

# Natura Cosmetics

ISIN CODE: BRNATUACNOR6

Overall score 34/100

Sector: Luxury Goods & Cosmetics  
Emerging Market

Companies in sector panel: 10

Information rate: 52% (Sector average: 53%)  
Company cooperation level: N/A \*

## General information

Headquartered in Sao Paulo, Brazil, Natura Cosmetics (Natura), engages in the manufacture of cosmetics, fragrances, and toiletrie. In June 2017, Natura Cosmetics agreed to acquire The Body Shop from L'Oréal.

Main Economic Segment**	Turnover 2016
Cosmetics, Fragrances, Toiletry and Direct Sales	100 %

CORPORATE GOVERNANCE	
	2015/10 2017
Score	34
Allegations	No
Rating	=
Risk management	Limited

■ Sector performance  
■ Company performance  
 Rating: min -- / max ++

### Key issues

Sound corporate governance is required to oversee a company's strategic direction, including the CSR strategy. Vigeo Eiris' framework has been adapted to capture the level of integration of CSR topics at Board-level, supplementing traditional signals on efficient governance practices. Directors are notably evaluated on their level of diversity and experience with operational, financial, and CSR topics (CGV1.1). The audit and internal controls system is examined regarding the efficiency and reach of its risk management (CGV2.1). Shareholders are expected to have fair voting rights and access to all relevant information on material CSR issues (CGV3.1). Executive remuneration is assessed for transparency and alignment with the interests of company's shareholders and other stakeholders (CGV4.1).

### Company performance

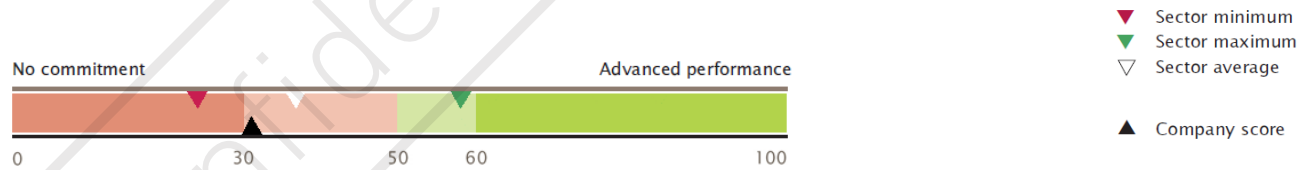
- The Company's performance in the Corporate Governance domain is limited in absolute terms, in line with the previous review.
- The roles of CEO and chairman are separated, however, the level of independence of the board could not be assessed due to an insufficient level of information disclosed. The Company's CSR reporting is audited by a third party, and internal controls cover standard subjects appear to cover some CSR topics. The Company respects the "one share - one vote" principle and shareholders have been presented the Company's CSR strategy. There is a lack of disclosure on executive remuneration.

\* On a 4-level scale: proactive, responsive, partially responsive, not responsive  
 \*\* See detailed economic indicators in Selected financial data section  
 \*\*\* Based on the most recent Index at the date of publication

## Corporate Governance

Score : 34

### CGV1.1 Board of Directors (score: 31, weight: 3)



#### [LISTED COMPANIES] Existence and independence of Nomination Committee

No specific committee is in charge of director nomination, which might raise concerns.

*The Company has a Corporate Governance Committee and a Organization and People Committee. However, these do not seem to be in charge of director nomination.*

#### Independence of the Board Chairman

The roles of Chairman and CEO are separated, but the chairman is not considered independent.

**Responsibility allocated over CSR issues**

The Head of CSR department/functions reports directly to the CEO/Board.  
*The Company has an Ethics Committee responsible for the Code of Conduct, comprised of Vice-President of Finance and IR (Chairman), Vice-President of People and Culture, Legal Director and Compliance Office, Ombudsman, Employee representative and the CEO (in specific cases).  
Of note: the company has the plan to set up a Sustainability Advisory Committee, composed of outside specialists, who will assess the company's progress and help improve its strategy.*

**Share of independent shareholder-elected Board members**

Information obtained from company and public sources regarding detailed biographical information for all members of the Board of Directors is insufficient.  
*At least 3 members of the 9 member board are not considered independent. Information on the other directors (for example on individual remuneration) is insufficient to determine their level of independence.*

**Diversity of the skills and backgrounds of the Board**

*The Board of Directors diversity appears to be partial:*  
- Board members with demonstrated professional experience in the company's sector of activities  
- Board members with demonstrated expertise on CSR issues: for example *Guilherme Peirão Leal* has participated in several social, environmental and business organizations such as *Ashoka (Social Entrepreneurship)* or the *Advisory Council of FUNBIO (Fundo Brasileiro para Biodiversidade)* and the *WWF-Brasil (member of the council)*.

**Training and expertise provided to board members**

Training is provided occasionally.

**Regular election of Board members**

[LISTED COMPANIES] Board members are elected at least every three years and these elections are not staggered.  
*Board members are eligible for re-election following 2-year terms.*

**Evaluation of Board's functioning and performance**

Performance is evaluated regularly, but with no disclosure on the results.  
*The board conducts a self-evaluation in most years.*

**Review of CSR issues at Board meeting**

*The formal CSR reporting has been signed by CEO/Chairman/Board, but there is no evidence that relevant CSR issues are reviewed at Board meetings.*

**Regularity of and attendance at Board meetings**

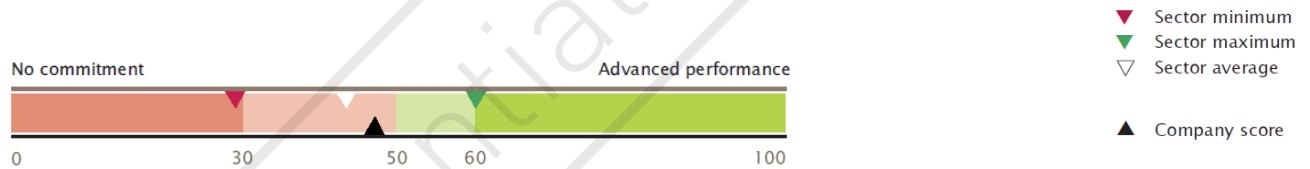
Regular meetings are held, and attendance rates are above 90%  
*In 2016, the Board held 4 ordinary meetings and 10 extraordinary ones. Attendance rates in 2016/2017 were between 90.9% and 100%.*

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	>9 years on Board	Stock options	Paid > 1/2 executive salary	Represent >3% company's shares	Other	Independence
A da Cunha Seabra			X						X				founder and controlling shareholder	
P Barreiros Passos			X						X				not considered independent by the company	

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G Peirão Leal			X						X				not considered independent by the company	
Gilberto Mifano	Chair Audit, Risk Management and Finance Committee		X			X							not considered independent by the company	
M de Barros Lisboa			X			X	X							
F Colletti Barbosa	Chair Organization and People Committee		X				X							
S Silva Dias Lagnado			X											
Carla Schmitzberger			X											
R Oliveira Marques			X											

## CGV2.1 Audit & Internal Controls

(score: 47, weight: 2)



### [LISTED COMPANIES] Existence and independence of Audit Committee

No executive is a member of the Risk Management and Finance Committee. However, information on the members is insufficient to determine the level of independence. Of note: In addition to the 2 directors, the committee comprises of 2 consultants.

### Skills and backgrounds of Audit Committee members

Members appear to have financial and audit experience and relevant operational experience.

### Operational and CSR risks covered by the company's internal controls system

The internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations.

- Product safety
- human resources (talent retention)
- Climate change
- Socio-biodiversity

**Role of the Audit Committee in overseeing internal and external controls**

The Audit Committee has a limited role that includes:  
 - Oversee internal audit and internal controls  
 - Review accounting policies and be responsible for updates  
 - Nominate the statutory auditor  
 - Oversee the work of the external auditor

**Management of the CSR risks**

Limited processes dedicated to management of CSR risks appear to be in place:

- Balanced scorecard
- Risk-related training
- Monitoring of key risk indicators
- Reporting system to the Board
- Risk mapping/materiality assessment
- A Board Risk Committee with no executive part of it

**Independence of the firm's external auditors**

The audit firm receives non-audit fees, but these represent only 25% or less of total fees.  
 Non-audit fees represented 7.4% of total fees paid to KPMG in the fiscal year 2016.

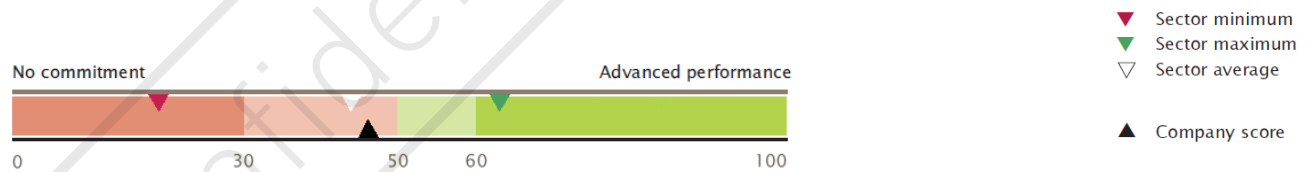
**Inclusion of CSR issues in the company's reporting**

The company publishes significant CSR reporting on key material issues, with an independent third party assessment of the reliability of key performance indicators, with limited level of the assurance by EY.

**Stakeholders' feedback**

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral  
 As of 10/2017, Natura Cosmeticos did not appear to be involved in any controversy related to this sustainability driver

**CGV3.1 Shareholders**  
(score: 46, weight: 2)



**Nonexistence of voting rights restrictions**

The company respects the "one share - one vote" principle.

**Safeguards on transactions with major shareholder(s)**

Less than half of the board is independent. However, there are other safeguards in place to monitor transactions between the company and its major shareholder(s).  
 In its Policy on related party transactions, the company reports that the Audit, Risk Management and Finance Committee monitors and manages Related Party Transactions as well as any potential conflicts of interest involving the executives, directors, officers and shareholders of the Company. The policy lays down the procedures and rules to be followed.

**Ability to add items to the agenda of the AGM and to convene an EGM**

No major restrictions were identified to convene an EGM, however, insufficient information is visible on thresholds to add items to the AGM agenda.

**Access to voting at General Meetings**

There are no major restrictions on shareholders' ability to vote, however there is no possibility of voting through online services.

**Ability to vote on relevant issues in separate resolutions at AGM**

Not all major items are put to a shareholder vote.  
 • *Selection of external auditors does not appear to be voted on at the AGM.*

**Presentation of CSR strategy to shareholders and investors**

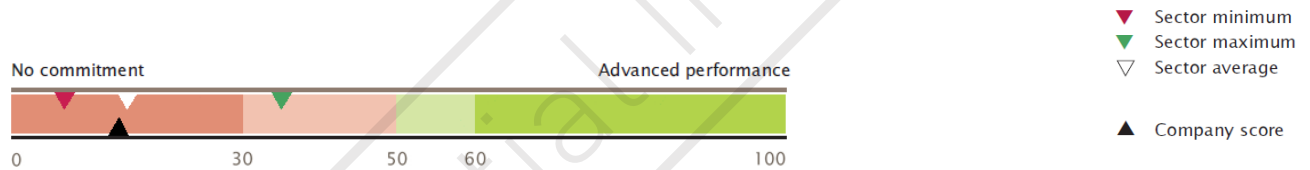
*The company has presented to shareholders and investors its CSR strategy but this covers a limited part of the most relevant CSR issues.  
 - Environmental strategy: The company presented progress towards its 2020 goals to shareholders (eco-efficient productive chains, carbon emissions, recycling)*

**Stakeholders' feedback**

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*As of 10/2017, Natura Cosmeticos did not appear to be involved in any controversy related to this sustainability driver*

**CGV4.1 Executive Remuneration**

(score: 14, weight: 2)



**[LISTED COMPANIES] Existence and independence of Remuneration Committee**

*No executive is a member of the Organization and People Committee, however, information on the members is insufficient to determine the level of independence.*

**Disclosure of senior executives' individual remuneration**

[LISTED COMPANIES] Executive remuneration is disclosed, but on a collective rather than on an individual basis.

**Link between Short Term Incentive Plans and the performance of the company**

There is no disclosure on what rules guide the company in allocating bonuses and other short-term incentives to senior executives.

**Link between the main Long Term Incentive Plan and the performance of the company**

Information on the rules and performance conditions guiding the allocation of long-term incentives to senior executives is insufficient.

**Link between variable remuneration and CSR performance of the company**

Variable remuneration is said to be linked to CSR performance objectives, but these are not disclosed.

- Product safety*
- Eco-design of products and packaging*
- Climate change/Environmental strategy*
- Non-discrimination*
- Labour standards in the supply chain*

**Severance pay for senior executives**

Information obtained from company and public sources regarding severance pay for senior executives is insufficient.

**Evolution of CEO-to-employee compensation ratio**

Information obtained from company and public sources regarding the compensation of CEO and the average employee salary is insufficient.

**Stakeholders' feedback**

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral  
*As of 10/2017, Natura Cosmeticos did not appear to be involved in any controversy related to this sustainability driver*

Confidential Information

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## Contacts

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