



**Local Conference Call
Natura Int'l – (686)
Second Quarter 2006 Results
July 28, 2006**

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the star key followed by the one key on your touchtone phone. If at any time you would like to remove yourself from the questioning queue, press star, two.

Our first question comes from Ms. Juliana Rozenbaum, with Deutsche Bank.

Ms. Juliana Rozenbaum: Hi, good morning everyone again. Even though it sounded a little bit conservative on the outlook for the market for the last of the year. Can you discuss a little bit pricing over the reason why you had a deceleration of growth in the first two months of the year? And then a re-acceleration in terms of macro factors, whatever you think that impacted this kind of different performances between the two periods? Hello?

Mr. José David Uba: Hi Juliana. In our view this acceleration of the growth rate of the CFT market in this first part of the year was mainly because of the low growth of the economy, as a whole, in 2005. As you know, there is a fort correlation between the growth rate of the CFT market and the behavior of the economy as a whole. So, as last year we saw just a little bit above 2% growth rate for the GDP, we had a very weak performance, as compared to the previous years for the CFT already in the last two months of 2005, and again in the first four months of 2006. So, if economy goes on performing well this year, we might see an improvement of that growth rate for the second half of 2006, and another reason for this weaker performance in the first four months of 2006 was the World Cup, with this deviation of consumption to electronics and equipment for ... that kind of equipment and also a more larger amount of credit available to consumers in that period of the year. That might also have affected a little bit CFT demand for the first half of the year. So that is how we see it, we might expect some reaction in the second half of the year, although it is still too soon for guaranteeing that effect.

Ms. Rozenbaum: Ok, but in terms of the performance of the first two months and then now the four months that we saw, so the last two months, would you say there was something different between them?

Mr. Uba: We don't consider... the difference is so small that we do not see any structural change in the performance of the market for those four months.



Comparing the three and four against the two first months of the year.

Ms. Rozenbaum: Ok, good. Just another thing, on Mexico; you have been talking about applying the lessons learned in the other markets, in the start up in the other markets. How do think this is going? What have you done differently in Mexico and how could that impact the time that you would need to achieve break-even in the Mexican operation vis-à-vis the time you need, you still need, to achieve break-even in some of your other international operations? Thanks.

Mr. Alessandro Carlucci: Juliana, as you know, we - hello, is Alessandro speaking, how are you, first of all?

Ms. Rozenbaum: Good, thanks.

Mr. Carlucci: As you know, we started the Mexican operation with new marketing tools. This magazine that we are implementing now in Brazil, we implemented in the beginning of the Mexican operation, so this is an example that we started the Mexican operation with new marketing tools. The mega log; the Casa Natura, the Natura House, that is a place where we receive the Natura consultants; a different kind of sample, not a category sample but a brand sample to the new customers; so we started developing new marketing tools. We believe that they are effective and we are planning to introduce those marketing tools in the other operations, even though I think that it is too soon to know if we are going to have a decreasing of the break-even point in Mexico because of those initiatives, so I think that it is too soon. But we are happy because now we understand that there are some room to grow in the developing of new marketing tools in the new operation, because they are small and where we can use them like laboratories, are very good to implement those initiatives.

Ms. Rozenbaum: Ok great, thank you.

Mr. Carlucci: Thank you.

Mr. Robert Ford: (15.09 to 15.26 – silence) on your thoughts in terms of addressing, perhaps the efficiency of the fulfillment cycle, Brazil?

Mr. Carlucci: Bob sorry, we could not listen your question. Could you repeat, please?

Mr. Ford: Absolutely. My question had to do with trying to better understand your efforts to shorten the time from need to actual receipt of Natura products, particularly outside Sao Paulo, Rio, and the major urban areas. My understanding was that you were looking at that as perhaps an opportunity to strengthen loyalty, improve your product penetration, particularly in the rural market places. (silence from 16.17 to 16.20) had a lot to do with the potential to develop regional



distribution, maybe so much where I think Avon is doing in Bahia?

Mr. Uba: Hi Bob, this is David speaking. We are actually studying a different distribution model for the company, not a distribution model, but a distribution system. We are now still studying, we are not making any experiment yet to see if it is worthwhile to decentralize the distribution and to decrease the time from order receiving here and delivering the goods to the consultant. We suspect that that level of service might affect sales and the consultants' productivity and we, later in this year, we will make some experiments to see what is the impact of shortening the delivering time to the consultants to see if it really affects the productivity and then we will decide what distribution model or system we will have in the future. That is this stage we are right now.

Mr. Ford: Ok. David, could you help me understand in this particular year pilot... what are the fulfillment times like today?

Mr. Uba: We, in those more distant areas, it may take, let's say, 6 to 8 days to deliver the merchandise to the consultant and we might decrease that to two days, no more than two days. So we might reduce the fulfillment time in 5 days. That might have an impact in sales, but we still have to test and see if that hypothesis is confirmed or not.

Mr. Ford: Ok. And then what percentage of your total sales base in Brazil takes as long as 6 to 8 days for the product to reach the consultant?

Mr. Uba: I would say that for that delivery time something like 40%.

Mr. Ford: So it is a very big chunk of the business. It is taking about a week after they submit, after the consultant submits the order, because the consumer submits to the consultant, the consultant gets a minimum order size and then they go, right?

Mr. Uba: Yes, it is a considerable part of the business, you are right.

Mr. Ford: Ok and can you give us some update on your experimentations with modifications to the single level model? You are looking at ways to, perhaps, leverage your promoters a little bit more effectively and transfer the culture of Natura a little bit more effectively as you grow the organization. I was just curious as to what your experiences have been, most recent?

Mr. Carlucci: Hi Bob, good morning, is Alessandro speaking, how are you? As we mentioned before, we are still testing an evolution of our sale structure and we don't have enough results to conclude what we are going to do or if we are going to implement, but we are working hard to do some of evolution, because we believe that we must improve the structure and the relation between Natura and the Natura



consultants. But we still don't have any information to conclude something and to share with you about this project. It is a very important one and because of that we don't want to conclude before the time, to be sure that we are going to implement something real good.

Mr. Ford: Ok. You mentioned earlier the Casa Natura and the impact you had here in Mexico City. There have been recent reports of you expanding to other cities, Puebla; Guadalajara; Monterrey, among others. If you move in those directions, would you also build similar infrastructure in all cities and what markets do you envision developing at Casa Natura? Do you bring Casa Natura into Brazil, for example?

Mr. Carlucci: Yes, we are planning to start, in the beginning like an experience in Brazil, but we have reasons to believe that this experience in Brazil will be transformed into a new marketing tool and we believe that we could implement around the country other Casas Natura, because the experience in Mexico and probably the first one here Brazil that is going to be opened in two months, probably near Sao Paulo, is going to show us that when you have a place that represents your brand, your values, this is enhancing the relationship between you and your sales people and give to the sales people the power to share with their customers our value in a stronger way; so we are really happy with the results of the Casa Natura in Mexico and we are going to implement one Casa Natura here in Brazil in the next two months, to learn about this experience in Brazil.

Mr. Ford: And Alessandro, would it be kind of, perhaps say, hybrid of what you have in Mexico and perhaps what you have in France, where you incorporated a Spa as well, as perhaps more extensive training areas for your consultants?

Mr. Carlucci: Yes, is it is similar. You know that in France we have a store; it is different from the Casa Natura in Mexico, because in Mexico is a place to make relationship with the Natura consultant: training and give some massage, launch products; show our products, and in France we have a flagship store, where we receive customers to sell our products. So the concept is more related with the Mexico Casa Natura than with the French experience.

Mr. Ford: Ok, So no retail at the Casa Natura in/or near Sao Paulo, primarily focused on the image and the relationship with your consultants?

Mr. Carlucci: Yes, yes.

Mr. Ford: Ok, thank you very much.

Mr. Carlucci: You are welcome, thank you.

Operator: The next questions comes from Lori Serra, of Morgan Stanley.



Ms. Lori Serra: Good morning. I wanted to just go back – I know I am a sort of splitting hairs a bit, and just make sure I understood your comments on the outlook for the balance of the year and I understand that the growth you don't want to draw too much significant from the two-month cycle, but I guess if the growth did look nicer, both for you and the industry in the second quarter and yet you are talking that ... I am not sure I understood, to be honest, your comment about the 10% growth you saw in 2005. I guess I thought you said that that was not sustainable, or was not something that you saw was prudent in this course to be forecasting. I wonder if you could just expand a little bit more on ... I mean, the growth was good in the second quarter, why you don't feel comfortable extrapolating that through the rest of 2006? Thanks very much.

Mr. Uba: Lori, what we saw, actually we only have data at this moment for the market in the first two bimesters of the year, from January to April. What we saw actually was a growth rate of about 10.5% in the first two months of the year for the target CFT market. It is a little bit higher than the figures we had at first, because those data were reviewed lately and the result for the first two months of the year actually was a little bit above 10% and then for the last two months, March and April, was a little bit above 11%. So, the difference in the figures for the market, the difference is too small for allowing us to project any improvement for the remaining of the year. On the other hand, we are witnessing now a higher growth rate for the GDP in Brazil and therefore it is reasonable to expect a reaction of the CFT market in the second half of the year, so we are confident that market might be slightly better in the second half, I mean better in terms of growth rate. The market is great, because it is still growing at very high rates, 11% growth rate in the first four months of this year, is a tremendous result; it is a lower rate than last year, but still very good. So we are still waiting for the results for May and June in order to have a better picture for the remaining of the year, but we believe it might be a little bit better than the first half, but probably not very much.

Ms. Serra: Ok. So I understand better now, the first two months were revised and so you are seeing a fairly equal growth rate - now I understand what you are saying. Just in terms of the margin expansion, we saw a lot of margin expansion in the quarter. You mentioned a couple of things earlier in terms of resolving some issues with the call centers and freight policy and it has been a little bit hard to forecast your margins, because of the times - they have been very variable - and some of it depends on mix, which we obviously can't see that, well ... as you think about 2006, should we think about this kind of margin improvement continuing, particularly on the SG&A line, or should we expect some reinvestment at some of those efficiencies in terms of marketing efforts over the coming few months, or few quarters?

Mr. Uba: We consider that the second quarter should not be taken as a basis for projecting the remaining of the year, but actually the first semester as a whole. We



expect margins to be more or less in line with what happened in the first half of the year, and of course taking into account the natural seasonality we have in our company regarding sales and margins. We see we might have in the second half some stronger effort in marketing, as we had in the discount side of the market in the second quarter and that might be offset, partially offset, by the gains in productivity we had in logistics, in distribution expenses. So at this point we do not see any big change, structural change in our margin for the remaining of the year as compared to the first semester.

Ms. Serra: Ok, that is helpful, thank you.

Operator: The next question we have comes from Margareth Kalvar, of Harding Loevner Management.

Ms. Margareth Kalvar: Yes hi, good morning. A couple of questions. First of all on cost of raw materials and packaging and then also pricing and then second question concerns if you have any projection for the next couple of years on what you expect international sales as a percentage of total to reach?

Mr. Uba: This year, what we saw up to now in terms of raw material prices - for the domestic raw material, prices were in line with the domestic inflation. But also as we had about 25% of our purchases, in some sense, linked to exchange, to the exchange rate and given the valuation of Real exchange rate, we, at the end we had a very unstable average price for the raw materials in the first half of this year and we expect some adjustments for the second half of the year probably, now that exchange rate is more stable. As pricing, we adjust our prices just once a year, usually in March, April, so our retail prices will stay constant or stable until March, April of next year. So we are not planning to increase prices until next year and our policy is just to readjust prices according with our internal inflation rate. That is what we are seeing now.

Ms. Kalvar: Ok.

Mr. Carlucci: And Margareth, about the international operation, we don't give guidelines about our sales in the future, so we don't have this information that you are asking us, but I can say to you that we should expect an increase of the percentage of our sales coming from international operations and in fact we have been trying to increase this percentage, but we have a good problem: we are growing fast in Brazil too, so we are trying, and probably for the next years we are going to see a difference happening in the relevance of the international operations. But of course Brazil, is going to, still, be the more, most important operation for Natura for the next - I don't know how many - but a lot of years in the future.

Ms. Kalvar: Ok, thank you.



Mr. Carlucci: You are welcome.

Operator: The next question comes from José Yordan, of UBS.

Mr. José Yordan: Hi, good morning. My question was a follow up to what Lori was asking. I just wanted to understand a little better what these adjustments to the logistics; the costs of servicing; consultants; the magnitude of this and then when exactly was implemented, because I think I heard you say that this improvement of what looks to be 50 to 70 basis points, you know, that it wasn't really sustainable or should not be extrapolated, but any clarity you can give us on that, that would be great.

Mr. Uba: We started implementing those changes in the second half of 2005 and those changes consisted mainly in first, in changing the operators of our call center here in Sao Paulo. We renegotiated the contracts; we now have other contractors working in the order capturing here at the company, with lower costs. That was the first change we made. The second was one in the freight contracts, we changed them a little bit to better reflect the cost drivers for the transportation of our merchandise and we succeeded in developing better contracts for the company and we lowered costs as well and this starts happening at the end of the first quarter of 2006. So in the second quarter I would say that the full impact of those changes are well reflected in the results; that is the first question, the second was...

Mr. Yordan: And therefore we should see that for the next two, three quarters at least it is not going to be on debates for, until the end of this year?

Mr. Uba: Yes, they should go on to the end of this year in the same basis we saw in the second quarter.

Mr. Yordan: Great, thanks a lot.

Operator: Our next question comes from Mr. Simão Neomarque, with Magliano Corretora.

Mr. Simão Neomarque: Hi, good afternoon. We were just wondering here if you have any expectations for more growth in personal hygiene as opposed to cosmetics and fragrances and if there is any particular reason for such a small increase in your market share compared to cosmetics and fragrances?

Mr. Carlucci: Hello Simão, it is Alessandro speaking. How are you? First of all, we don't give guidelines about our growth or sales for the future, so I can't give you more information about that. But you should take in consideration that the difference, or the increase in market share is relatively equal in both categories; the fact is that in the toiletries the market is bigger than in the cosmetics, so if you grow



20% in your market share you are going to see different points in the market share, but the relatively growth is going to be similar, and just to explain a little bit more, there is one reason to explain why we have almost around 30% of market share in one category and 11 in the other, and is due the fact that the direct selling is a good channel for the cosmetic area and not so good for the toiletries and that is because we have the difference between the total market share in those two categories. In the toiletries you have the supermarkets and it is a more massive category, that is why the direct selling is not so good.

Mr. Neomarque: All right, and just taking up on that issue of international stores, how are your French stores in comparison to your Mexican store doing, comparatively? Which structure is working better taking into account the differences in both countries?

Mr. Carlucci: You know Simão, they are totally different. In France we have a store where we receive our customers and we sell our products direct to the customers; in Mexico we don't have stores, we have a place where we receive our Natura consultants to show them our brand, to establish relationship, to train them, to show other products; but this is not a place to sell direct to our customers. So those two examples are totally different, they have different objectives, so it is really difficult to compare. In one, we want to sell to the customer, in the other we want to enhance the relationship between the company, the brand, and the people that are going to sell to our customers. So they are working in different ways.

Mr. Neomarque: All right, that would be all. Thank you very much.

Mr. Carlucci: Thank you.

Operator: The next question comes from Celso Dias, excuse me, Celso Sanchez, with Citi.

Mr. Celso Sanchez: Hi good afternoon. I just want to get a little more clarity, if I could please, on the Casa Natura concept in Brazil. I thought I understood from the last call that you had been experimenting with a couple of them already outside of Sao Paulo. So is this the third, or is this a new format or was I mistaken and this is the first of any kind in Brazil that you are talking about the next couple of months?

Mr. Carlucci: Hello Celso, good morning, is Alessandro speaking. I think that we are talking about the same thing. We are... we started to develop the first Casa Natura in Brazil six months ago, so the last time we talked about the same experience; the fact is that we are going to open this new one in one month probably, one month and a half, but we are talking about the same experience. We are not talking about a third or a fourth Casa Natura; we are talking about the first one in the same way that we developed in Mexico. It is true that we have one office, but it is an office, is not a Casa Natura in another region of Brazil, but this is



not Casa Natura. So to be clear, we are going to open the first one in one or two months around Sao Paulo and probably the second one in four or five months in another region in Brazil and this is the only experience that we are having in Casa Natura in Brazil.

Mr. Sanchez: Can I just be cleared then on the difference between Casa Natura vis-à-vis the one in Mexico because I think I understand that concept and the Centros de Convivência that you had talked about in the past?

Mr. Carlucci: There is no difference; we are just changing the name because “Centro de Convivência” is not a marketing name, it doesn’t represent the objective and Casa Natura, Natura House, means that we are going to receive people to understand better who we are and to live the Natura experience, but they are the same thing.

Mr. Sanchez: And again, just to reconfirm, those are consultants that you are most likely to receive rather than customers, right?

Mr. Carlucci: Yes, yes. Certainly.

Mr. Sanchez: And if I can just follow-up on, I think there has been a number of questions on the good expenses operating leverage. I think the message you have been giving for a while is that top line growth is the priority and marketing expenses and so forth would be geared towards driving that, so to the extent that you have found all these great savings on the operating expense side, logistics and so forth. Should we just expect that to be continued, to offset or reinvested like the marketing expenses or is there something else we are missing?

Mr. Uba: Celso, our strategy is actually trying to explore all potential we see now in the Brazilian market to expand our market share and therefore we will bring that part of any extra gains in marketing expenses if you see it as necessary. It is still too early to say if we are going to increase our marketing expenses beyond the productivity gains we had, in order to keep sales growing at high rates. We didn’t see that yet actually, but we will do it if it is necessary. For the remaining of this year, we believe that expenses, total expenses, should be more or less in line, as I said before, with what we saw in the first half. Probably if we have any change, those changes would happen next year. But it is difficult to expect any strong change for the remaining of 2006.

Mr. Sanchez: Ok, great. Thank you and then just lastly thinking about the potential need for marketing expenses. Your price increase that you took in March, April, as you said, was there any noticeable reaction from your competitors? Did they follow or did they not follow? Was that consistent, any consistent with previous price increases you had? Is there any way for us to judge what may or may not be a response from them and require perhaps some more marketing expenses to stand



off?

Mr. Carlucci: Hi Celso. The increase of price that we had in March and April it was a nominal increase, following the inflation in Brazil; and the market, as the history in Brazil, follow this increase so it doesn't change the positioning of our price, so we don't have any comments about this in the marketing perspective.

Mr. Sanchez: Very helpful, thank you very much.

Mr. Carlucci: You are welcome.

Operator: The next question comes from Caio Dias, of Santander Bank.

Mr. Caio Dias: Good morning everyone. First of all I would like to congratulate you guys for the good results on the second quarter of the year. My question is specifically on the administrative expenses; according to the release they went from 15.1% of the net sales last year to 13.2% in this last quarter and this improvement was due to lower provisions expenses. Was this provision's saving due to an extraordinary event or can we expect that the administrative expenses will keep around the 13% of the net sales for the following quarters?

Mr. Uba: Expenses, provision expenses, are hard to predict. They depend on how courts behave and how the lawsuits evolve in time, so we actually in the second quarter of last year, probably we had an exceptionally high provision expenses and probably in this second quarter of 2006 it is exceptionally low; so I wouldn't take the administrative expenses of second quarter as a basis for projection; I would take the total administrative expenses for the first half of the year as compared to net sales, and we, at this moment, we do not see any reason for having any structural change or any big change in administrative expenses for this year as compared to the first half. But again, provisions, they are not under our control and according to any change in the lawyers' perception on the final result of the lawsuits we might have something added to those expenses. We can't forecast that.

Mr. Dias: Ok great, thanks a lot.

Mr. Carlucci: Thank you and thank you about your words about our results.

Operator: Our last question comes from Gustavo Hungria, of Banco Pactual.

Mr. Gustavo Hungria: Hi, good evening. Just one more question I would like to make in regards to, still regarding the productivity. I just would like to understand a little bit better; if you could break down the productivity of the old sales reps and the productivity of the new sales reps that you added to the base perhaps, in the last twelve months; how different is that? I mean, would you say that these new



reps have a maturity curve which is shortening or no? I mean, the old sales reps are selling more and that is why you are being able to have such an impressive productivity in the quarter? If you could break down both so that I can understand a little bit better.

Mr. Carlucci: Gustavo, hi, it is Alessandro speaking. Unfortunately we don't split this kind of information because it is a little bit strategic, but we are not feeling that we have some behavior changing in the productivity between the older one and the young one; as we are saying, the older one is much more productive than the new one and I don't have any reason to believe that the growth happened in one of them, I think that in both segments we can take, we can see some gains in productivity. I don't know if I can try to...

Mr. Hungria: No that is fine, that is fine. Just I would like to see if there was any changes in the behavior like you said, if the dynamics of the maturity of these new sales reps has changed for some reason or ... but like you said, I mean, the dynamics continues in the same line.

Mr. Carlucci: No, we are not seeing a change in the behavior.

Mr. Hungria: Ok, thank you.

Mr. Carlucci: Thank you.

Operator: Excuse me. This concludes today's question and answer session. I would like to invite Mr. Carlucci to proceed with his closing statements. Please sir, go ahead.

Mr. Carlucci: I would like to thank you all for your time and for your partner and invite you for the next conference call in October and for the next meetings during this time. Thank you and have a nice day.

Operator: That does conclude the Natura audio conference call for today. Thank you very much for your participation and have a good day.
