales representatives, in addition to improving relations with stakeholders. Notably, Natura has created a Board of Directors Strategy Committee which was set up to ensure that the Board's directives are efficiently implemented.

Natura's vision is to leverage its brand within the international arena through its commitment to construct a better world via inspiring improved relationships within the corporation, with the environment. Natura's vision promotes the belief that business can be an influential force in social transformation. Their belief is supported through the management of their activities towards social-environmental activities and through using natural resources conscientiously. Examples of such strategies include deepening knowledge of Brazilian biodiversity through Research and Development as well as strengthening relationships with various research projects and associations with scientific and academic networks.

### 5.2 Comments on Vision and Strategy

Due to a lack of concrete examples, Natura's 2005 Annual Report does not sufficiently link its corporate vision and brand image with strategy; specifically with respect to sustainability. There still exists a notable disconnect from the sustainability efforts it desires to implement and the strategies that will get them there. Therefore, Natura could significantly benefit from increasing the comprehensiveness of its vision and strategy and including more elements of sustainable business practices.

Overall, the report could be improved by providing further examples that are directly related to its sustainability efforts, particularly within the Strategy and Outlook section. In addition to noting its intent, Natura should offer more concrete examples that are in accordance with GRI principles and how Natura is balancing economic, social, and environmental values within their organization. One suggestion is to amend the vision set used on page 3 of the report, since it is generally not in compliance with GRI standards.

A helpful example of a report that utilizes concrete examples to indicate the sustainability practices of the organization is Unilever's 2005 annual report. Unilever specifically addresses the social impact of its

products and which company programs are directed towards its sustainability efforts. A further example can be seen in the sustainability section of L'Oreal's 2005 annual report. Specific examples are noted, making a direct correlation for the reader between sustainability efforts and the vision of the company. Natura's 2005 report focused primarily on financial performance rather than on how it is doing in terms of social and environmental aspects.

Further suggestions as to how Natura can strengthen the link between their strategies and goals would be to increase their focus on activities, programs, and operating methods. Examples include becoming a member of the World Business Council on Sustainable Development or a comparable index to the ASPI Eurozone Index where Natura will have appropriate benchmarks with respect to a stock's relationship to social and environmental responsible strategies. Also, in conjunction with its international expansion strategies, Natura may want to consider more diverse advertising in order to better represent the cultural and social make-up of its consumers. Lastly, in order to realign their goals and strategies, Natura may want to consider investing in additional programs to address the proportion of renewable raw materials and plant origin of materials used in their production (i.e. rainforest plants). Natura may want to develop programs similar to L'Oreal's Life Cycle Assessment (LCA) programs where the resources they use are still in enough abundance to support the local development and regional requirements and guarantee local populations' access to the resources.

Although Natura's annual report examines various challenges of having to align their vision with day-to-day business practices, it would benefit from providing further examples as to these challenges and what steps they are taking to address these issues with respect to Research and Development, organizational culture, and international expansion.

## 6.0 Corporate Governance Structure and management system

### 6.1 Policies and objectives pertaining to economic, social, and environmental issues (Score=0.5)

The corporate governance section of Natura's report includes five subsections: introduction, capital market, shareholding structure, dividends and interest and investor relations. The general content of all of these subsections mainly focuses on financial performance and policies although the GRI standard<sup>21</sup> states that companies must ensure that readers can obtain sufficient information about corporate governance and should provide integrated information from social, economic and environment perspectives. However, Natura's annual report does mention sustainability projects in "Highlights of Investments in Corporate Responsibility".

Natura can refer to GRI standards to reorganize the structure and integrate "Corporate Governance" and "Highlights of investments in Corporate Responsibility" sections. When it comes to "Corporate Governance," the report should mention the social, economic and environmental responsibilities of each committee under the Board of Directors. For example, L'Oreal's Sustainable Development Report<sup>22</sup> includes a policy of sustainable progress before mentioning corporate governance, and then emphasizes the commitments of different departments, such as customer safety.

**Economic section:** Natura provides sufficient information on its financial conditions and policies to shareholders and investors here, and mention policies involved with employees and suppliers in "Highlights of Investments in Corporate Responsibility."

**Social section:** In the section "Highlights of Investments in Corporate Responsibility", Natura mentions its labor relations policies and other commitments to social responsibility. However, Natura would benefit from adding more information about other social obligations, such as consumer safety and health and the impact on local economies.

**Environment section:** The environmental policies of Natura are not sufficiently described. The report does mention environmental awards in "Highlights of investments in Corporate Responsibility."

### 6.2 Corporate governance: structure of the organization and responsibilities of board of directors for setting strategy and oversight of the organization. (Score=0.75)

When Natura went public they opted for listing shares in the Novo Mercado segment of the Sao Paulo Stock exchange in which companies adopt stricter corporate governance practices than required by law. These practices are outlined in this section. There is a description of the board of directors and the two auxiliary committees involved.

**Board of Directors** – The Board is made up of five members, two of which are external members. The Board of Directors, which convened 12 times in 2004, has two auxiliary committees: Audit and Risk Management, and Human Resources. It is clear that Natura has been continuously improving its corporate governance since the 1990s and significant diversity has been added to the Board of Directors.

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<sup>21</sup> P23, Sustainability Reporting Guidelines, GRI

<sup>22</sup> P10, 2005 Sustainable Development Report, L'Oreal

**Board of Directors in December 2004:**

1. *Pedro Luiz Barreiros Passos*, Member of the Board
2. *Guilherme Peirão Leal*, Cochairman of the Board
3. *Antonio Luiz da Cunha Seabra*, Cochairman of the Board – Founder
4. *José Guimarães Monforte*, Member of the Board, Coordinator of the Audit Committee
5. *Edson Vaz Musa*, Member of the Board, Coordinator of the Human Resources Committee

**Audit, Risk Management and financial Committee** --This committee is responsible for the review and recommendation of the financial statements and for the analysis and review of the most important procedures related to the business management.

**Human Resources Committee** – It is responsible for the definition of the employee development strategies. It supports the Board of Directors in evaluating the performance of the officers, as well as in recommending their remunerations.

In 2005 the board of directors adds two committees: strategy and corporate governance. The first is responsible for making sure the board's directives are fully implemented. It will also monitor the process of implementing. The second is responsible for the use of good governance practices and ensure that the council's forums are working smoothly. It will also monitor the rate of progress.

**6.3 management systems: application of guidance and or standards, certifications, risk assessment, internal audits, compliance, employee training, supply chain/outsourcing issues, and approaches to monitoring data. (Score=0.5)**

A risk management system: The system is meant to evaluate and identify the impact of risks and take measures to mitigate them through an infrastructure of internal controls. Natura was recertified according to NBR ISO 14001 rules in 2005. It uses the Natura environmental management system to monitor environmental risk. The system has been improved, now it encompasses the business strategic areas as well as sustainability related issues.

Natura has created two pillars of corporate social responsibility on which its strategy and management are based: The transparent and ethical relationship with its stakeholders, and the definition of targets that are compatible with sustainable development. The company has been working to establish processes and systems that include these principles in the strategic planning of the firm and its daily business practices. This includes a strategic map which lists the company's targets on economic, social and environmental issues, and a balanced scorecard which company uses to rate its performance on these targets. This process is supported by the Corporate Responsibility Management Systems, which Natura revised and improved in 2004. It assesses the quality of the company's affairs on ethics, transparency and efficiency in its communication channels.

**6.4 Stakeholder relationships: selection of major stakeholders approaches to consultation, and use of feedback. (score=0.5)**

Natura mentioned shareholders and investors, but other stakeholders such as creditors and employees were not mentioned. An example of how Natura might want to include feedback from other stakeholders in their management decisions is VanCity's Annual Report<sup>23</sup>. However, Natura has some CSR programs to satisfy the needs of some stakeholders:

- Personnel: education program
- Consultants: education campaign for youth and adults
- Supplier: certification program for natural or botanic assets
- Citizens: sustainable development
- Government: volunteer promotion program

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<sup>23</sup> P21, 2005 Annual Report Vancity

## **7.0 Performance of contents**

### **7.1 Key parameters (absolute data) and rationale for choosing them**

The annual report of 2005 differs significantly from that of 2004. The company has tried to be more comprehensive in presenting its values and mission to the public. They have mentioned various parameters including quantitative parameters in its report. The rationales behind choosing these are rather unclear but we can infer that the company wishes to demonstrate its strategic business growth and ambitions along with its concern to be present itself as a sustainable socially responsible company. Its risk management system, which encompasses business strategic area as well as sustainability, shows their intention for a long-term sustainable growth like searching and investing in new markets like Argentina and Chile.

### **7.2 Key ratio (normalized) data, including integrated indicators**

#### **Economic = 0.5**

Natura outlines in detail its Agenda 21 de Cajamar in the Highlights of Investment in Corporate Responsibility. Although this section provides a large amount of information about Natura's successes in this project, the information is presented in paragraph format which makes understanding Natura's accomplishments difficult. A suggestion would be to list the results of each endeavor in point format, and to include specific ratios that demonstrate how much economic growth the community has experienced since Natura's involvement.

#### **Social – 0.5**

On page 103 of its 2005 Annual Report, Natura discusses its education programs for employees and their families and the Crer Para Ver program which raises funds to support public education by working with consultants who agree to sell items from this line. There is good detail about the number of people who have been impacted by these programs, but the information is presented in paragraph form and ratios are not present.

#### **Environmental – 0.5**

Environmental indicators include the holding of ISO 14001 certificate. They have met and exceeded the challenging targets they have set for themselves. The report is comprehensive but only compares its current year performance with the past year but nothing is mentioned about future projections. In additions, Natura has sustainable development programs with supplier communities, such as the Participative Local Diagosis and the Iratapuru Sustainable Development Plan, but like the Economic and Social areas, there is no ratio data and the results are hard to read.

### **7.3 Targets including their achievement/non achievement with explanations, setting of future targets with explanations (Score = 0.75)**

Natura breaks down the GRI section of the annual report into a number of subsections including: quality relations, environmental, social, and economic. Not only does Natura discuss 2005 targets (as set in the 2004 annual report) in the main body of the subsections but they also include a summary at the end of each subsection where they clearly identify the goals and committed targets set in the 2004 annual report.

#### **Quality Relations: Ethics, Transparency, & Communications Channels**

Although the Quality Relations portion of Natura's GRI report does not directly relate to sustainable development, it does show Natura's commitment to continuous improvement with regard to their overall business practices. In their 2004 annual report Natura created 13 goals within six Quality Relations GRI initiatives. Of those 13 targets they successfully reached only four. Five were partially reached and four were missed. Most of the targets involved documentation review and supplier evaluations and it is indicated that they will be reached in 2006. Adequate explanations regarding missed targets were provided with the exception of one target. Overall the goal and result summary provided satisfactory detail regarding 2005 performance and actions taken to ensure favorable relationships with key stakeholders. However, Natura could improve the forward looking targets by making them more concrete and actionable. This will not only help guide the company moving forward but will also underline its commitment to improving stakeholder relationships.

#### **Economic**

Natura did not include any targets from the 2004 annual report or any targets for the coming year in the Economic subsection of the GRI report. In the future Natura should attempt to generate targets related to the economic impact of their business operations.

#### **Environmental**

In the 2004 annual report Natura committed to ten environmental targets across seven GRI initiatives. Of these ten targets Natura successfully completed eight and provided detailed explanations of how they achieved these goals. Unfortunately they failed to reduce residue generation per unit sold but did disclose their performance for the year. They partially completed one target and aim to carry it over to this year. Overall Natura provided significant detail regarding their prior targets and the results relating to each. In addition, they provide clear and quantifiable targets for 2006 although including additional targets in "per unit sold" terms would assist in measuring overall environmental impact, efficiency, and would simplify industry benchmarking efforts.

#### **Social**

Natura committed to five targets related to social issues across three GRI initiatives, which are: wealth distribution, work and revenue generation, social inclusion, human rights and education and personnel. While these are notable targets, they are extremely broad and achievement would be difficult to measure. Natura might want to consider setting very specific, achievable goals.

Natura successfully completed three of the five targets and failed to reach two. One of the targets had to be abandoned due to potential legal issues and the other, related to workplace diversity, was close to completion. The explanation of the 2005 targets was adequate although they should provide additional detail regarding future targets. Natura's disclosure of the 2004 annual report target results was very thorough. They provided sufficient detail for targets that were achieved as well as those that were missed. A quantitative result often accompanied explanations for hits and misses which provided a complete picture of their performance. One area that Natura could improve relates to future targets and goals. A summary section, similar to the 2004 annual report target summaries, would allow for a quick comparison of annual improvement goals and help Natura ensure a focus on continuous improvement.

#### **7.4 Benchmarking (historical trends, comparison with best practice and industry norms/peers, performance against regulatory requirements) (Score= 0)**

It does not appear that Natura has included any information about how they perform compared to the rest of the cosmetics industry or their competitors. There is also no information about industry best practices in terms of sustainability. The Vancity Group provides an example of effective industry benchmarking; for example: "Our 2005 score is close to the average engagement score of the best 50 Employers in Canada (78%)." Moreover, comments on each level of performance are given to help the reader understand the reasons why certain goals were or were not achieved.<sup>1</sup>

In social commitments, Vancity sets another benchmarking example of comparing its community donation as a percentage of pre-tax earnings with the average of Canadian banks.<sup>2</sup> It is suggested in GRI Guidelines that "an organization could report on employee wages and social benefit levels in relation to the nation-wide minimum and media levels." In addition to the emphasis on the relationships with its personnel, Natura can add this information to demonstrate its social performance on labor practices and human rights.

#### **7.5 Upstream/downstream indirect influence of operations, products and services (Score= 0.75)**

##### **Upstream**

The upstream partners consist of outside manufacturers, suppliers of base materials and base products used for Natura's products, although there is no clear definition of suppliers by their products' origin (e.g., derived from farmed production, wild natural resources gathering, purchases from communities).

Suppliers are chosen according to their commitment to Natura's beliefs and values. Guidelines were created in 2005 for the purchasing and sourcing processes, highlighting the company's recommendations on the quality, health and safety at work, environmental and social responsibility. The company implemented a supplier certification program through which most of the upstream partners were assessed. This certification program also verifies supplier activities to ensure that they are implementing ethical practices. The remaining suppliers who are not certified provide Natura with roughly 20% of its raw materials. It is recommended that Natura strive to make 100% of its suppliers compliant with its certification program. It would also be valuable for Natura to ensure that this process complies with the requirements of ISO Guide 59: Code of Good Practice for Standardization or the ISEAL Code of Good Practice for Setting Social and Environmental Standards. The chain of custody for raw materials is not currently assessed, and Natura might want to consider a similar certification program.

In the evaluation process, clear targets have been set and results reported accordingly (successes, partial successes and failures). This gives a transparent snapshot of where the company needs to increase efforts and devote resources. Fair pricing<sup>24</sup> and a careful selection of suppliers dominated Natura's purchasing policy while Natura devoted efforts to improve the quality of life in communities producing raw materials, despite regional particularities that prevent a standardized approach.

### **Downstream**

Promoting fair and non-discriminating downstream partners is central to Natura's relationship with its downstream partners. The most numerous group are the Consultants<sup>25</sup>; Natura has a well developed feedback program(Section 6.4), where Consultants are surveyed and their opinions received through the corporate web portal. Natura invests in Consultants' education too, for ethical relations with consumers, but specific data is not clearly reported.

Other important partners are the advertising agencies producing the marketing communications campaigns; they are required to comply with the Brazilian marketing industry's ethical standards. So far, the results are good, with no penalties in this area. Reporting is clear and easy to understand.

Natura added an educational dimension to its marketing campaigns, showcasing communities that produce the base essences; it also started a discussion on sustainable use of biologically diverse resources and sustainable business growth. Quantifiable data with regard to efforts to protect such biodiversity and encourage the local communities to participate in the process would be an indicator of efforts for minimized environmental impact.

Upstream and downstream influences are presented in the report in a three year trend format. As a suggestion, comparisons and historical trends can be presented (e.g., yearly and seasonally) against the annual or multi-annual set targets. This would allow the assessment as well as the possible patterns, helping in the identification of areas for effective improvements; a clear benefit would be noticed in the distribution channel area, where the huge number of consultants makes the control difficult.

### **Outsourcing**

In 2005, the IT infrastructure was outsourced<sup>26</sup>, increasing uptime and reliability. This had a positive influence to the business as a going concern. The company needs to make sure the IT services provider follows the same GRI guidelines as Natura.

### **Economic - 0.75**

Given the fact that certain geographic areas where raw materials are produced may not have many other sources of revenue, and also that the typical consultants would be otherwise unemployed or have a low income, we can conclude that Natura is having a positive economic impact on the communities it operates in.

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<sup>24</sup> Natura AnnualReport 2005, pages 59-61

<sup>25</sup> 519,000 (Natura Annual Report 2005, page 75)

<sup>26</sup> Natura Annual Report, page 71

**Social – 0.75**

Natura has a noticeable positive presence in the local communities and its own neighborhood, providing relatively high standards for the other companies. Its corporate social responsibility seems to be well defined and the degree of achievement reported. Comparison with other companies and averages would help define Natura's standings. Natura's push for education in the community is presented with examples and specific data.

**Environmental – 0.75**

Natura's purchasing policy results meet the set targets and the license granted<sup>27</sup> by the federal government confirm the positive results. Developing an accredited certification system for all suppliers would certainly improve company's standings within the GRI system.

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<sup>27</sup> Natura Annual Report 2005, page 61

## 8.0 Reporting Principles

### **Principle 1. Relevance Score: 0.75**

In accordance with Global Reporting Initiative (GRI) the report has to consider the diverse range of stakeholders' expectations to meet their decision making requirements. This year's report did fairly well on this point. The report is organized into two parts to meet the expectations of Natura's shareholders and the GRI committee separately. The first part, "Strategies and Outlooks", states Natura's commitment to sustainability, establishing harmonious relationships with their various stakeholders, and the concepts behind their product development and brand strength. In addition, the report elaborates on how Natura controls its investments, risk management practices, communication with investors and its competitive advantages in the market. The methodology and key indicators are organized to provide sufficient information to current and potential investors, with the expectation of giving them a profitable and socially responsible impression of Natura. The second part stresses Natura's performance according to the GRI standards. Natura elaborates on their responsible management in terms of establishing relationships based on ethics, transparency and open communications with employees of the company and with other stakeholders such as suppliers, consultants and communities that related to Natura. Detailed information is provided in terms of identifying relationships personnel, suppliers and suppliers community, neighbouring communities, government and society to address the concerns from stakeholders' point of view. Furthermore, Natura defines how its business target is compatible with a sustainable environment. This information will meet the GRI expectations.

### **Principle 2. Reliability Score: 0.75**

Regarding its overall reliability, the report lacks an independent auditor's assurance about all non-financial content, as mentioned in our Neutrality and Verifiability statements. Even though Natura provides information about external certifications in relation to some of the company's procedures and operations (e.g. ISO 9001 and 14001 certifications) these selected external certifications do not sufficiently assure the report's overall reliability.

Therefore, it is recommended that Natura nominate an independent auditor to provide an assurance statement about all non-financial aspects of the report, in addition to their financial auditor.

Natura's stated commitment towards sustainability is effectively communicated throughout the report. Except for some sections, which seem very marketing focused (e.g. Products and Concepts), the report does not seem to be unduly biased. The candid remarks regarding the successes and failures of reaching the 2004 Annual Report demonstrate Natura's unbiased reporting. Generally, comments about Natura's policies and performance are backed up by factual statements, but as mentioned previously, there is a lack of benchmark information. The use of industry, or best-practice benchmarks for comparison would add credibility to performance.

**Principle 3. Clarity                      Score: 0.75**

In accordance with GRI, the report has to be comprehensible to the previously noted wide range of stakeholders. Natura's report demonstrates consideration of many stakeholders. The annual report layout is organized into two parts: the first part addresses the issues and provides information to potential investors from a largely financial perspective. The second section elaborates on finer details regarding specific relationships, and performance in sustainable development, loosely organized according to the codes of the Global Report Initiative. This section structures the indicators and methodology to be more coherent for external parties from GRI and other environmental organizations. However, language and small font choice degrades the clarity as the Annual Report reaches the GRI section. This section of the report does not appear to be directed at a wide range of stakeholders. As a recommendation to validate and improve the clarity of the report, Natura may seek and respond to feedback from stakeholders in a manner similar to VanCity.<sup>28</sup> Included in the range of stakeholders that would be helpful for feedback are leading professionals and academics in sustainability, local community organizations, suppliers, and government officials.

**Principle 4: Comparability              Score: 0.75**

For comparison over time with itself and other entities, the form and content of reports should remain as consistent as possible. Some consistency may be superseded by improvements in format in accordance with GRI's commitment to continuous improvement. Most data within the 2005 report is represented well, and charts are used to good effect for clarity. The charts on pp 49-50 with percentage change to 2005 are helpful. However, there is room for improvement in presenting per-capita data (e.g., Full-time Employee salaries) as compared to absolute numbers, and adding percentile ratios to raw numbers (e.g., Economic data on pp. 89). Changes in methodology are disclosed in footnotes. There are a few charts that do not provide insightful information as presented, such as the Supplier's Environmental Performance<sup>29</sup>. The targets for 2006 are sometimes buried in the text and all targets could be formatted more clearly to highlight these objectives.

In various sections of the GRI part of its 2005 annual report, Natura provides a listing of its 2004-defined targets and the results achieved in 2005. Even though Natura's targets for the 2006 are also mentioned in several sections of the report, a concise summary of these targets in a list or table is not provided. This would be helpful for the reader to get a clear overview of the company's new targets and would further increase comparability.

The 2005 annual report is an improvement in year-over-year comparability from the 2004 report, largely in terms of formatting. There are more figures for comparison, and there is a large portion of information presented in the 2005 report in terms of per production unit. Alternative measures are also useful in providing a complete picture, such as comparisons by unit weight of production. While the changes created challenges in comparing the reports, the changes are generally improvements and the overall effect is beneficial. There appears to be slightly more content in the 2005 report. Once again, this creates challenges in comparing reports directly, but increasing the available information should be seen as a positive step. Natura should be making efforts to continue to improve content, but should be seeking a

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<sup>28</sup> VanCity 2004-2005 Accountability Report. pp. 12-13

<sup>29</sup> Natura Annual Report 2005, pp. 53

functional format that can be emulated year-over-year. This includes section headings, numbering schemes, and even terminology. Changes in terminology affect the ability to easily compare the discussion of related topics from year to year (for example the change from 'sales representative to consultant). Embedding the GRI codes at the end of individual statements is jarring, but effective for comparison with other companies. However, with respect to benchmarking, there are no direct comparisons made with other institutions, or industries.

**Principle 5: Timeliness**                      **Score: 0.75**

Generally, data is presented on an annual basis, however there are surveys<sup>29</sup> that appear to be conducted at irregular intervals. These intervals should be standardized as much as possible, as otherwise it may be surmised that surveys are being conducted at opportune moments to improve results. The annual reporting of GRI principles is commendable, exceeding bi-annual reporting of some other GRI reporting institutions.

**Principle 6: Completeness**                      **Score: 0.75**

Overall, Natura's 2005 annual report is comprehensive in providing information about the company's initiatives and development in the Global Reporting Initiative sections on pages 80 and following.

Natura's financial performance is reported in accordance with Brazilian accounting standards. Even though the reporting of relative performance ratios, such as Return on Equity or Return on Assets, is not legally required, the presentation of such measures offers useful information for current and potential shareholders.

The breadth of presentation of the environmental and social consequences of Natura's product life cycle is commendable; the report examines aspects ranging from the company's suppliers to product development and testing, manufacturing (with detailed information about its environmental impact, e.g. water and energy consumption), sales and finally, consumer related issues. Furthermore, information is provided about virtually all stakeholders of the company and their relations with the company. In particular, the data provided in the Social section of the GRI (pg. 98 and following) is very detailed and comprehensive, particularly the wage profile provided on page 101, laudably exceeding GRI standards. However, noting that Natura sources many products from the rainforest, the report fails to indicate how this affects indigenous cultures.

With regard to the company's international expansion, Natura describes its globalization strategy in the report. However, a regional breakdown of international sales is not provided. Such information could help readers get a detailed view of Natura's expansion. Furthermore, Natura did not provide detailed information about its sustainability efforts in its international markets. As Natura's expands operations internationally, meaningful evaluation of Natura's performance requires measurements in all substantial operations. Information about Natura's "sustainable footprint" in those markets would complete the information about its international expansion.

The omission of some GRI indicators as stated at the end of the annual report<sup>30</sup> requires further elaboration from the company. As stated in our reliability and verifiability comments, an independent

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<sup>30</sup> Natura 2005 Annual Report, p. 143

auditor for the GRI section of the report would be beneficial in explaining and adding assurance to the reasons for the omission of these indicators.

***Other points for completeness***

With the development of the Natura Ekos line, the company is showing its commitment to sustainably utilizing biodiversity in its products. The company should be commended for acquiring its license from the Ministry of the Environment’s Genetic Patrimony Management Council. Since Brazilian law stipulates that a requirement in receiving the license is that a firm must have plans which allow it to share the potential benefits with other stakeholders,<sup>31</sup> it would be further clarifying if Natura would report on those plans.

The report mentions the creation of systems for communicating with the groups who are harvesting the natural ingredients in the rainforest but it does not discuss their concerns in any detail. More detail would again be helpful. It also seems strange to claim that there are no connections between Brazil’s indigenous peoples and the rainforest products the company uses. A statement that the company adheres to Convention 169 of the International Labour Organisation would show Natura’s consideration of the peoples who inhabit the areas where harvesting may take place. References to due diligence having been undergone through agreements or meetings with indigenous groups like FUNAI or COIAB would also clarify that no stakeholders have been ignored in Natura’s sourcing process.

It is commendable that Natura has created a system whereby it now rates its suppliers, but a more detailed reporting of both the criteria being used and the results of the overall supplier group would be helpful in evaluating how well suppliers are meeting Natura’s expectations and GRI standards. The listing of percentages of suppliers’ environmental performance as achieving A, A/B or B ratings is not very helpful without any further details. It also leaves it unclear whether Natura evaluates suppliers on social or other issues. There is potential for Natura to increase its transparency by reporting more thoroughly on these issues. An example of a company which takes pride in its top suppliers is Ben and Jerry’s Ice Cream, which sources some of its inputs from rainforests and developing countries.<sup>32</sup> Those suppliers that meet its social and environmental criteria are considered “Values-Suppliers” and are featured on their website and in their reports. While Ben and Jerry’s do not feature all of their suppliers, by featuring their top ones and by reporting the percentage of materials sourced from them, it adds a level of transparency to its supply chain reporting.

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<sup>31</sup> [http://www.ip-watch.org/weblog/index.php?p=322&print=1&res=1024\\_ff&print=1](http://www.ip-watch.org/weblog/index.php?p=322&print=1&res=1024_ff&print=1)

<sup>32</sup> Ben and Jerry’s 2005 Social and Environmental Assessment.

[http://www.benjerry.com/our\\_company/about\\_us/social\\_mission/social\\_audits/2005\\_sear/](http://www.benjerry.com/our_company/about_us/social_mission/social_audits/2005_sear/)

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**Principle 7: Verifiability****Score: 0.5**

One of Natura's management pillars is "ethics, transparency, and open communication channels with all the public who interact with the company."<sup>33</sup> Thus it is surprising, upon evaluating the Report, that there is very little transparency in terms of external assurance of the non-financial content of the Report. The evaluation of the Report against 2002 GRI Sustainability Reporting Guidelines is only approved by Alessandro Carlucci, CEO of Natura.<sup>34</sup> It seems strange that there is no external verification of the non-financial content, especially since *Deloitte Touche Tohmatsu* has provided an Independent Auditor's Report for Natura's financial statements.<sup>35</sup>

However, Natura has attempted to underscore the outside certifications and corporate awards<sup>36</sup> they have received in terms of their effort towards sustainability. While the awards may be subjective, the certifications can be thought of as "verification statements." According to Natura, "The proper use of the botanical resources in Natura's products is guaranteed by the Forest Steward Council (FSC), Sustainable Agriculture Network and the Organic Agriculture certifications granted by the Biodynamic Institute (IBD) and Ecocert."<sup>37</sup> In much of the Report, Natura comments about their recertification according to NBR ISO 14001 norms and their use of their internal "Environmental Management System" to monitor environmental risk.<sup>38</sup> However, since it is not clear that externally certified professionals have reached the same conclusions as Natura, much of the verifiability of the data in the Report is compromised.

In evaluating sustainability/accountability reports from other public companies, it is recommended that Natura aim to be balanced in their data, in terms of internal and external sources. Vancity, Unilever and Inditex all have an external verification/assurance report that follows the GRI Guidelines (2002) and AA1000 Assurance Standard (2003) and it is recommended that Natura do the same. Vancity also solicited feedback from 26 representative stakeholders in regards to the initial draft of their 2004-05 Accountability Report and included their findings in the final draft.<sup>39</sup> Since Natura involves various stakeholders in their operations, Natura should consider giving them the opportunity to evaluate the company's sustainability initiatives and make these comments public.

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<sup>33</sup> Natura 2005 Annual Report, p. 41  
<sup>34</sup> Natura 2005 Annual Report, p. 80  
<sup>35</sup> Natura 2005 Annual Report, p. 139  
<sup>36</sup> Natura 2005 Annual Report, p. 56  
<sup>37</sup> Natura 2005 Annual Report, p. 109  
<sup>38</sup> Natura 2005 Annual Report, p. 71  
<sup>39</sup> Vancity 2004-05 Accountability Report, p. 13

**Principle 8: Overall impression****Score: 0.75**

Layout and Appearance/Understanding: The beginning of the Report was organized in a similar fashion to other annual reports with pictures, visions, beliefs and strategies and outlooks. The layout and appearance of the first part of the report is aesthetically attractive to the reader. The font was easy to read and broken down in a basic fashion. However, the second half of the Report was cluttered and difficult to read. The *Global Reporting Initiative* and *Highlight of Investments in Corporate Responsibility* was in a smaller font and it was therefore difficult to easily extract the most important information. Readers can easily understand Natura's business and their competitive advantage within South America, but it is difficult to understand how Natura is in compliance with the Global Reporting Initiative Guidelines. In addition, while the pictorial description of the board and executives is interesting and appealing, a list of all members would be useful.

Appropriate Graphics

While the pictures included in the report support Natura's overall natural company philosophy and sustainability statement, the images are overtly marketing-oriented. In that context, the amount and space of pictures used is sometimes a little overwhelming and could be reduced in order to keep the report shorter (especially taking environmental issues into account for paper consumption in printed versions of the annual report). The bar charts and tables used in several sections of the report are generally easy to read and understand.

Accessibility/Feedback Mechanisms: On [www.natura.net](http://www.natura.net) there is no easy link to the Annual Report, which is found only by following the "investors" link. This link is in a pop-up format, which many computers now automatically block. It is recommended that Natura include a "search" feature on the website as well as include a link to the Annual Report within the "about Natura" section, which is the intuitive section in which to find comprehensive information about the company. By including the GRI principles, the Report goes beyond financial statements and is of interest to stakeholders beyond financial investors. The contact information (telephone and fax) for each separate Natura operating unit is listed in the final page of the Report. However, this information is not listed in the table of contents and is not intuitively discovered. Also, there is no direction of which operating unit to offer feedback or ask additional questions. A central customer service email would be helpful in gaining stakeholder feedback and perspectives of the Report.

Structure: The overall structure of the document was neatly broken down into general comments and highlights, followed by GRI section, and the standard financial documents. The section highlighting GRI accomplishments combined both very clear and obscure formats.

Navigation/Readability:

The inclusion of an index is an asset (and improvement over 2004). However, it was noted that there were some inconsistencies in page numbers. The report does appear to suffer from some language translation issues in terms of spelling and terminology (eg. Plural use of "personnels" as well as the correct use of 'personnel',<sup>40</sup> countries listed in both Portuguese and English versions<sup>41</sup>). When skipping

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<sup>40</sup> Natura 2005, Annual report, pp 52

from section to section it is easy to get lost, as differentiation between chapters is difficult. This may be improved by additions to subheadings (e.g. “Performance Indicators” could be “Social Performance Indicators”) and color-coordinating the sections, or other formatting techniques to improve navigation. Additionally, the font size in the GRI section is very small, and more difficult to read than the sections before and after the GRI material<sup>42</sup>. The meaning of the GRI indicator could be more explicit in the GRI index. Naming the initiative by title is more meaningful than solely referencing GRI code.

#### Use of Internet

Natura’s reporting would benefit from elaboration of updates available on the internet. An example of this is found in the VanCity accountability report<sup>43</sup>.

We suggest providing an email contact for the various Natura offices-only phone numbers are present. As this is a multinational company, time zones can be an issue for individuals attempting to contact Natura, and as such email is a powerful tool.

#### Length

While the document length of the report is comparable to other similar reports, much of the document is pictorial in nature and there is room for more detailed information to be added to the document. The GRI section could be longer, particularly if fewer pictures were included before this section.

#### Other:

Natura might consider the publication of a separate CSR report in addition to its annual report, like other corporations (e.g. VanCity or Deutsche Bank) do. This way the company could separate and focus on the details and amount of information that should be provided in each report with regard to interests of each report’s main users, e.g. investors and creditors for the financial reporting, and other stakeholders and interested parties for sustainability related aspects.

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<sup>41</sup> Natura 2005, Annual report, pp. 97

<sup>42</sup> Natura 2005, Annual report, p. 1-79,120-139

<sup>43</sup> Vancity 2004-05 Accountability report pp 64

## 9.0 Additional Comments

### **International Conventions which are Noticeably Absent or Mentioned Only in Passing**

Organizations whose Annual Reports make strong mention of who, what, where, when, why, and how much they are in compliance with international regulatory standards often receive ‘best practice’ reporting results. Due to resource, time, space, and monetary constraints, it is inappropriate to assume that all organizations need to be leading advocates of all internationally recognized conventions. However, there are some extremely important conventions that Natura either neglects to mention altogether throughout its report, or does mention only briefly and thus requires more emphasis on the intricacies of measures taken. What follows is a brief summary of our findings regarding this issue:

#### ***CITES:***

An extremely important and highly regarded convention that Natura makes **no mention** of throughout the whole of its report, is CITES (the **Convention on International Trade in Endangered Species of Wild Fauna and Flora**). CITES is an international agreement between 169 of the world’s governments that aims to ensure international trade in specimens of wild animals and plants does not threaten their survival.<sup>44</sup> Even though Brazil was the 16<sup>th</sup> nation to enter this agreement, on 06/08/1975<sup>45</sup>, and surely subjects its domestic organizations to comply with its regional standards, Natura conspicuously fails to mention if at all, how exactly, and why it is (or is not) in compliance with these standards. Natura’s neglect of CITES in its annual report is rather troublesome considering that CITES is designed to protect the exact same species that Natura must interact with in order to source its products (i.e. mammals, birds, reptiles, fish, amphibians, invertebrates, and plants). By manufacturing its products via biodiversity, Natura surely affects the habitats/ecosystems of these species in one way or another. Therefore, it is imperative that subsequent annual reports address what Natura is doing to meet, and hopefully exceed, the CITES requirements. Doing so will definitely make for a stronger overall report.

#### ***Millennium Development Goals:***

Within the body of the report, Natura does reference the Millennium Development Goals, but does not elaborate on how the company is meeting the eight goals. Having said that, it does not mean that the company is not meeting them. It merely indicates that in its plethora of social and environmental activities, the link back to the goals is not made. Natura is making efforts to eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS and other diseases, ensure environmental stability and develop a global partnership for development,<sup>46</sup> but in the wide expanse of information contained in the annual report, the association back to the Millennium Goals is absent.

Given the many areas where Natura is involved in corporate social responsibility, the opportunity exists to meld together several goals into smaller projects that could have a profound and sustainable effect. For

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<sup>44</sup> <http://www.cites.org/eng/disc/what.shtml>. Retrieved January 18, 2007.

<sup>45</sup> <http://www.cites.org/eng/disc/parties/alphabet.shtml>. Retrieved on February 2, 2007.

<sup>46</sup> <http://www.un.org/millenniumgoals/>

example, by choosing one or two smaller communities where ingredients for Natura's products are harvested in a sustainable manner, education for the local community could take place beyond academics for children but to also teach community members not only how to farm in a sustainable manner but also how to create other avenues for sustainable economic exchange. Beyond this, women in the community could be focused upon for education, and health clinics could be created to promote healthy practices through the dissemination of educational materials. If successful, Natura could replicate such a project elsewhere and build upon creating healthy and sustainable communities.

An example of a company that is carrying out such activities would be Unilever's involvement with the Living Lakes project in South Africa.<sup>47</sup> In an effort to protect and maintain the ecologically sensitive and biologically diverse area in a sustainable manner while also creating ways for the community to survive and thrive economically, Unilever and its partners have created a multi-faceted approach to integrate various initiatives to complement and sustain one another. The Lakes area is one surrounded by a combination of commercial agriculture, forestry, and impoverished rural communities. The rural communities place significant stressors on the region through poor land use activities such as illegal harvesting. In an attempt to curtail such activities through the use of education and provision of viable and sustainable economic alternatives, Unilever and its partners have used the following initiatives:

- provided a series of workshops and field trips to assist the community's teachers to understand the local environment and their ability to pass this vital information on to their students
- educated the community about the importance of maintaining its local water sources and promoting the commercial benefits of sustainable activities such as the creation of a commercial plant nursery that propagates rare/indigenous plants
- the development and implementation of a waste recycling program and a sustainable water management program

Such activities work together to grow the community into one that can sustain not only itself, but also its environment. The framework for these projects is able to be replicated in other communities.

### ***Convention on Biological Diversity:***

The Convention on Biological Diversity is an international agreement, signed by 150 nations, aimed at promoting sustainable development. It recognizes the important interdependencies between plant and animal ecosystems and human economic and social development.<sup>48</sup> Brazil signed the Convention in 1992 and it was subsequently ratified in 1994. The goal for 2010 is to achieve a significant reduction in the current rate of loss in biodiversity at the local and global levels. Natura recognizes that its Brazilian operations are subject to the terms of the Convention and makes strong efforts to ensure its procurement of raw material inputs from suppliers is obtained in a manner consistent with both the BCD and its internal GRI standards. It would be helpful if Natura went one step further and provided stakeholders with specific details regarding their supplier evaluation policy. Natura states it "looks for suppliers that share its beliefs and values and are in line with its social responsibility and sustainability policies" and that the

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<sup>47</sup> [http://partnershipscentral.org/mainpages/realportal/displayobject.php?object\\_id=61](http://partnershipscentral.org/mainpages/realportal/displayobject.php?object_id=61)

<sup>48</sup> <http://www.biodiv.org/convention/default.shtml>

“evaluation of potential suppliers is carried out by Natura through a punctuation system that identifies and recognizes.”<sup>49</sup> Unfortunately, specifics on the evaluation itself are not made available in the report, other than that it aims to be in accordance with ISO 14001, so there is little opportunity to review the adequacy of their procurement procedures. Natura should make an effort to disclose the specific certification standards used for each of its suppliers, along with information on who conducts the audit evaluation and how frequently.

With respect to the seven specific focal points of the Convention’s 2010 Biodiversity Target, Natura addresses three directly with their buying policies: the promotion of sustainable use of biodiversity, maintaining ecosystem integrity and identifying key threats to habitat security. Natura has successfully identified two areas that are classified by the World Conservation Union as ‘VI: Resources in protected areas managed to allow the sustainable use of natural ecosystem’, the Médio Juruá Extraction Reserve and the Iratapuru River Sustainable Development Reserve in Amapá.<sup>50</sup> Natura’s buying practices from these two protected areas are monitored by the Brazilian Institute for the Environment and Renewable Natural Resources (Ibama), and the State Environment Department (Sema). However, given that the IUCN has designated these two regions biologically sensitive, Natura might improve its sustainability reporting by encouraging an audit from a non-national environmental biodiversity agency, like the FSC.

### ***International Labour Organization***

Natura does make mention that it “follows the recommendations of the World Labor Organization, the Statute of Children and Adolescents, environmental certification programs and current legislation.”<sup>51</sup> and the UN Global Compact. Natura’s formal workforce is represented by labour unions which is very much in keeping with ILO Conventions and Brazilian laws. The report alludes to the differences that exist for sales consultants with that of the company’s other employees. While the self-regulatory code of conduct from Brazil’s Direct Sales Association (ABEVD) is quite good at protecting direct sellers from being exploited,<sup>52</sup> it seems that Natura could report on whether it has taken steps to offer sales consultants a level of parity or representation that is available to its other workers. There is no denying the good that Natura is doing through offering job opportunities to its large sales consultant force but whether this largest segment of Natura’s organization has a representative voice with which to engage in dialogue with management is unclear.

### **Benchmarking: Suggested Improvement of Structure, Format & Content:**

<sup>49</sup> Natura Report 2005, pg 85: <http://www.corporateregister.com/a10723/ncsa05-ann-bra.pdf>

<sup>50</sup> <http://www.corporateregister.com/a10723/ncsa05-ann-bra.pdf>, page 92

<sup>51</sup> Natura Annual Report 2005, pg 91

<sup>52</sup> [http://www.abevd.org.br/htdocs/index.php?secao=codigo\\_de\\_conduta&pagina=cc\\_empresas](http://www.abevd.org.br/htdocs/index.php?secao=codigo_de_conduta&pagina=cc_empresas)

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A useful method of gauging the overall effectiveness of Natura's annual report is to do either/all of the following:

- Benchmark it against industry leaders' reports
- Benchmark it against other domestic corporations' reports, and/or
- Benchmark it against internationally recognized 'best practices' report(s)
- Create groupings of its initiatives with a list of the various organizations to whose goals it is adhering and show a linear progression of the identification of a problem where Natura can assist, what actions it has undertaken to ameliorate the situation, and the current result with perhaps a future goal indicated.

The following section will examine two companies whose sustainability reports are consistently considered as "best in class", Vancity and Aracruz. From these examples, we suggest some steps that Natura could take in order to improve the structure, format, and content of its most recent report.

***VanCity:***

In recent years, Canada's largest credit union, VanCity, has consistently received 'best practices' recognition for its fair, unbiased, and progressive looking annual reports. In fact, the company even publishes a sustainability report every two years that stands independent of its highly touted financial annual report(s).

First and foremost, the company offers a comprehensive and in depth view of all the various, local, national, and international certifications to which it subscribes (see previous section for suggestions). What's more, VanCity also notes any conventions that they are not sponsoring, but recognize that they should be, and what measures are currently being taken to account for this state of events. By presenting both the strengths and weaknesses of its overall policies, VanCity upholds its goal of full transparency by offering a holistic view of its activities.

Another important aspect of VanCity's report is its reader friendly structure that allows its audience to see for themselves the step-by-step processes VanCity has taken, and is taking, to both meet and exceed various different regulations and certifications.<sup>53</sup> Following a schematic chart-like structure, such as the one presented below, would allow Natura to emulate best practice techniques and prove to its readers that it is proactive rather than reactive in its sustainability measures.

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<sup>53</sup> VanCity 2004-2005 Accountability Report. pp. 16-24

<b><i>Previous Practice</i></b>	Ensure that overall environmental standards meet industry standards
<b><i>Action Plan Implemented To Improve Previous Practice</i></b>	Incorporate environmental cautions into a corporate wide baseline Ethical Policy and ensure implementation procedures
<b><i>Current Practice</i></b>	Monitoring and Controlling Ethical Policy procedures and systems
<b><i>Action Plan Implementation To Improve Current Practice</i></b>	Identify key areas of our environmental impact and develop a plan to improve environmental performance on municipal, provincial, national, and international levels
<b><i>Future Target</i></b>	To be industry leader in all aspects of ethical and environmental policies by exceeding all recognized standards by 10%

***Aracruz:***

Aracruz Celulose S.A. is one of Brazil's leading sustainability companies. It was once again named to the Dow Jones' Sustainability Index for 2007, which recognizes the world-class achievements of companies who strive to implement sustainability concepts into their daily operations.<sup>54</sup> Esthetically, there are some pleasing features about Aracruz's sustainability report that Natura may wish to consider. Foremost is the ease of access to the report in HTML format from the company's main website. The report is easy to navigate with the use of a series of well laid-out menu bars, which makes searching the report for specific information quite efficient.

In addition, Aracruz provides a "Verification Statement", prepared by an independent auditing team, Bureau Veritas Quality International (BVQI), which affirms the accuracy and reliability of the information presented in their sustainability report.<sup>55</sup> In essence, it serves a similar purpose as the Auditor's Report for a company's Consolidated Financial Statements – offering a statement of confidence regarding the material presented. This added step provides additional value to the user of the report because it certifies the legitimacy and consistency of the company's sustainability reporting. This may be an additional step for Natura to consider for the future publication of its sustainability report.

<sup>54</sup> Dow Jones Sustainability Index: <http://www.sustainability-indexes.com/>

<sup>55</sup> Aracruz Sustainability Report 2005, viewed Feb 2, 2007:  
<http://www.aracruz.com.br/minisites/ra2005/localaracruz/ra2005/en/rs/declaracao.html>

## 10.0 Grading Scheme Summary

Section	Score
1.1	0.75
1.2	0.75
1.3	0.75
2.1	1.00
2.2	0.75
2.3	0.75
3.1	0.75
3.2	0.75
3.3	0.75
3.4	0.75
3.5	0.50
3.6	0.50
3.7	0.75
3.8	1.00
4.1	0.75
4.2	0.50
4.3	0.50
4.4	0
4.5	0
4.6	0.75
5.1	0.50
6.1	0.50
6.2	0.75
6.3	0.50
6.4	0.50
7.1	0.75
7.2	0.75
7.3	0.75
7.4	0.75
Principle 1	0.75
Principle 2	0.75
Principle 3	0.75
Principle 4	0.75
Principle 5	0.75
Principle 6	0.75
Principle 7	0.50
Principle 8	0.75
Total	24.50/37 or 66.2%

## 11.0 Conclusion

### Conclusion

Overall, we were impressed with the breadth and depth of sustainability efforts occurring at Natura. We noticed significant improvements in the presentation of performance data over the 2004 report, and many of the previous year's evaluators' suggestions were at least partially addressed. We hope that the constructive criticism we have provided will assist Natura in its efforts of continuous improvement in sustainability reporting. To sum up, these are the main areas in which we feel there is still room for improvement:

- **Readability:** A separation of the sustainability report from the financial report may increase clarity and readability for Natura's stakeholders and other interested parties. We also recommend improving the readability of the sustainability reporting section itself, with a larger font size, clearer headings and subheadings, and consistent formatting from year to year.
- **Benchmarking:** We recommend using industry benchmarking to track Natura's performance relative to other comparable businesses. Additionally, we recommend an increase in the number of sustainability metrics tracked, and a full shift from absolute numbers to ratios so that the relative impact of each effort can be understood.
- **Stakeholder Relations:** we recommend some expansion of the consideration of stakeholders, in addition to improved reporting on stakeholder feedback mechanisms and the use of such feedback in Natura's decision-making.
- **Reliability:** In addition to the specialized forms of independent assurance that Natura already utilizes, such as EcoCert or Forest Stewardship Council certification, we recommend the use of an overarching independent auditor for all non-financial content.
- **Accessibility:** The sustainability report and a main point of contact at the organization should be easier to locate on the web site, and print copies should be available by mail or pick up.

As a company that sources its product from the biodiversity of the rainforest and employs over half a million Brazilian citizens, Natura has a unique opportunity to have a positive impact on Brazil's environment and its citizens, as well as to set the standard for corporate social responsibility in Latin America and around the world. We look forward to tracking Natura's leadership and continuous improvement in this area.