

Vital Industry: Supplier Selection, Monitoring, and Reporting Based on Sustainability Standards

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Abstract

Objective: This case aims to develop students' ability to reflect on and propose mechanisms for selecting, monitoring, and reporting on suppliers, considering sustainability standards.

Method: The case study is designed to be applied in undergraduate and graduate programs in Accounting and Business Administration, particularly in courses that address ESG topics, such as Environmental Accounting, Contemporary Topics, ESG Reporting, and Sustainability, among others. This case is structured into three 90-minute classes and can be implemented using different teaching methodologies, such as mood boards, videos, Padlet, and written reports.

Results: Students are expected to discuss the importance of organizations maintaining a good reputation through their Environmental, Social, and Governance (ESG) performance. The case also addresses the disclosure of information and the adoption of IFRS S1/ CBPS 01, IFRS S2/CBPS 02, and GRI standards, and is aligned with the Sustainable Development Goals (SDGs). These disclosures are important because they add value to the business, and the discussions place students in a context where suppliers must adhere to stringent requirements regarding the services and products they provide.

Contributions: The case offers a practical perspective and encourages students' critical reflection on the complexity and relevance of decisions involving environmental and social aspects in the product supply chain, as well as on how such information must be reported.

Keywords: supply chain, ESG, sustainability standards.

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1 Introduction

The day began with a subtle sense that something was off. The alarm clock ringing at 6:45 am – which, on other days, alerted Samantha to get up and do her 20 minutes of morning meditation – today indicated that it was time to get ready earlier, review some materials, and have a proper breakfast, because in a few minutes it would be time to head to work. Quickly applying makeup in front of the mirror, Samantha, deep in thought, knew she had to hurry, as it was almost time to leave home.

Minutes later, seated in the back seat of an Uber, Samantha observed the movement on the streets of Jaraguá do Sul, in Santa Catarina, as she rode toward the headquarters of Vital Indústria de Roupas e Acessórios. The gray and rainy day, although common for the city, mirrored the insecure feelings and thoughts running through the 29-year-old's mind at 8 am. Soon, she would be sitting at a meeting table before the Board of Directors and the executive management of Vital Indústria de Roupas e Acessórios to discuss the selection and monitoring process of the company's suppliers.

As the car made its way toward the company, Samantha recalled uncomfortable situations that had haunted the organization since 2012. Vital's involvement in an operation linked to the exposure of workers to degrading working conditions meant the organization was targeted by the Labor Prosecutor's Office for a long time and its organizational reputation was weakened. Since then, there has been a continuous effort to implement best-practice management procedures within the company.

In fact, the company is undergoing more intensive implementations and revisions of its ESG (Environmental, Social and Governance) practices. Part of this stems from a pursuit of cultural change within the company, with the aim of achieving a more sustainable operation. The textile industry is characterized by high consumption of water resources, water and soil pollution from chemical waste, and high levels of emissions across its production and disposal chain. Another part of the external pressures originates mainly from contracts signed with European clients, who require their direct suppliers and upstream supply chain to observe practices aimed at reporting and managing environmental impacts.

These pressures were further intensified by the publication of the Corporate Sustainability Reporting Directive (CSRD) and IFRS S1 and IFRS S2 in 2023. The gradual adoption of the Corporate Sustainability Due Diligence Directive (CSDDD or CS3D), scheduled to begin in 2027 in the European Union, has increased the demands placed on companies operating in Europe. The directive aims to promote sustainable and responsible corporate behavior across global value chains by ensuring the identification and management of human and environmental rights impacts worldwide. Although Vital Indústria de Roupas e Acessórios does not fall directly under the CSDDD, its European clients are subject to the directive and are pressuring the company to comply with the new requirements, at the risk of terminating business relationships—Samantha's greatest concern. She understands that aligning with the CSDDD will strengthen client trust, enhance employee commitment, and expand access to financing opportunities. The CSDDD guidelines are viewed as a mechanism for reinforcing corporate risk management and organizational resilience. Moreover, facilitating information exchange and compliance for Vital's European clients will help the company maintain access to a promising consumer market.

2 The Story of Vital Indústria de Roupas e Acessórios

To better understand Samantha's concerns, it is necessary to go back in time and learn a little about the story of Vital Indústria de Roupas e Acessórios. In 1977, Calças Bem Indústria de Roupas e Acessórios was founded in Jaraguá do Sul, SC, Brazil, originally as a small clothing factory integrated with a store called Calças Bem, focused on the production and sale of dress pants. Over the years, with the success of dress pants sales, the company's founders, the Ribeiro brothers, decided to diversify their product catalog. With a team of 20 employees in 1982, Calças Bem began mass-producing not only dress pants but also shorts, serving the wholesale market in the region, with a monthly production of 3,500 pieces.

The company continued to evolve and expand its area of operation. The increase in consumption of cyclical items meant that by 1997 the company already had 640 direct employees. Its products were recognized throughout Brazil for their quality. To reflect its growth and diversification, the industry changed its name to Vital Indústria de Roupas e Acessórios Ltda in 1998, removing the reference to pants from its original name.

In 2003, to meet growing demand and support its strategic expansion, Vital Indústria de Roupas e Acessórios opened a new production unit in Brusque, Santa Catarina.

Constantly investing in innovation, the company acquired modern machinery imported from Italy in 2018 to reduce costs and increase productivity, strengthening its position as one of the most advanced manufacturing plants in Brazil within its segment. In the same year, it created the Market Intelligence and Product Development Office in Jaraguá do Sul, SC, an initiative focused on market research and the development of more sustainable products. In 2019, Vital Indústria de Roupas e Acessórios reached another important milestone with the opening of its first store outside Brazil, in Lisbon, Portugal. This achievement marked the beginning of an expansion plan that envisioned opening Vital stores in various parts of the world over the following decade.

Continuing its growth process, in 2020 Vital Indústria de Roupas e Acessórios reorganized as Vital Indústria de Roupas e Acessórios S/A, a publicly traded company that enabled it to attract investors and prepare for its 2025 initial public offering. This new phase included strategic growth plans for the coming decade, during which the company aimed to become an exporter of clothing to other European brands while maintaining its tradition of quality, innovation, and Brazilian identity in the composition and design of its products.

3 The Dark Chapter in this Story

It was August 2012 when Operation Sewing, a joint effort between the Brazilian Ministry of Labor and Employment, the Labor Public Prosecutor's Office, the Federal Public Prosecutor's Office, the Federal Public Defender's Office, the Federal Police, and the Federal Highway Police, carried out 222 inspections in 23 states, focusing on contract sewing shops, small textile units that provide exclusive production services to larger garment manufacturers.

This operation resulted in the rescue of 650 workers in the state of Santa Catarina alone, who were subjected to conditions analogous to slavery. According to the Brazilian Penal Code, this is defined as "forced labor or exhausting working hours, as well as subjection to degrading working conditions or restrictions on movement due to debts contracted with the employer or their representative" (translated from Portuguese) (Article 149 of the Penal Code – Decree-Law No. 2,848 of 1940). The subcontracted employees (seamstresses, inspectors, assistants) were found to be working more than 12 hours a day and sleeping at the workplace in unsanitary, poorly ventilated conditions, shared with cockroaches and rats, and with electrical installations that increased the risk of fire.

The operation quickly escalated into a national scandal, and Vital Indústria de Roupas e Acessórios was identified as one of the main production partners of the inspected contract sewing shops. Investigations revealed that Vital paid these shops the equivalent of R\$5 per piece produced—since the raw material was supplied by Vital itself—while reselling the same items for R\$220 wholesale and R\$650 retail.

As if the problems involving subcontracting units in the upstream value chain were not enough, there were also complaints of workplace harassment, excessive unpaid overtime, and an underutilized time-bank system among employees directly linked to the Vital factory in Jaraguá do Sul. Additionally, there were reports that workers were permitted to use the bathroom only once a day and for no more than five minutes.

At that time, Samantha was an intern at Vital, having joined the company approximately a year earlier. Her close relationship with employees from different departments and the fact that she was an assistant to one of the directors allowed her to view the events from different perspectives. While disgruntled employees were horrified by the events that had come to light, directors circulating through the imposing offices of Vital's administrative and management sector were apprehensive and concerned about the effects of the news and the investigations linking the company to practices analogous to slavery.

That same year, Samantha joined the working group responsible for adapting the working conditions defined in the Conduct Adjustment Agreement signed between the Labor Public Prosecutor's Office and the company. This was one of the instruments used by the prosecuting authority to prevent the continuation of the illegal situation, repair the damage to collective rights, and avoid legal action.

The working group that Samantha was part of implemented significant changes at Vital and acted on multiple fronts. Criteria in line with labor legislation were established for the selection of partners operating in the company's value chain, especially suppliers, in addition to internal campaigns aimed at advising on best work practices. Some sectors were restructured, and supervisors involved in workplace harassment cases were dismissed. Finally, an internal marketing team was created and, in 2017, only five years after the event, the company was already featured in rankings of the best companies to work for, such as Great Place To Work (GPTW) and the VOCÊ S/A Guide – As Melhores Empresas, helping to minimize the effects on Vital's reputation.

This experience, combined with other positive results achieved by Samantha, led her to work in different sectors of the company and ultimately assume her current position on the non-statutory ESG committee, which was initially created to implement the Global Reporting Initiative (GRI) standards within the organization. Samantha is aware that ESG-related issues are strategic and integral to the company's business model. After all, how can the broken contracts and the pressure exerted by various stakeholders in 2012 be forgotten? How can one overlook the extensive effort undertaken at Vital to reverse the deleterious effects of its involvement in Operation Sewing? This time, anticipating the demands of clients, society, and investors was essential—and Vital could not afford to fail.

4 The Meeting and a Dilemma

Mr. Ribeiro, seated next to Samantha, opened the Board of Directors meeting by noting that the focus would be the discussion of the ESG Committee's actions: "The year 2023 certainly showed us that we are strategically positioned as one of the most resilient companies in Brazil, capable of seizing opportunities and excelling in overcoming challenges [...]", he stated. He then continued by outlining the strategic developments of the year that had just concluded.

His remarks were followed attentively by the 11 members present, including three independent members, one employee representative, and six directors appointed by the controlling shareholder. Also in attendance as guests were the Chief Financial Officer and Investor Relations Officer (CFO/IRO), the Chief Production Officer (CPO), the Chief Investment Officer (CIO), and the Chief Commercial and Logistics Officer (CLO), who provided technical clarifications on the topics under discussion. The meeting also included the Chairman of the Audit Committee and Samantha—Chair of the ESG Committee and advisor to the Chairman, the only woman in the room.

The ESG Committee is composed of 15 Vital executives, a structure that has been in place since June 2022, when it was founded and approved by the Board of Directors. Its purpose is to deliberate on environmental, social, and governance risks and opportunities. Furthermore, its scope of action includes issues related to diversity, equity, and inclusion, as well as topics related to water and effluents, circular economy, waste management, climate change, innovation, occupational health and safety, value chain, and compliance. Due to its strategic function, it assists the Board of Directors, providing advisory support to ensure in-depth discussions and quality decisions, as shown in the organizational chart presented in Figure 1.

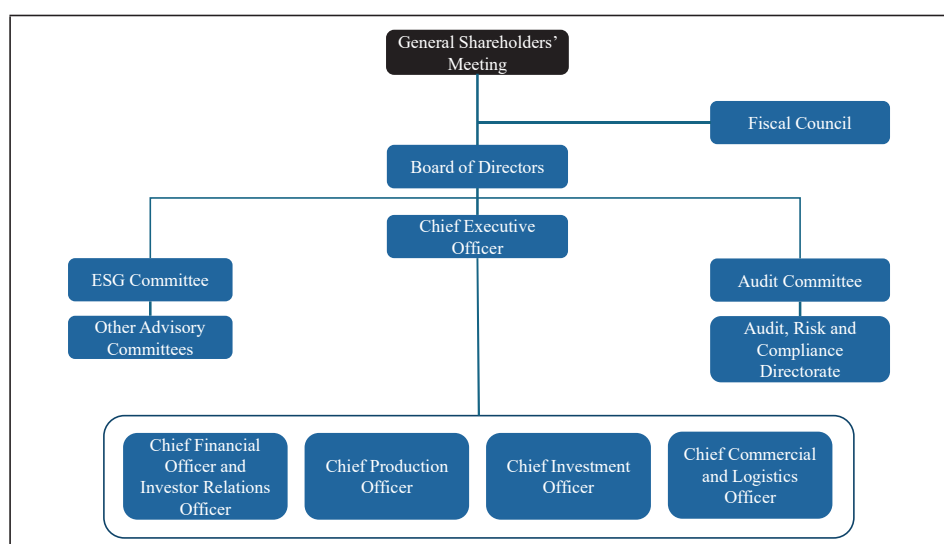


Figure 1. Organizational chart of Vital Indústria de Roupas e Acessórios.

Samantha’s strong professional performance in her various roles, both within and outside Vital, served as her main “passport” to her current position. Indeed, Samantha holds a prominent place in the meeting. Vital’s recent efforts to secure international commercial agreements that require ESG practices, combined with the fact that directors’ performance-based compensation depends on the achievement of financial and non-financial goals, including ESG, further underscore the importance of her role within the company. In addition, the CFO, who also serves as IRO, emphasized in his remarks the aim of early adoption of IFRS S1/CBPS 01 and IFRS S2/CBPS 02 for the preparation of the company’s 2024 annual report, to be published in 2025, as well as the pursuit of continuous alignment with GRI standards, with the ESG Committee playing a central role in achieving this objective.

Today's meeting specifically addresses the assignment of responsibility for reviewing and improving the supplier selection process, particularly the assessment and measurement of risks related to environmental issues. After the initial greetings, Samantha begins by noting that:

"[...] first, it is necessary to conduct a diagnosis assessment of the suppliers involved in Vital's operations in 2023 and identify the points that must be addressed on this mapping for 2024 and the years ahead. Our internationalization process is intense, and we need to be organized and strategic in mapping our operations as a whole," she said, presenting data related to the company's value chain and business activity categories (Figure 2).

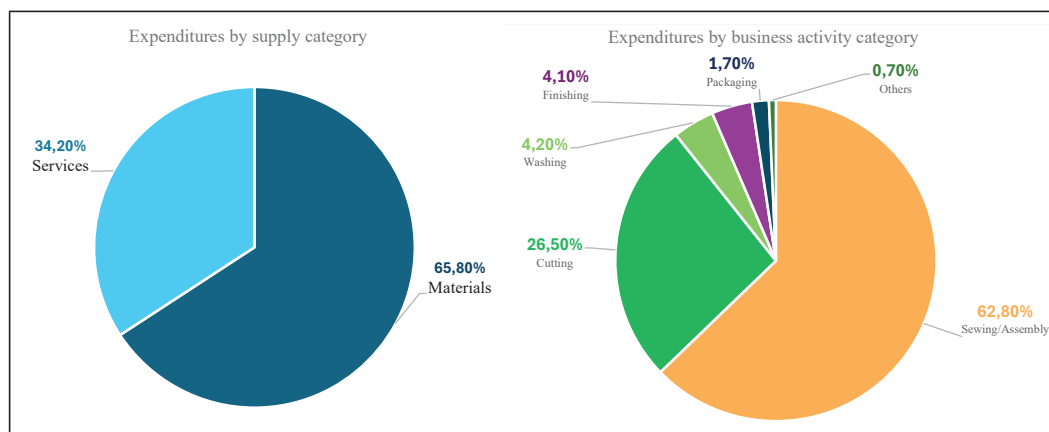


Figure 2. Value chain data and business activities in 2023

Mr. Ribeiro agrees:

"Concerns are particularly focused on cutting, sewing, and washing activities, which involve a high percentage of outsourced labor in contract sewing shops, and washing, in particular, can cause irreparable environmental damage. However, raw material suppliers cannot be overlooked; we cannot risk losing our contracts, especially international ones, nor being involved again in deplorable situations like those of 2012, which pose risks to the continuity of the business," he said, recommending a comprehensive mapping and the proposal of mechanisms and criteria for selecting the company's suppliers, with an emphasis on environmental issues.

Vitor, the Chief Financial Officer and Investor Relations Officer (CFO/IRO), adds:

"A joint effort is necessary, as the strategies adopted at this stage will influence how this information is reported in the annual report made available to investors and other capital providers, potentially affecting the company's cost of capital. Furthermore, European clients are already moving to implement due diligence and will increasingly demand information about our processes, our value chain, and our certifications. They want to understand the potential negative impacts our industry may have on the environment, and the sustainable practices we adopt to mitigate these sensitive issues. I recommend a coordinated effort by the ESG Committee to define efficient mechanisms for selecting and monitoring suppliers, as well as the procedures for preparing a report on these mechanisms for information users. Our internationalization process depends on this. And, of course, we are competing with Asian manufacturers, so the cost factor must also be taken into account," he concluded.

The Chairman looked at Samantha, signaling that it was her turn to speak:

“I think,” Samantha began, “we need to adopt a ‘be-do-say’ mindset from the very beginning. If we are not environmentally responsible within the company and with our partners, everything we do or say in relation to suppliers will be false and hypocritical. This requires resource allocation, constant vigilance, and alignment with the company’s culture.”

Unanimous agreement was reached regarding the importance of the topic. Samantha believes that the effort must be collective and permeate the different levels and sectors of the organization, and she was assigned the responsibility of leading this endeavor.

The data presented at this meeting indicate that, for this year, the company plans to allocate R\$5 million to training courses on water management for its suppliers, given that 90% are national suppliers and 60% are located in mesoregions with a high risk of water stress (South and Southeast), associated with meteorological droughts. It is known that non-compliance with environmental legislation and water-use restrictions can affect the reputation of the textile industry in these regions and may result in joint liability for Vital. If, in the long term, the company is required to restructure its supply chain and source from suppliers in other regions, an estimated impact of R\$2 million is expected over the next 20 years, primarily due to increased logistics costs and the depreciation of transport vehicles.

Vital’s internationalization has heightened the importance of supplier selection and monitoring. By operating its own stores outside Brazil, such as in Lisbon, becoming a publicly traded company, and expanding its global ambitions, the company has increased its “cost of error.” Pressure from European clients has raised concerns about potential contract breaches and higher capital costs resulting from deficiencies in structuring and monitoring its supply chain. Therefore, strong supplier governance is essential. The meeting concludes, and another meeting is scheduled for two months later to present the ESG Committee’s progress.

Samantha leaves the room, and the apprehension she felt at the start of the day proves justified: she has been tasked with structuring a supplier selection, monitoring, and reporting process for the company, an endeavor essential to ensuring its success and sustaining its international ambitions. From now on, a dilemma lingers in her thoughts and will accompany her in the weeks ahead: *What supplier selection, monitoring, and reporting mechanisms can be implemented at Vital Indústria de Roupas e Acessórios to assess the environmental impacts of its supply chain?*

This dilemma can be addressed by considering the following questions for discussion:

1. What mechanisms can be implemented in a supplier selection process to prioritize partners with lower environmental impact?
2. How can the company continuously monitor the potential environmental impacts caused by its suppliers?
3. How can Vital prevent and mitigate negative environmental impacts of its supply chain?
4. How can the supplier selection, monitoring, and risk-mitigation process be presented in accordance with GRI standards—particularly GRI 308: Supplier Environmental Assessment—while remaining aligned with IFRS S1/CBPS 01 and IFRS S2/CBPS 02?

Reading Suggestions

- European Commission. (2024). Corporate sustainability due diligence: Fostering sustainable and responsible corporate behaviour for a just transition towards a sustainable economy. Retrieved from https://commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence_en#which-companies-will-the-new-eu-rules-apply-to
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5 Teaching Notes

5.1 Data Sources

The context of the teaching case was structured by cross-referencing different data sources and real-world events. In 2023, the Labor Public Prosecutor's Office rescued more than 500 workers from conditions analogous to slavery during Operation Rescue III. Some of these workers were employed by companies in the garment industry. Prior to this, similar cases had already been reported, such as the Zara Brazil case (2011), which resulted in a Conduct Adjustment Agreement in 2017, and the Nike case (1996). Presenting these events allows students to reflect on the historical background of the dilemma, facilitating their understanding of the concerns expressed by managers during Vital's adaptation process. In addition, the case was informed by informal accounts from employees of a textile factory, who described situations encountered in their daily routines.

On the other hand, the need to map, prevent, and mitigate the negative environmental impacts of the supply chain discussed in this case stems particularly from the CSRD, IFRS S1/CBPS 01 and IFRS S2/CBPS 02, and the Corporate Sustainability Due Diligence Directive (CSDDD), adopted and published in the Official Journal of the European Union on July 5, 2024. As large companies in the European Union are now required to conduct due diligence on their suppliers, Vital's clients will exert increasing pressure on the company, obliging it to improve its internal processes and supplier selection procedures in order to provide reliable information to its European business partners, who must comply with the CSDDD and disclose sustainability reports in accordance with IFRS S1/CBPS 01 and IFRS S2/CBPS 02. Risks to business continuity may arise if Vital fails to meet these expectations or is unable to provide such information.

5.2 Sustainable Development Goals (SDGs) linked to the case

This study aligns with the United Nations' agenda and contributes to the achievement of the following SDGs (Table 1):

Table 1

SDGs linked to the Case

Objective	Description	Goals
4 – Quality Education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	4.7
5 – Gender Equality	Achieve gender equality and empower all women and girls	5.5, 5.6
8 – Decent Work and Economic Growth	Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.	8.4, 8.5, 8.7
10 – Reduced Inequalities	Reduce inequalities within and among countries.	10.4, 10.5
11 – Sustainable Cities and Communities	Make cities and human settlements inclusive, safe, resilient, and sustainable.	11.6
12 – Responsible Consumption and Production	Ensure sustainable practices in both production and consumption.	12.2, 12.4, 12.5, 12.6 and 12.8
13 – Climate Action	Take urgent action to combat climate change and its impacts.	13.2, 13.3 and 13.b
14 – Life Below Water	Conserve and sustainably use oceans, seas, and marine resources for sustainable development.	14.1 and 14.2
15 – Life on Land	Protect, restore, and promote the sustainable use of terrestrial ecosystems; manage forests sustainably; combat desertification; halt and reverse land degradation; and halt biodiversity loss.	15.1, 15.2 and 15.3

Source: Developed by the authors.

5.3 Educational objectives

This case can be applied in different scenarios and disciplines to foster debate and encourage broader reflections on business strategies, business models, corporate governance, due diligence, corporate risk management, internal processes, formal agreements, and the preparation and disclosure of sustainability information and sustainability standards, among other aspects that relate to environmental and value chain issues.

The educational objectives of this teaching case were defined based on the cognitive domain of Bloom's Taxonomy, as summarized by Ferraz and Belhot (2010). Therefore, although not limited to the following, they can be summarized as:

- Reflect on the direct and indirect adverse environmental impacts generated by a company's actions – aligned with questions 1 and 3;
- Define criteria for supplier selection aimed at minimizing environmental impacts – aligned with questions 1 and 3;
- Propose methods for the continuous monitoring and evaluation of the environmental impacts of the value chain, particularly those associated with suppliers – aligned with question 2;
- Discuss the contractual terms established with suppliers regarding environmental impacts – aligned with question 2;

- e. Align supplier assessment and monitoring procedures with Global Reporting Initiative (GRI) standards, especially GRI 308 – aligned with questions 1, 2, 3 and 4; and
- f. Address the requirements of IFRS S1/CBPS 01 and IFRS S2/CBPS 02 in the company's sustainability report, particularly those related to the disclosure of supply chain information – aligned with question 4.

5.4 Alignment with the National Curriculum Guidelines for the Undergraduate Program in Accounting Sciences

This teaching case aligns with the following elements of the National Curriculum Guidelines for the undergraduate course in Accounting Sciences:

Table 2

Alignment with SDGs

Attributes	<ul style="list-style-type: none"> • Apply scientific thinking in the development of activities; • Meet the informational, financial, and non-financial needs of stakeholders; • Develop a multidisciplinary and transdisciplinary approach in practice; • Recognize the importance of diversity and of the social, environmental, and governance spheres within the entities' environments; • Have a systemic, holistic, and humanistic vision; • Be cooperative, creative, critical, reflective, proactive, innovative, and adaptable to changing scenarios; • Act ethically, considering the code of ethics and other conduct standards applicable to accountants; • Use information and communication technologies to collect, store, and analyze data and to make information available for decision-making; and • Communicate effectively, in written, verbal, or visual formats.
Competencies	<ul style="list-style-type: none"> • Prepare, analyze, and report relevant and reliable financial and non-financial information; • Participate in strategic planning and support management in the decision-making process; • Audit financial and non-financial information and provide other assurance services; • Analyze risk management, internal control, and other governance mechanisms; and • Understand how information technology contributes to data analysis and information generation.
General Skills	<ul style="list-style-type: none"> • Research, reflect, conduct critical analysis, use creativity, and seek and develop solutions to organize and interpret macroeconomic and microeconomic data in order to solve problems; • Integrate knowledge of Administration, Economics, Law, Information Technologies and other areas related to Accounting Sciences to create or improve business models in innovative ways, considering social, environmental, economic, and cultural dimensions; • Use knowledge of financial mathematics, statistics, quantitative and qualitative methods as tools for generating and analyzing information, including performing accounting processes, retrospective and predictive analysis, and audit and assurance work; • Develop arguments based on facts, data, and scientific evidence to formulate, negotiate, and defend ideas, viewpoints, and collective decisions that respect and promote human rights, propose improvements in the socio-environmental sphere, and encourage responsible consumption at the local, regional and global levels, with an ethical consideration for the interests involved; • Communicate effectively, sharing ideas and concepts in a manner appropriate to the audience and context, using evidence-supported argumentation.

Source: Developed based on Resolution CNE/CES No. 1, of March 27, 2024 (Brasil, 2024).

5.5 Scope and Target Audience

Given the density of content involving sustainability, this teaching case focuses on the selection of suppliers within the value chain of Vital Indústria de Roupas e Acessórios. It is recommended for use in undergraduate and graduate programs in Accounting and Business Administration, especially in courses addressing ESG-related topics, such as Environmental Accounting, Contemporary Topics, ESG Reporting, and others. The depth and scope of the discussions can be adapted according to factors such as the class profile, available time, level of education, course content, students' background, and the instructor's objectives for discussing the topic.

The authors' experience with this case consists of its application in the Contemporary Topics in Accounting course (4th year). In the 3rd year, the students had already taken the Environmental Accounting course, which covered, among other topics, the GRI standards. The case was applied in two classes in 2024, beginning with the presentation of a mood board followed by class discussion. In 2025, a reporting model highlighting the supplier selection, monitoring, risk-mitigation, and financial-impact assessment process was developed for inclusion in Vital's annual report, in accordance with GRI 308 and IFRS S1/CBPS 01 and IFRS S2/CBPS 02. These applications helped refine the structure of the case.

5.6 Lesson Plan

This case is suggested for use over the course of three 90-minute classes.

5.6.1 Class 1 – Explanation of the topic

It is necessary for students to have prior exposure to the topic to be addressed. It is recommended that instructors begin with an overview of ESG and connect the discussion to the company's internal processes and its procedures for disclosing pre-financial information, addressing the GRI, IFRS S1/CBPS 01, IFRS S2/CBPS 02 and CSDDD standards and directives. In addition, instructors may introduce the SASB "Apparel, Accessories & Footwear" Standard, which covers sustainability-related disclosure topics and metrics for the apparel, accessories, and footwear sector and can support compliance efforts with IFRS S1/CBPS 01 and IFRS S2/CBPS 02. The documents related to these standards can be found online and are listed in the references of this teaching case.

It is important for the instructor to map the students' prior knowledge and encourage them to explore supplier selection processes presented in the sustainability reports of other companies, adapting this information to the case at hand. Interviews with professionals in the field and group discussions can also be conducted to support the definition of these processes, in addition to reading the standards and guidelines mentioned above.

The instructor's explanation of the content, along with student interaction, can be conducted in the class prior to the case study, and should last approximately 90 minutes. Instructors are encouraged to reinforce the importance of ESG aspects by referring legislation, expert texts, and news about real-world cases that highlight environmental issues, particularly climate-related consequences. Some students may initially resist the topic; therefore, it is important to emphasize that environmental aspects relate to risks and opportunities for a company's continuity and have financial repercussions on its results. It is advisable to avoid a politically partisan discussion of the topic.

5.6.2 Class 2 – Division of groups and operationalization of solutions

In the following class, the groups can be formed, and the case study can begin. Groups of no more than 5 members are generally suitable for fostering more enriching discussions. In this class, students should analyze potential environmental impacts associated with suppliers, mechanisms for selecting and monitoring these partners, and ways to disseminate this information. It is recommended that the instructor ask students to review the notes and discussions from the previous class as well as the legislation covered, to make the classroom discussions more productive. Additionally, the materials to be used in the presentation/debate of Class 3 will be produced in this class.

It is suggested that the instructor give an introductory talk about the case and clarify any doubts that may arise during the students' reading.

5.6.3 Class 3 – Discussion of solutions

Finally, the students will present results in the third class, with discussions led by the instructor, culminating in a final conclusion. Different active methodologies can be adopted for the presentation, such as debates, use of Padlet, or video recording. The adapted mood board methodology has proven suitable for this topic and can be summarized as follows (Table 3):

Table 3
Summary of the Mood Board

Concept		It is a board of visual references (colors, shapes, scenarios) that can be created on a paper panel to contextualize a given situation.
Development Stages	Stage 1	Analysis of the topic or case.
	Stage 2	Mood board planning with terms that require attention or guide the case solution.
	Stage 3	Selection of resources, colors, and support materials.
	Stage 4	Attaching the sticky notes together and presenting the topic or the proposed solution to the case.
Advantages		Better understanding of the topic covered in class. Sharing of knowledge among group members. Improved learning assessment. Development of creative skills for solving problems in groups.
Risks in its application		Group dispersion. Poor understanding of the instructor's guidance. Inadequate time management for completing the activity.
Needed materials		Colored A4 sheets cut into smaller rectangles or sticky notes. Flip chart for attaching the sticky notes (the chart itself or the classroom walls can be used). Markers. Glue or tape.

Source: Developed by the authors

The course instructor provided the materials. If the instructor chooses to use videos, students' own smartphones can be used for this task. Additionally, the Padlet platform also provides free access.

Figure 3 presents a photo gallery that illustrates the implementation of the mood board.

Figure 3. Photo gallery illustrating the implementation of the mood board.



Source: Developed by the authors.



In addition to the presentation, the groups must submit their written or typed responses to the instructor for further evaluation, particularly regarding how this information is reported in the company's sustainability report.

The mood board was applied to the class in 2024. In a new application of the case in 2025, the class was challenged to present their responses using a report template addressing the processes of supplier selection, monitoring, risk mitigation, and financial impact, to be included in Vital's annual report. The task considered GRI 308 and the connectivity of financial information provided by IFRS S1/CBPS 01 and IFRS S2/CBPS 02.

It is suggested that each team present their materials within five minutes, so that the remaining time can be dedicated to discussions guided by the instructor.

5.7 Accessibility Version and Materials Provided

An audiovisual version of the case was developed to promote the inclusion of students with hearing or visual impairments, attention deficit disorder, or any condition in which the use of an extensive written case may be inadequate or inapplicable. The use of graphic animations generated with the aid of artificial intelligence, as well as the inclusion of subtitles and audio, was prioritized to reach the largest possible number of students. Different transitions were incorporated into the accessibility version to help capture the students' attention, given that the average attention span of a person looking at a screen is 47 seconds when no transitions occur (CNN Brasil, 2023).

Version	Accessibility version: audio/video and synthesized version.	Materials: Norms, directives and standards that supported the case.
Link	Access here	Access here
QR Code		

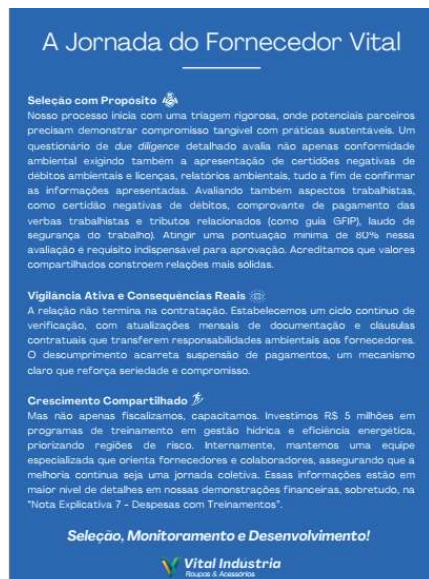
5.8 Discussion of the Questions

After the discussions, the instructor summarizes the groups' answers to each question and provides any relevant comments. Below is a summary of what is expected in the groups' responses, along with examples developed by students based on the application of the case previously conducted by the authors in the Contemporary Topics in Accounting course (4th year). It is worth noting that the students who were exposed to this case had also taken the Environmental Accounting course (3rd year), in which they studied, among other topics, GRI standards.

1) What mechanisms can be implemented in a supplier selection process to prioritize partners with lower environmental impact?

The groups are expected to list criteria for supplier selection. These criteria may address topics included in other GRI standards that cover specific issues, such as GRI 302: Energy 2016, GRI 303: Water and Wastewater 2018, GRI 305: Emissions 2016. More specific issues may be limited by students' lack of technical training in these areas, so it is common for them to propose more general control mechanisms. The presentation of this information can be subdivided into Level 1 and Level 2, according to SASB standards.

Example of a response provided by students in the report template.



Translate:

The Journey of the Vital Supplier Selection with Purpose

Our process begins with a rigorous screening, in which potential partners must demonstrate a firm commitment to sustainable practices. A detailed due-diligence questionnaire evaluates not only compliance but also requires the submission of environmental certificates and licenses, environmental reports, and audits to verify the information provided. We also assess labor aspects, such as negative debt certificates, proof of payment of labor and tax obligations (including FGTS), workforce health and safety indicators, among others. We require a minimum score of 80% for approval. We believe that shared values build stronger relationships.

Active Monitoring & Real Consequences

The relationship does not end at contracting. We establish a continuous monitoring cycle, with periodic updates to documentation and contractual clauses that require adherence to environmental responsibilities. In the event of noncompliance, contractual penalties are applied — a mechanism that reinforces seriousness and commitment.

Shared Growth

We do not only supervise; we invest in development. We invest R\$ 5 million in training programs focusing on waste management, energy efficiency, renewable energy practices, and risk mitigation. Internally, we promote specialized training for leaders and employees, encouraging a continuous collective journey. This information is detailed in our financial statements, especially in "Notes to the Financial Statements 7 – Training Expenses."

Selection, Monitoring & Development!

2) How can the company continuously monitor the potential environmental impacts caused by its suppliers?

The groups are expected to outline strategies and actions for monitoring suppliers. These may include conducting periodic inspections and due-diligence procedures, as well as analyzing specific indicators. For example, in the area of water, indicators such as water consumption, water treatment, water stress, and water reuse, among others, can be adopted (GRI 303: Water and Wastewater, 2018). The quantity of priority raw materials acquired, by material, and the quantity of each priority raw material certified by a third-party environmental or social standard can also be disclosed, using metric tons as the unit of measurement (SASB Apparel, Accessories & Footwear, 2023).

Example of a student response

Medidas de Acompanhamento
Desenvolvimento & Capacitação
Perspectivas
Conclusão
Relatório Integrado 2025

Medidas de Acompanhamento

Ciclo contínuo de melhoria da cadeia de suprimentos

Seleção de Fornecedores
Avaliação de riscos ambientais (GRI 308-1)
KPIs: emissões, consumo de recursos, resíduos

Contratação e Definição de Metas
Estabelecimento de padrões mínimos e metas de melhoria ambiental

Monitoramento Contínuo
- Auditorias físicas e digitais
- Questionários ESG anuais
- Plataforma digital com alertas automáticos
KPIs: emissões, consumo de recursos, resíduos

Ação Corretiva e Capacitação
- Plano de ação com prazos definidos
- Treinamentos e apoio técnico
- Incentivos à melhoria contínua

Reporte e Transparência
- Relatórios anuais ESG e integrados
- Comunicação aos stakeholders
- Atualização da estratégia corporativa

O ciclo contínuo de melhoria da cadeia de suprimentos é um processo estratégico que integra práticas ambientais, sociais e de governança (ESG) em todas as etapas da relação com fornecedores.

A jornada começa na seleção de fornecedores, por meio da avaliação de riscos ambientais (GRI 308-1) e definição de indicadores-chave de desempenho (KPIs), como emissões, consumo de recursos e geração de resíduos. Em seguida, avança para a contratação, onde são estabelecidos padrões mínimos e metas de melhoria ambiental.

A fase de monitoramento contínuo assegura a conformidade, utilizando auditorias, questionários anuais e plataformas digitais que geram alertas automáticos. Caso sejam identificadas falhas, são aplicadas ações corretivas e programas de capacitação, com apoio técnico e incentivos à melhoria contínua.

Na sequência, realiza-se a avaliação de impactos financeiros e riscos, alinhada aos padrões internacionais (IFRS S1/S2), garantindo que os riscos climáticos e oportunidades sejam incorporados à estratégia do negócio. Por fim, a etapa de reporte e transparência promove a comunicação com stakeholders por meio de relatórios anuais ESG e integrados, fortalecendo a credibilidade e a governança.

Este processo é cíclico e adaptativo, permitindo que a empresa evolua continuamente na gestão da sua cadeia de suprimentos, fortalecendo a sustentabilidade, reduzindo riscos e gerando valor de longo prazo para todos os envolvidos.

Medidas de Acompanhamento
Desenvolvimento & Capacitação
Perspectivas
Conclusão
Relatório Integrado 2025

Desenvolvimento & Capacitação

A Vital Indústria de Roupas e Acessórios implementará um programa de capacitação e desenvolvimento voltado aos fornecedores, com ênfase em práticas de gestão ambiental. A iniciativa abrangerá treinamentos técnicos em uso racional da água, manejo de resíduos e eficiência operacional, visando promover conformidade regulatória, mitigação de riscos e alinhamento às melhores práticas de sustentabilidade na cadeia de valor.

85% dos fornecedores estratégicos da Vital foram capacitados em ao menos um programa de sustentabilidade em 2024, superando a meta anual de 80%

Milhares de horas de participação em treinamentos sobre gestão hídrica e compliance foram registradas em 2024, com uma média de 12 horas de conteúdo consumido por fornecedor.

Para fortalecer a nossa cultura de sustentabilidade e responsabilidade, a Vital oferece um portfólio completo de programas de capacitação, com mais de 2.000 soluções de aprendizagem que cobrem temas estratégicos em diversos formatos. Entre os tópicos obrigatórios estão: LGPD, Prevenção à Lavagem de Dinheiro, Ética e Integridade, Segurança da Informação, Assédio e Qualidade no Relacionamento. Outros temas incluem:

- Sustentabilidade e Meio Ambiente: Gestão hídrica, resíduos sólidos e efluentes.
- Relações de Trabalho: Combate ao trabalho análogo à escravidão e garantia de relações justas.

Também mantemos programas específicos para a liderança e o Comitê de ESG, aprofundando o conhecimento em temas como as normas IFRS S1 e S2 e o relato de sustentabilidade (GRI).

Avaliação de Desempenho

Mantemos um processo estruturado de avaliação de desempenho de fornecedores, baseado em critérios ESG e alinhado à GRI 308 e às normas IFRS S1 e S2. Na homologação, os fornecedores são avaliados quanto à conformidade legal, licenciamento ambiental, gestão de recursos hídricos, e resíduos, além de certificações reconhecidas. Posteriormente, passam por auditorias, autoavaliações e monitoramento de indicadores, permitindo identificar riscos e oportunidades de melhoria.

Quando são detectadas não conformidades, são aplicados planos de ação corretiva com acompanhamento do Comitê de ESG. Esse processo fortalece relações de longo prazo, reduz riscos reputacionais e garante transparência junto a clientes e investidores, consolidando a Vital como referência em responsabilidade ambiental e sustentabilidade na cadeia de suprimentos.

Translate:

Monitoring Measures

Cycle of Continuous Improvement of the Supply Chain

Supplier Selection

Assessment of environmental risks (GRI 308-1)

KPIs: emissions, resource consumption, waste

Contracting and Goal Setting

Definition of minimum standards and environmental improvement targets

Continuous Monitoring

Periodic physical and digital audits

Annual ESG questionnaires

Digital platforms with automatic alerts

(KPIs: emissions, resource consumption, waste)

Corrective Action and Training

Corrective action plans with defined deadlines

Training and technical support

Incentives for continuous improvement

Reporting & Transparency: Gains and Risks

Annual ESG and integrated reports

Stakeholder communication

Updates to corporate strategy

The cycle of continuous improvement of the supply chain is a strategic process that integrates environmental, social, and governance (ESG) practices at every stage of supplier relations.

The journey begins with supplier selection, through environmental risk assessment (GRI 308-1) and the definition of key performance indicators (KPIs), such as emissions, resource consumption, and waste generation. Next, the process advances to contracting, where minimum standards and environmental improvement targets are established.

The monitoring phase ensures compliance through audits, annual digital questionnaires, and platforms that generate automatic alerts. When deficiencies are identified, corrective action plans and training programs are implemented, accompanied by technical support and incentives for continuous improvement.

Subsequently, the analysis of financial impacts and risks, aligned with international sustainability standards (IFRS S1/S2), ensures that climate-related risks and opportunities are incorporated into strategic decision-making. Finally, reporting and transparency strengthen communication through annual ESG and integrated reports, reinforcing credibility and governance. This process is cyclical and adaptive, enabling the company to continuously evolve in the management of its supply chain, strengthen relationships, reduce risks, and generate long-term value for all stakeholders.

Monitoring Measures | Development and Training | Perspectives | Conclusion | 2025 Integrated Report

Development & Training

Vital Indústria de Roupas e Acessórios will implement a training and development program aimed at suppliers, with an emphasis on environmental management practices. The initiative will include technical training on rational water use, waste management, and operational efficiency, aiming to promote regulatory compliance, risk mitigation, and alignment with best sustainability practices throughout its supply chain.

- In 2024, 85% of Vital's strategic suppliers participated in at least one sustainability program, surpassing the target of 80%.
- Thousands of hours of training in environmental management, waste and effluent management, and compliance were recorded in 2024, with an average of 12 hours of content delivered to each supplier.

To strengthen our culture of sustainability and responsibility, Vital offers a portfolio of training and development programs with more than 2,000 solutions and learning pathways covering strategic topics in multiple formats. These include mandatory topics such as: LGPD (Brazilian General Data Protection Law); Prevention of Money Laundering, Ethics and Integrity; Information Security; Harassment, and Relationship Quality.

Other topics include:

- Sustainability and Environment: water, solid waste, and effluent management.
- Labor Relations: combating labor analogous to slavery and ensuring fair labor practices.

We also maintain specific programs focused on Leadership and the ESG Committee, deepening knowledge in topics such as IFRS S1 and S2 and GRI Sustainability Reporting.

Performance Evaluation

Vital maintains a structured supplier performance evaluation process based on ESG criteria aligned with GRI 308 and IFRS S1 and S2 standards. Suppliers are assessed regarding legal compliance, environmental licensing, water and waste management, and recognized certifications. The process includes periodic audits, self-assessments, and indicator monitoring, enabling the identification of risks and opportunities for improvement.

When nonconformities are identified, corrective action plans are implemented with follow-up from the ESG Committee. This process strengthens long-term relationships, reduces reputational risks, and ensures transparency with clients and investors, consolidating Vital as a reference in environmental responsibility and supply chain sustainability.

3) How can Vital prevent and mitigate negative environmental impacts of its supply chain?

The students' reports are expected to detail actions to prevent and mitigate the impacts arising from supplier activities. Examples include the implementation of company-wide environmental policies, projects aimed at minimizing environmental impacts, the use of carbon credits, investments in technological innovation, and the review and redesign of processes.

Example of a student response

The prevention and mitigation of negative environmental impacts in Vital's supply chain can be achieved through actions that include:

- *Engaging specialized corporate environmental management firms:* Vital could work with consulting and auditing companies focused on environmental management to ensure that all partners comply with the company's guidelines.
 - *Developing environmental policies and guidelines:* Creating clear environmental policies and guidelines to orient supplier practices.
 - *Environmental policy and guideline compliance index:* Based on pre-established policies and criteria, partner suppliers must achieve a minimum performance level (e.g., above 70%) to remain in the value chain of Vital Indústria de Roupas e Acessórios S/A. It is advisable to establish a deadline for correcting suppliers' internal processes.
 - *Providing training and capacity building:* Offering training and capacity-building programs to suppliers on sustainable environmental practices.
 - *Monitoring and oversight:* Periodic monitoring and oversight of suppliers' environmental performance is essential to mitigate risks.
-

4) How can the supplier selection, monitoring, and risk-mitigation process be presented in accordance with GRI standards—particularly GRI 308: Supplier Environmental Assessment—while remaining aligned with IFRS S1/CBPS 01 and IFRS S2/CBPS 02? Present a report model with this information to be included in Vital's annual report.

Students are expected to identify the alignment between IFRS and GRI. The GRI standards provide a basis for applying these standards through their requirements, recommendations, and guidance. These sustainability standards enable the mapping of risks and opportunities for Vital, linked to financial aspects.

Example of a student response

REPORT Template

OBJECTIVES AND SCOPE

We, **Vital Indústria de Roupas e Acessórios S/A**, disclose information about the supplier selection and monitoring process with the aim of informing stakeholders about the company's sustainability practices. The scope of this report includes information about suppliers of raw materials and services. We also reaffirm our commitment to minimizing negative impacts on climate change and contributing to the transition to a low-carbon development model.

Mechanisms and Criteria Used for Supplier Selection

Vital Indústria de Roupas e Acessórios S/A adopts the following mechanisms and criteria to select suppliers based on environmental considerations:

- **Analysis of environmental reports:** Environmental reports published by suppliers are evaluated.
- **Environmental audits:** Regular audits are conducted to ensure alignment and environmental commitment.
- **Supplier questionnaire:** Questionnaires are sent to suppliers to collect information about their environmental policies and practices.
- **Use of environmental performance indicators:** Indicators such as waste reduction, greenhouse gas emission, and water and energy consumption are used to assess suppliers' environmental performance.
- **Supplier Code of Conduct:** The code of conduct defines the rules that guide and regulate supplier behavior in accordance with our principles. The document clarifies the guidelines that govern business relationships, covering all issues relevant to the company and reinforcing our commitment to ethics and transparency.

RESULTS OF ENVIRONMENTAL ASSESSMENTS

Vital Indústria de Roupas e Acessórios S/A evaluated its suppliers based on the following environmental criteria:

- **Waste management:** Assesses supplier performance in waste handling and disposal.
- **Greenhouse gas emissions:** Assesses supplier performance in reducing greenhouse gas emissions, based on the GHG Protocol.
- **Water and energy consumption:** Assesses supplier performance in water and energy use.
- **GRI Disclosure 308-1 – New suppliers selected using environmental criteria:** The reporting organization must disclose the percentage of new suppliers selected using environmental criteria.

In 2022, we evaluated 1,400 (100%) current and prospective suppliers. Of these, 65.8% were assessed for raw material supply according to environmental and social criteria, and 921 partners were approved to supply inputs to Vital. Service providers were also evaluated, including 700 suppliers, of which 239 (34.2%) were approved.

	20X2
Seleção Fornecedores - Critérios Ambientais	Nº. de Fornecedores
Total fornecedores analisados	2100
Total selecionado	1161
Percentual de novos fornecedores selecionados	55%

GRI Disclosure 308-2 Negative environmental impacts in the supply chain and actions taken. Items covered:

Fornecedores com impactos ambientais negativos potenciais e reais GRI 308-2	20X2
Fornecedores com impactos ambientais negativos potenciais e reais	120
Nº de fornecedores avaliados em impactos ambientais	120
Nº de fornecedores identificados como causadores de impactos ambientais negativos	80
Impactos ambientais negativos significativos – reais e potenciais – identificados na cadeia de fornecedores	Desmatamento; Poluição lençóis freáticos; Não utilização de Energia Renovável.
Nº de fornecedores identificados como causadores de impactos ambientais negativos significativos – reais e potenciais – com os quais foram acordadas melhorias como decorrência da avaliação realizada	75
Nº de fornecedores identificados como tendo impactos ambientais negativos significativos – reais e potenciais – com os quais as relações foram encerradas como resultado da avaliação*	5

ACTIONS FOR PREVENTION AND MITIGATION OF ENVIRONMENTAL IMPACTS

Vital Indústria de Roupas e Acessórios S/A has implemented the following actions to prevent and mitigate environmental impacts and reduce the environmental risks associated with its suppliers:

- **Training and capacity building for suppliers:** Vital offers training and capacity-building programs to suppliers on sustainable environmental practices.
- **Incentives for suppliers:** The company provides incentives to suppliers who adopt sustainable environmental practices, including pricing advantages and priority in the supply of materials and services.
- **Monitoring and oversight:** Since supplier environmental performance is essential for mitigating risks, Vital maintains a system for monitoring indicators, conducts on-site inspections, and requires environmental certifications.
- **Specialized environmental management consulting:** Vital works together with a consulting firm specializing in environmental management to ensure that all partners comply with the company's guidelines.
- **Environmental assessment results:** Vital publishes the results of environmental assessments conducted on suppliers, reporting the percentage of contract terminations, the reasons, and the corrective actions taken.

Vital Indústria de Roupas e Acessórios S/A is committed to implementing actions to manage GHG emissions, identify and assess the company's vulnerability to climate change, prioritize renewable energy projects, and promote studies, research, and innovation. These initiatives are reinforced and overseen by the Environmental, Social, and Governance (ESG) Committee.

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Geração de Valor

Relacionamento c/ Fornecedores

Financeiro

Gestão de Riscos

Relatório Integrado 2025

Financeiro

1. Investimento em capacitação hídrica (R\$ 5 milhões em 2025)

Esse desembolso representa um custo imediato, mas que deve ser reconhecido como CAPEX estratégico em sustentabilidade sob a ótica do CBPS 01, uma vez que promove a continuidade da cadeia de valor e reduz riscos de interrupção operacional. O treinamento em gestão hídrica dos fornecedores atende às exigências de gestão de riscos e resiliência climática (CBPS 02, itens 13 a 22), considerando que 60% dos parceiros estão em regiões de estresse hídrico. Trata-se, portanto, de um gasto preventivo que evita passivos futuros relacionados à escassez de água e sanções regulatórias. Os valores referentes aos custos com capacitação para gestão hídrica dos fornecedores podem ser encontrados descritos na Demonstração do Resultado do Exercício.

2. Impactos de longo prazo com logística (R\$ 2 milhões em 20 anos)

Caso a empresa precise migrar parte de sua cadeia para outras regiões menos expostas ao risco hídrico, o aumento nos custos logísticos estimado em R\$ 2 milhões deve ser tratado como cenário de risco físico e de transição climática (CBPS 02, itens 10 a 12 e 15 a 21). Embora diluído em duas décadas, esse valor representa custos recorrentes com transporte, depreciação de frota e emissões adicionais de GEE (Escopos 1 e 3). A norma exige que tais impactos sejam considerados em análises de planejamento estratégico e financeiros e divulgados como riscos materiais de médio e longo prazo. Os valores referentes ao possível aumento de gastos com logística e depreciação de veículos, em um primeiro momento, podem ser encontrados com descrição mais aprofundada nas Notas Explicativas.

3. Custos ocultos e necessidade de provisões

- Gastos com auditorias ambientais e climáticas (descritos na Demonstração do Resultado do Exercício);
- Gastos com investimentos em inovação tecnológica para redução de consumo hídrico em lavanderias terceirizadas (encontrados na Demonstração do Resultado do Exercício);
- Provisões para contingências em caso de descumprimento da legislação ambiental (encontradas no Balanço Patrimonial).

Balanço Patrimonial (em Milhões)

Ativo Circulante	R\$ 70
Ativo não Circulante	R\$ 60
Passivo Circulante	R\$ 20
Passivo não Circulante	R\$ 30
Patrimônio Líquido	R\$ 80

Demonstração do Resultado do Exercício (em Milhões)

Receita Líquida	R\$ 100
Custo dos Produtos Vendidos	(R\$ 50)
Despesas Operacionais	(R\$ 40)
Outras Receitas e Despesas	R\$ 10
Resultado do Exercício	R\$ 20

« 10 »

Geração de Valor

Relacionamento c/ Fornecedores

Financeiro

Gestão de Riscos

Relatório Integrado 2025

Translate:

Supplier Selection – Environmental Criteria

Total Suppliers No. of Suppliers

No. of Suppliers selected

Percentage of new suppliers selected

Suppliers with potential and actual negative environmental impact

No. of suppliers evaluated for environmental impacts

No. of suppliers identified as responsible for negative environmental impacts ---- Deforestation; Groundwater pollution;

Failure to use renewable energy sources.

Significant negative environmental impacts identified in the supply chain

No. of suppliers identified as responsible for actual or potential significant negative environmental impacts

No. of contracts terminated as a result of these evaluations.

Financial

1. Investment in water-management training (R\$ 5 million in 2025)

This disbursement represents an immediate cost; however, it should be recognized as strategic sustainability CAPEX in accordance with CBPS 01, as it contributes to the continuity of the value chain and reduces risks of operational disruptions.

Training in water management for suppliers also responds to the requirements related to waste management and climate-resilience guidance (CBPS 02, items 13 to 22), particularly given that 60% of partners are located in areas experiencing water stress.

Thus, it is a preventive expenditure that mitigates future liabilities associated with water scarcity and the risk of regulatory sanctions. The amounts related to supplier water-management training are reported in the Statement of Income for the Year.

2. Long-term logistics impacts (R\$ 2 million over 20 years)

Because the company may need to relocate part of its operations to regions less exposed to water stress, the long-term logistical impact—estimated at R\$ 2 million—should be classified as a climate-transition physical-risk cost (CBPS 02, items 10 to 12 and 15 to 21).

Although diluted over two decades, this amount represents recurring costs related with transportation, route wear and depreciation, and additional GHG emissions (Scopes 1 and 3).

In accordance with the standard, such impacts must be treated as material medium- and long-term risks. The projected increase in logistics expenditures and vehicle depreciation may be disclosed with a more detailed description in the Explanatory Notes.

3. Hidden costs and the need for provisions

Expenditures related to environmental and climate audits (recognized in the Statement of Income for the Year).

Expenditures on technological innovation to reduce water consumption in outsourced laundries (recognized in the Statement of Income for the Year).

Provisions for contingencies arising from non-compliance with environmental legislation (recognized in the Balance Sheet).

Balance Sheet (in millions)

Current Assets – R\$ 70

Non-Current Assets – R\$ 60

Current Liabilities – R\$ 50

Non-Current Liabilities – R\$ 30

Equity – R\$ 80

Statement of Income for the Year (in millions)

Net Revenue – R\$ 100

Cost of Goods Sold – (R\$ 50)

Operating Expenses – (R\$ 40)

Other Revenues and Expenses – R\$ 10

Net Income for the Year – R\$ 20

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