

**Conference Call**  
**Analyst & Investor Luncheon**  
**New York – March 26<sup>th</sup>, 2007**

**Mr. XXX:** Good afternoon everybody, thank you very much for coming to our ... I think it is our first event we are making here in the United States alone, and it is a pleasure. So we have today Mr. Alessandro Carlucci, who is our CEO; Alessandro is with the company for about 18 years and he starts very young there and he was the former CEO and ... COO, I am sorry, and was indicated as a CEO since March 2005. We are commemorating one year of CEO ... two years, I'm sorry ... already? And he has a degree of Fundação Getúlio Vargas, one of the best administration schools in Sao Paulo and no longer I invite Mr. Carlucci to make our presentation. Thank you.

**Mr. Alessandro Carlucci:** Good afternoon, it is a real pleasure to be here with you especially because this is the first time that we have the opportunity to meet personally a lot of you. We have conversations during the conference calls and other remote meetings so today it is a pleasure to know you personally. I think that this is also an important day to share some thoughts about the future and about our plans and I will be delighted to answer the questions and the things that you would like to know better about our company.

I am going to show you a quick presentation; we have a lot of slides but I can pass quickly because I think that almost everything that we are going to present here you already know, you already saw in some of our meetings or in our last conference call; even though, I am going to pass through some of those slides. And then again it will be a pleasure for me, Helmut and Ricardo to answer the questions about Natura and about our plans.

Ok, talking about our company profile starting with our beliefs; we are a very brand driven company; these are four of our six beliefs and the most important is not to mention one isolated, but to say that we try to manage our business real, real, based on our essence and our essence is made of our reason of being, our beliefs and our mission. So we try really to develop our business, and every decision in the company is based on our essence.

We are also a company that really believes that we are here not only to generate profits, even though they are very important and they are at the beginning of the story but also to be part of the society as a whole, so we developed some initiatives in the corporate responsibility and we tried to develop our business focused on the triple bottom line and here we have some examples.

I would like just to mention one, it's the third one, is a soap noodle plant that we are probably opening next month or in April or May in Brazil and it is a plant based in the north part of Brazil and we are going to use the vegetable oil extracted from around 2,600 local families, instead of buying from an industrial company - this oil.

I think, as you know all our soaps are made from vegetable oils and not from animal fat and because of this we could start this plant using the extracted oil in a sustainable way from these families. And this is a very nice project, a project that can add value to our products, can share value with those communities and add value to our business. So this is a very good example; we are really proud of this initiative, even though it is a small plant but represents a way to be sustainable and to involve more people in our business.

Talking about our market, the CFT market in Brazil, the core market, grew 3.4x more than the GDP in Brazil, it is a fast-growing market as you can see in the last ... here we have 5, but probably I could say 20 years so this is a market that has been growing faster than the GDP in the last decades in Brazil.

Here we have the net revenues of our market, last year reaching R\$ 11 billion with 13.4% growth compared with the previous year and with a CAGR of 16.5 in nominal terms.

Here we have our market share in Brazil and ... sorry, the size of the market that I presented before was only about the Brazilian market. And here we have our market share in the core market and we, in the last five years, we increased 8 percentual points in our market share reaching in the last year, 22.8% of our core market, growing in the last five years.

Some financial figures: we ended the year with a net revenue of 2.8 billion, almost 21% more than the previous year and the last quarter with 0.8, 17.5 comparing with the previous year, and as you heard we were a little bit disappointed with the sales in the last quarter especially because we tried to offer something in our perception real innovative at the end of the year, and unfortunately we didn't reach the success that we would like to reach, and basically because we sold a lot of promotional kits sales with lower margins and we had some cannibalization with the other products, so the last quarter we had a double impact – we didn't reach the sales that we intended to reach and we sold with a lower margin that we would like to.

In the Ebitda we reached 655 million, 16% more than the previous year with again the last quarter result below our expectations and basically because of the two facts that I mentioned before and another issue that was administrative structure expenses peaking, reaching a peak in this fourth quarter. In the last two or three years we invested a lot in our internal structure not only because we grew as you could see, but because we are preparing the company to be more international and to operate in new markets, so this increased the administrative expenses and we now believe that we reached the right size and we can fix these expenses, probably around for the next two years, because now we are prepared to run the Brazilian business; we developed a dedicated structure with part of our best executives to manage Brazil and we have another part of the company helping the new operations and we are investing more in the international expansion and in the brand construction in Latin American operation and this was a planned action.

Even though with the last quarter with results below our expectation we finalized 2006 with 23.7 Ebitda margin that we believe that is a good margin but again, with the last quarter below our expectation.

Talking about the consultants – and here I think that we have a very, very important issue for a direct selling company – because I think that we could measure the success of a direct selling company talking about long term, taking care of some issues. The first one is the number of consultants, we call our representatives – our reps – as consultants; but we can measure the growth of the number of consultants but we must see together with the growth the retention rate and the quality of the relation between the company and those representatives, because sometimes they can be with you because you are doing a more important promotional effort and not because they really belong to the company, if I could say the word “belong” between comas of course, because they are independent and I would like to show you some very important figures that base our believe that we have a very strong relationship with our sales people.

So we reached in Brazil 560 thousand Natura consultants; their productivity is 1.5 higher than the industry level, reaching R\$ 12.5 thousand in 2006. The turnover that we reached last year was the lowest turnover in our history, 26%, and for the specialists of our industry probably the average turnover in our industry is around 80%, so this is a very low turnover and we are really happy with this.

We have some researches to measure the climate – It’s not the weather, but is the quality of the relationship that we have with our consultants and this year we reached the same level of favorability the previous year, 89% is very high and we are not talking about the quality of service, we are talking here about the quality of the relationship. And we have some other important programs inviting our consultants to be persons that could engage the society in social and environmental projects; we have some examples here and this is something that we try to do everyday, saying to them: “look, you are here to sell products, to have some money, but you are here to do something better for the world; for you, for your family and for your clients, or for your city”, so we invite them to participate in some programs and we have the EJA, the Refills and the “Crer para Ver” and we can detail, if you want, later a little bit more.

Talking about the innovation and this is really, really important for us. We invested R\$ 87 million in the R&D process last year, almost 30% more than the previous year, represented 3.2% of net revenues; and we launched 225 new products in 2006 and here we have some facts, some important products and the most important issue here is to share with you that in 2008 we are going to have a new research and development area in Campinas – near from Sao Paulo, 80 km from Sao Paulo, 50 miles from Sao Paulo – with around 200 researchers based in this place to help us to develop new ingredients and understand better the Brazilian biodiversity to develop new products.

Here we have the Capex. We increased the Capex of Natura not only because of our actual size but because we decided to invest more in the IT technology for our company that we believe that is really important to maintain the quality of relationship and the services to our customers and we have an important part of this Capex invested in our industry and in our distribution centers and we decided to start a decentralization of our distribution centers to offer a better service to our customers to decrease the lead time of an order to reach the consultants around Brazil.

Here we have the cash flow. The internal cash generation increased 17% last year and the free cash flow decreased 40% mostly because of the Capex that I showed you before and because the frustration of the last quarter's sales, so we have an inventory around 30 million higher than it should be regular comparing the growth of the company in that period and we had some not recurrent liability regarding the taxes in Brazil in 2006 and this is not a recurrent problem for the future.

Talking about the international aspects, as you know we have what we call consolidated or in-consolidation operations in Argentina, Chile and Peru. Last year those three operations grew 52% and in the last quarter, 52 – the same tax, the same rate – reaching 51 thousand consultants in those three countries, 42% comparing with last year with a higher productivity, comparing with the last year, but the most important with a continuous improvement in the brand evaluation in these countries. We have a brand research and our brand is getting stronger in those countries, occupying a differentiated position in these markets and this is to us is very important, because we believe that we must offer the value proposition of our brand.

In the new operations they are still small and we are talking about Mexico, Venezuela and France; we reached US\$ 5 million in gross revenues last year, with a huge growth but only because they are too small with 5 thousand consultants in 2006. We started last year, around September, a test, a pilot of direct selling in France because we believe that we can learn so much, in fact, we are learning; I've been there three times in the last six months and we are really learning because it is a very developed market with huge expectations about the customers, so we are learning a lot how can we improve our model and our marketing tools in that market and we opened a new lab in Paris to research some specific technologies that are available in France and not in Brazil.

Here we have – only to give you a size perspective of our market – the size of the market that we are today, the CFT, this is **XXX (18.51)** and this is retail prices, just to give you an idea about the size of the market and excluding Brazil, Natura has 0.6% of market share in those markets – that means that we still have a lot of room to grow in those markets in Latin America – and we put Colombia here because we are probably going to start the Colombian operation in the next two months, two or three months, so we already put Colombia here to have a better comparison.

And we announced that we are preparing to open new operations in Russia and US – and this is in a different scale, even though the US is not going to fit in the chart so we decreased the size of the bar, but just to share that we selected two very important countries and probably because I know that maybe one of the questions could be why Russia and US, if you don't mind I can share with you some thoughts about.

First of all we try to select markets where we have success companies doing business in direct selling; second, we selected relevant markets, we believe that different from the Latin American strategy – where we would like to be in the most part of the region – the next step should be let's select relevant markets where direct selling can do business; so Russia is a very important market, is growing a lot and direct selling companies are doing very well. And US, even though the participation of direct selling companies in the CFT market is lower than in Latin America and in Russia, for example, the size of the market is huge and we have good examples of direct selling companies doing business in the US. So that is why we selected both countries and they gave us different perspective of how can we increase the international presence in our company.

And the international process to Natura starts very small; we can start small, learn in the first period and then decide how fast we will like to expand, in which directions, so it is different from the retailing system where you must be relevant probably from the first day. In our case we can test the market before deciding to increase the expansion and is in this way that we are going to do this to new markets. And in fact this is the way that we are implementing the Mexican strategy, the Venezuelan, the Colombian strategy. We are not starting ... in all the country we select one city, a part of the city and we start learning.

The international expansion, the investments in the international operation these are only the investments to be done in the local operations. This year are going to be R\$ 48 million and mostly because in this year we have the Venezuelan and the Colombian operations comparing with the previous year. And talking about perspectives: we were talking before we started the presentation about the competitiveness of the Brazilian market and I think that even though a lot of people believe that something magic happened in the last quarter of last year in our market, to be really honest and transparent with you nothing really important happened; in fact something happened, it was our failure but ok, we said about this but nothing really different happened in the competitive arena last quarter.

What is happening in our market – and I think this is happening in all markets – is that the competition is getting tougher and tougher and not only the direct selling competition, the retailing competition as well - new companies, so this is happening in the last three, four years, not specific in 2006 or in the last quarter, and because of this even though I did not show you here some brand figures but I think that know that even though we are the preferred brand in the cosmetic industry in Brazil for the population and with almost the double - more than twice preferred than the second brand in Brazil – we believe that we must improve the efficiency of our

marketing actions and this must be done every day and we have to offer a better marketing mix, but we are not going to forget who we are and what is the value proposition of this company, so we are not going to follow one action of one competitor or from other because we really believe that we can offer a very differentiated and a very good value proposition for our customers. What we will do is to increase the efficiency of our marketing tools and actions.

As I said, now from January we have a focused team to manage the Brazilian operation, a stronger structure than we had in the past, specifically last year with part of our best executives. We freeze the administrative structure expenses because, as I said, we believe that we reached a size of this structure that allowed us to keep growing the next two years and we are increasing our efforts to searching for productivity gains inside the company in the main operational process.

We believe and we are working to reach the break-even point in the operations under consolidation, the three as a whole, in 2008. We decided to accelerate the investments in the Mexican operation because the results, even though the operation is small as you saw before, but the results are very good; we are enthusiastic about the Mexican opportunity so we decided to accelerate the investments. Start up the Colombian operation in 2007, as I said, and start new operations in Russia and US in 2008 and still prospect new markets with no one plan to open a new operation before 2009 certainly, but we are still prospecting new markets because we believe that maybe we can plan to start other new operations in the future.

And now thank you for your attention, we are ready to the Q&A session and please.

### **Q&A Session**

**Ms. Vivian Stuart:** Hi, Vivian Stuart of Capital. I was wondering if you could tell me a little bit more about the demonstration kit and how those work, how the representatives or consultants order those, are those sent to the consultants. Are those something new or just something you have been doing for years?

**Mr. Carlucci:** Yes, I can talk a little bit about. What changed – maybe this is the best issue to share with you – this year, the last year sorry, we developed promotional kits using the regular products. We decided to allow, to offer a higher quantity of those kits to avoid what we call virtual products, products that are developed only for these promotional campaigns and last year we didn't develop so much virtual, so we used mostly our regular products; products that could be used as a gift – of course that solar care line is not an example – so we used the fragrances, we used the body care, we used some oil products, some soaps, but we used the regular products. We didn't develop so new virtual products; this was one change that happened last year. And how did it work last year? We developed some kits, for example a fragrance and a deodorant with a box and the Natura

consultant had a discount if she bought all these kits; depending the kits 20%, 25%, 30%, depending on the kit. So that is the way it works and she received those three, two products in the box in the order with the regular products, the other regular products. And to give you more information, we offered, we sold – better to say then offer – almost twice those promotional kits comparing with 2005, so we reached one of our goals that was: let's offer more, because this is a period with a lot of stock-outs; because we are a preferred brand people like to give Natura gifts, so usually we have stock-outs during this period and one of the objectives was: let's occupy this space and, as I said, we didn't occupy the other space with the other regular products that are important. If you imagine the size that we already have, we must sell everything, not only promotional kits; we must sell other categories even though they could not be used for Christmas for example. I don't know if I answered?

**Question:** I have two questions; first, are any of your products organic?

**Mr. Carlucci:** If our ... sorry, could you...

**Question:** Are products are organic?

**Mr. Carlucci:** If our products are organic? No, no, our products are not organic. In the strict sense of organic, no. We have organic ingredients in our products, but a product to be considered organic must be – in our perception, in our vision – 100% organic with no ingredient else, so the answer is no. We have ingredients organic, but not...

**Question:** I have a question about the marketing strategy, how do you market that and in the international market?

**Mr. Carlucci:** How ... sorry?

**Question:** The marketing strategy, how do you market your products?

**Mr. Carlucci:** The marketing strategy of course that is a little bit different in Brazil because we are the preferred brand in Brazil in the cosmetic industry, so we can use some marketing tools to push a little bit more our products and in the international area we must build the brand more than we must do it in Brazil. So this is the most important difference between Brazil and in international. But as a whole, our marketing approach is to build the brand very propositional for our brand. A company that develops products based on the Brazilian and natural ingredients from the biodiversity extracted in a sustainable way, products that give you pleasure not only quantitative benefit, but pleasure, using a channel that sells through relationship – so we don't push our sales people, we don't have goals for the consultants; we are a moral level company. And the third part of the value proposition of the company that is very important, is the first one that we showed, that is the corporate attitude. We manage our brand ... our business sorry, more than the brand, based on the triple bottom line and trying to have relations of

quality with all the shareholders and this is a main issue for our company and we believe that all those three things together enhance the value proposition of the product. When you buy a Natura lipstick, a lipstick, you are not only buying a nice lipstick, a good lipstick, you are buying something that is using natural ingredients and someone is selling to you and we are sharing profits with the sales people and a company that is trying to do its business in a social and an environmental way, so this is our marketing approach. Of course, I can say about the tools, but I don't know if this is your question? This is your question about tools or about the general approach? About the general approach is we want to sell our essence, our way to do business and we believe that people during time are going to pay more for a lipstick for a company like ours, with our value proposition. This is our belief.

Talking about the tools we have some, a list, an important list of tools. The first one is the magazine, we call magazine because this is a catalog but we have – and you have examples in your table – we have some content here, so it is more or less like a mega log, this is a very important tool for us. We have 21-days promotional campaigns when we launch new products, we offer products with discounts and promotions and you have at the end of this catalog the promotions, this is a second important tool. We have, we invest in advertisement and probably Natura was one of the first companies in direct selling in the CFT to use advertising, but we use advertising not to sell a specific product or merchandise, we use advertisement to build the brand. Another important tool, is the training; you saw, we have low rates of turnover and this is because, of course, people can sell our products even though they are going to stop, so they have market to sell but because we invest a lot in training, in recognition, we really believe that first of all our consultants are customers and we try to establish a relationship with them like customers. If they like the products, if they know the products, they are going to sell. You know that a frequent question from our sales force sometimes: "we would like to have more sales training"; you know, the 10 lessons on how to sell, how to avoid the "no" and son on, and other "blah, blah, blah" and we avoid to teach our sales people to do something like this because we believe that they must sell because they believe, they like the products and this is the main effort in our training; is not how to sell, but how to be part of Natura. So the training and recognition are other marketing very powerful tools to us. And we have the last one, that is a long-term brand tool, that is the institutional part when we develop, for example, that plant we are going to launch, that new plant. This is very powerful for the institutional brand building and we invest some money in the institutional area. In a resumed way these are the main marketing tools for us. We have a new one that we are developing and probably we are going to open a new one that is the "Casa Natura". Casa Natura is a place where we invite our consultants to know the product, to receive training and is a place, it is a house – we call "Casa" Natura, sorry – it is a house where they can feel the product, they can have a coffee, they can be together, so this is another powerful tool we tested in Mexico in 2005 and last year we opened a new one in Brazil – the first one – in Campinas and we believe that this could be a very powerful tool for a company like ours that really believes that we want to have not only a commercial relationship with the consultants, but a personal relationship. So having a specific place to avoid sometimes hotels, churches – depending the cities

in our country you don't have nice places to organize a meeting, so the Casa Natura can be another very powerful marketing tool.

**Mr. Eduardo Mofarrej:** Eduardo Mofarrej **XXX 37.40**. Does it make sense to have this size of the magazine as the current one, since you have the sequence of 21 days and there is lot of focus on the promotion?

**Mr. Carlucci:** You know that this is not a science; it's difficult to answer your question in a precise way. Probably we could save in some cycles, some pages – and maybe this is going to be done – but we believe that this is probably the most important marketing tool and we had a very important discussion a few years ago about: is this only a sales tool, or is this a marketing tool? And I think that this question regards your question that we could have only a catalog here, only products, price and promotion and we could have probably 30% less pages. We believe that this is important not to sell today, but to keep building the brand for the future. So really could be, we could have 10, 12, 20 pages less but this is probably the material with more visual contact with our customers because we don't have stores so what the customers see about Natura? See a consultant and a consultant is a regular people; they don't wear uniforms, they are regular people; we don't have stores and so on, so this is the way that they be in contact with our company, so we invested more in a brand perspective. So answering, mainly we could save some pages depending the promotional campaigns if we have more or less launches, but we really believe that we should build the brand in every tool and probably we are going to save some pages but we are not going to use this as only a catalog, even though we are not going to share our vision and our concepts because when we develop a product I used to say that we have always very nice stories to tell to people and really we have. If you don't have space and if you don't share those stories with your sales people, you are going only to add new products and use a catalog. So probably you are right, we can save some pages but we want to maintain the mega log concept here.

**Question:** Do you have any idea of how you would like to be price-positioned in the US market, high and low and middle end? And also why not China, are you thinking about that market?

**Mr. Carlucci:** We are still studying in a more precise way the US market but I can answer you that we are going to be positioned like we are in Brazil; of course that not in nominal values but in relative values, so the brand positioning should be the same of Brazil, or similar of the Brazilian. Of course that here we have for example, just to mention, another totally different market approach because in Brazil we have a brand with 23% of market share and here in the US, I think that the biggest brand has 3%, if I am not wrong. So we have small but very important competitors in the brand perspective of the customer; to mention two, for example, Aveda Origins is another, so we have some local and very successful brands that we should take care when we are positioning our brand. But as a whole we want to keep the positioning of Brazil. And you asked me about China, of course that China is a very relevant, important and a lot of things we could discuss about China; but

why China is not already decided in the Natura perspective? Because we are still - if you take a look of our numbers - we are still a Brazilian, maybe Latin-American company and we are planning to start an operation in the US and Russia and US, even though it is a totally different market, it is in the America, so it is easier to us to imagine to start earlier to start an US operation than a China operation. And because we decided about Russia, we think that start two different cultures and business markets totally different from our market, should be irresponsible. So we decided about Russia because I don't know if you know, but only four months ago China allowed direct selling companies to do business; so we think that there is a huge way still to be done in China so we decided to select Russia, but China certainly is one of the main markets to still study, but for us - a Latin American company - China is another world, so we must learn. That is why we did not decide yet to start the China operation.

**Question:** I have two questions, one relates to the first question you had just now, which relates to pricing in different markets, you obviously price relative to local competition. Can you talk about what that means for whatever the relevance – the Ebitda margin, or gross margin - versus Brazil, if you could you give us a feel for the US and then your three other markets, potentially would be very helpful and I have a sort of follow-up question, if I may.

**Mr. Carlucci:** Ok. Let's split the gross margin from the Ebitda margin. In the gross margin we are going to have different perspectives depending on the market. In some markets we are going to have a better gross margin than we have in Brazil, in others we are going to have a lower gross margin and I am talking always in the short and medium term; in the long term, when we can have scale to produce locally, totally different, but in the beginning we are not planning to produce, just as an example, in the US. If everything goes well, probably in five, seven years we can plan but in the beginning we are going to export our products from Brazil. So because of the positioning of the brand and because they are produced in Brazil we are going to have a gross margin better than we have in Brazil – US for example. In Russia, the opposite: in Russia to send a product from Brazil to Russia you must spend a lot of money and there are taxes, huge taxes for imported products, so in Russia we are going to have a worst ... a lower margin than we have a Brazil. But in the average it should not vary lot because of the international perspective. You should see one market with a better one, the other one with a lower one. When we talk about the Ebitda margin is different, we need around four, five years depending on the market seeks to reach the break-even. So if we start a new operation this is going to affect negatively the Ebitda margin. That is why we mentioned that we are still going to work with a lot of effort to allow the Brazilian operation to generate cash, to keep generating cash - as you saw it as generating – to finance the international expansion, because it is going to impact the Ebitda margin.

**Question:** But is there anything inherent in the globalization of your business that would mean that Ebitda margins would be structured ... at maturity, once you have reached maturity in 10 years in the US, and another five years in your other Latin

American markets, would you expect that to be significantly different from where you are today, around 24%?

**Mr. Carlucci:** Significantly different no; we are far from this time, but let's imagine together. I think that probably the Ebitda margin in those countries could be a little bit lower than in Brazil because here in Brazil, as we saw, we have a huge market share, we are the preferred brand, so we can operate with better margins than probably we are going to be able to do it in the US; but I hope that I am wrong and we can have a very good story in the US. But I think that not so different from Brazil, but probably a little bit lower than Brazil.

**Question:** That is helpful. My second question is on innovation, you had on your slides the 225 products last year; can you give us a feel for what percentage of your revenue comes from products within a year or something and then by the same token how many products you withdraw from the market, how much of turnover is there of total SKUs and how much is innovational or driver revenue?

**Mr. Carlucci:** Ok thank you, this information is in the presentation but I skipped. We have what we call a total innovation index, that means the percentage of the sales of this year represented of the products launched in the last 24 months, so the two years before, and this percentage is around 75 - 55%; in 2005, 70 ... 65% if I am not wrong, of the revenue in 2005 were represented of products launched in the last two years. In 2006 dropped a little bit too 55%... sorry, 69 to 58% and mainly because - this decrease was due because we did not have effective, some effective products launched in 2005, so this affected this index in 2006 – It was not a matter of launches in 2006, but it was a failure of some launches in 2005, but it is a still high index in our view, so it is around, between 60 and 70%.

**Question:** And your total SKUs if you got 200 in 05 and 225 in 06 that is 400 or something over the two years that is roughly 60% of revenue and how many other products have you got that represented the other 40% of revenue, more or less?

**Mr. Carlucci:** I don't have this information, how many products represent the other part?

**Question:** Yes, your total number of SKUs.

**Mr. Carlucci:** We have around 600, 600 - 700 SKUs in total. I don't have the information here in my mind how many represent the last part, but this is the total index, this means that if I change the color of a lipstick, it's here; I change the packaging – it was blue now it is green, only the package, the inside of the product is the same – it's here; so we launched 200 new products and probably we, how can I say ... *discontinued*, we take off 130 products, just I don't have the precise number but probably like that, because you have the new ... the product is almost the same but you have a new package, sometimes you have a new flavor, sometimes you have a new formula, but it is almost the same product and so we can keep the customer satisfied because we are not changing so much.

**Ms. Andrea:** Hi Alessandro, I just wanted – this is Andrea from JP Morgan – in general from the percentage you are saying the investments into reducing the lead time, if you can give us a sense of how much that will be reduced and if you have an idea of increase in productivity and also in terms of the percentage of sales that comes from outside of Rio de Janeiro and Sao Paulo – because you are still very focused – if there is any other improvement as you try to get more cash flow to finance your international operations, if there is any improvement on that? Thank you.

**Mr. Carlucci:** The first one is how are we going to reach the break-even in the new operations? Could you repeat? I don't know if I understood...

**Ms. Andrea:** Sorry, the lead time for... like you increased investments in this new distribution center and trying to have third parties also produce some of your products, so if you can touch on increase in productivity in Brazil?

**Mr. Carlucci:** Sorry, now I understood. We actually believe that with the decentralization of the distribution centers decreasing the lead-time we can have some increase in our productivity, in the Natura consultant productivity, because they can sell faster and they can sell more. We really believe that this could be reached in ...some numbers? No, no because it is a guess if I give you, no. Let me wait a little bit, we started the new one, 2 months ago and maybe we can have some figures to share with you in maybe 6 months but today it is early, even though because it was the first decentralized distribution center so in the beginning we are not having today gains in the lead time because we are learning how to operate decentralized; probably those gains we are going to have in 2 or 3 months and then we must wait to see the impact in the productivity, but I don't know, I could not give you a number that we expect. We expect to sum more, but I don't know how much.

**Ms. Andrea:** And the sales were still very focused in 2006 very in Sao Paulo and Rio?

**Mr. Carlucci:** No, I don't know why you have this perception because we are in Brazil in almost all the cities in Brazil - 97% of penetration in all the cities in Brazil – and Sao Paulo and Rio are important markets, but they are not the most important ones. To be honest we don't have one important market; with 23% of market share we must be everywhere in Brazil so what I can share with you, we don't split regional numbers because of a strategic issue but I can share with you that especially Rio and Sao Paulo are the toughest markets because is where we have the competition not from direct selling, but from the retailing, the other companies, and I think that your question is good just to reinforce that our competition – because of our marketing and our brand approach - came not only from the direct selling business, but came from the retailing business, too. I didn't share with you today, but this is information that we have in our presentations; we have a relevant

market share in the toiletries market and this is not common to be seen in a direct selling company. Usually direct selling companies they have market share in the beauty care, in the beauty – that means cosmetics, fragrances and makeup – and we have a relevant market share in Brazil in 12% in the soap area, in the shampoo area, in the sun-care area, that are mostly dominated by the retail and because we are a preferred brand, people like our products, in effect not because this; we have good products – I don't know if you had the opportunity to try – but we have really good soaps, really good shampoos using the Brazilian ingredients and so on, so the Rio – going back to your question – Rio and Sao Paulo are the toughest markets to us, are important but the northeast of Brazil is very important, the south of Brazil is another very important region and then you have the central area and the north area probably less important than those others.

**Ms. Andrea:** Maybe trying to rephrase, in terms of the north and northeast, having this distribution center will help you reduce the lead-time? I think the question ... because Sao Paulo you have a 24-hour lead-time and in some of the regions you have bigger lead-time. So that is going to help you or that is something that we should be looking at in the future, not in 2007?

**Mr. Carlucci:** We should expect some increase. I don't know if in the short term, again, we are learning how to do it with the decentralized distribution center but in the medium term we should wait an increase in productivity especially in the northeast area. Just to give you ... they are giving me, reminding me some information. For example in Sao Paulo where we have 24-hours lead time – 24, 48 hours – we have almost an average of 2 orders per cycle, per consultant; in the northeast area we have 1.2, 1.3, 1.1, depending the cycle. That doesn't mean that if I have decentralized I am going to have 2, but that means that we have opportunity to sell more because we decreased the lead-time. So we must expect some change, even though it is better to have only one centralized and to manage all our distribution issues from Sao Paulo.

**Ms. Andrea:** That is great, thank you very much.

**Mr. Carlucci:** Thank you.

**Question:** You mentioned what happened with the kits, and you also mentioned with surprise that people keep asking you about fourth quarter; so I'm not trying to argue, trying to make a comment **XXX (57.41)**, but it is not clear to me why the kits couldn't linger as a prompt into the first quarter and given that you are very convinced that the fourth quarter were very prompt that were specific to your promotional strategy, should we then expect that as you are in the first quarter, you are almost done in the first quarter, that we should see your top line trends and more normalized gross margins revert?

**Mr. Carlucci:** Good question. We have some specific issues in the fourth quarter, but we have some issues that we are going to still see in the first one, which are: first one is the increasing of the administrative expenses; even though we fixed the

administrative expenses, they are going to be deleted gradually during the year, so in the first quarter we are going to see those expenses in a higher - in a peak, if I could say like this - as we saw in the fourth quarter. And in the first semester, and if you saw the last quarter of 2006, we had some increase in the costs because of investments in our plants to produce internationally and to extend some lines in our production and you are going to see those costs in the first quarter and probably so on and they are too going to be deleted during the year. So when we share our goal for this year to maintain the Ebitda margin around 23.7, almost the same Ebitda margin of the last year, we are going to reach this goal gradually during the year. So some effects we are not going to see in the first quarter, others we are going to see and gradually you are going to see that we are going to have the dilution of some expenses and some costs in the industry.

**Question:** Ok, but the issues in terms of revenue growth and the gross margin, those should start to normalize in the first quarter?

**Mr. Carlucci:** The gross margin probably no, gross margin we are going to still have an impact of some costs in the industry, in the plants, in the industry process. In the revenues the first quarter is totally different from the last quarter, so unfortunately I can't give you numbers but the effect in the sales that we saw in the last quarter we are not going to see in the first one, so I think that we are not, I hope that we are not going to see.

**Question:** When you showed the market share there was a lot of interesting data if you sort of zoom in by product but on the other hand your market share in fragrances is pretty high. So if you think about your business, you think about the next three or five years, do you feel like there are any constraints be it sharing fragrances, productivity per consultant, it seems that you can find that consultants, in terms of the number of consultants, but growing productivity? Are you feeling that you're hanging saturation from some of those variables?

**Mr. Carlucci:** Good question. I think that we still have space to increase our market share in the core beauty; probably not so much in fragrances, even though I am used to say that "let's try to grow in the other ones" and every year we grow in the fragrance area, people like our fragrances, so – and this is good, this is not bad – but we still have more space to grow in the other categories in the core beauty. So if we do our marketing well, I think that we can have some gains of productivity because of the skin care, the make up categories – we can grow. And in the others, even though the direct selling is not so relevant for shampoos, soaps and the toiletries. Even though I think that really we have space to grow, I think that is not obvious to have the same gains in productivity that we had in the last two or three years; so we probably can grow, but in lower, in a lower rate than we grew last ... in 2005 and 2004. And mostly not because we are saturating, because there is still space to have new consultants; but it is difficult to imagine that you are going to still grow the productivity even if you have 150 thousand new ones coming; with a low turnover, that means in our case - because we know, and I think that this is not only a Natura effect, this is related to our industry - a new consultant has, I

don't know, probably five times less productive than a 10 year-old consultant. So when you have a lot of new people coming, in the average they decrease your average of productivity, that means if you are stable, that the older one is selling more and only because a mixed effect you have the new one selling less, so you have in the average the same number and this is good. Expect a relevant growth I think that is probably difficult to expect for the next years, even though ... unless we could start to sell products in categories that we are not today, but in these categories think that we should expect lower increases in the productivity.

**Question:** Maybe my last question goes to that point but what do your consultants ask of you? I mean, clearly one of the issues was better lead times in certain parts of Brazil, but what else are your consultants asking you for?

**Mr. Carlucci:** They ask us ... I think that average things in direct selling, they ask us more time to pay, more credit, more promotions, lower prices, they ask us ... unfortunately I don't know, I can't answer you with as much answer, because they ask more price ... less price sorry, more time to pay, more promotions but they don't ask us something really specific, especially the northeast consultants they ask us less lead time or more time to pay, because when they receive the order sometimes they have only 12, 13 days to pay, so they need some capital to invest and with the decentralization of the distribution probably we are going to reach their needs. But we don't have a specific question about Natura consultants.

**Mr. Robert Ford:** Hi Alessandro, Bob Ford of Merrill. I had a question with respect to the current operating environment with respect to the growth in the categories as a whole, advertising trends, new marketing entrance, pricing, and promotions as you see it.

**Mr. Carlucci:** My perspective about the Brazilian market? About those things that you are talking about? Brazilian specific? Yes. Bob I think that I don't see a specific and a relevant movement when we talk isolated in the issues that you are mentioning. I don't see a trend to lower prices - a huge trend - I don't see a huge trend on advertising. Yes, I see some movement from competitors and one is going to one direction, and other one is the other one. We were talking before the lunch that there are a lot of new competitors copying our company, using some expressions; but this is I think, that is an effect of a more competitive market, so I don't see a specific trend to answer you. I think that we are going to have competitors investing more in advertising; I think that we are going to have competitors trying to offer the same quality of Natura with lower prices, but this is really nothing new. Maybe they are increasing their efforts but I don't see a change in the competitive environment, significantly. What we can see it is an increase in competition in the last three, four years and especially ... of course Natura is one of the most affected about this competition because we increased a lot our market share, so people look to us when they start to define some strategies, but I don't see a specific trend.

**Mr. Ford:** XXX (07.13) XXX specifically, what do you see in terms of new category opportunities?

**Mr. Carlucci:** I think that we have some opportunities. As we mentioned one year or something ago, we are studying - and only studying, only studying – but we are studying the food category. We believe that maybe there is some space, nutritional products – when I say food the answer is specific on nutritional – we think that maybe there is some opportunity for our brand in Brazil. But we are studying, we are going to have a very small pilot in Brazil to learn and I personally believe that this could help us to increase productivity, to increase our size in Brazil, even though it is only a dream and it is very important to share with you that it is a dream, because we didn't start the pilot so everything can happen. Of course that we are going to do our best to have good results and I personally, and it is only this believe that we can have it, but we must wait probably one year, one year and a half to learn. And this is a dream, and important to share to you, because seven years ago, six years ago, we entered in this market – today we know that totally wrong at that time – but it was a great disaster, so even though personally I really believe that could be a new engine for the future growth in Brazil we had a lot of problems in the past, so we must learn. But this is an example, if I understood your question this is an example of how can we increase our size in Brazil; not only increasing our market share in the actual categories or with the market growth that is important in Brazil in the cosmetic area. And we have, you know, small opportunities but this is a day-by-day activity, we have some small opportunities in some price points, in some categories, in some niches but this is a day-by-day market, this is not something that is a breakthrough. Maybe the supplements or the nutritional could be, but we are far from this.

**Question:** Hi, if you could just give us an update please on the Orientadora program and you talked just now about one to one and a half year of learning from the nutritional side, it seems that you have at least that long I would imagine in the Orientadora, if you could give us on the status?

**Mr. Carlucci:** Yes, I can update you but unfortunately with not so much information because I think that we are going to be prepared to share information about the results of this project around the middle of this year. We started, you are right, we started, if I am not wrong, 2004 I think, and we are now, we have two years and a half with the project and in the middle of this project - eight months ago - we decided to implement some initiatives, some new things, some new issues on this project to enhance the power of the CNO. Just to share with everybody, CNO is another person in our sales chain, an independent one, too – is not an employee – that could help us to manage the relationship between the sales promoter and the Natura consultants. Today we have a rate of 600 sales... Natura consultants per sales promoter, and we believe that this is not a good rate to establish relationships of quality. So the Orientadora is a level between the sales promoter and the Natura consultants and we believe that probably in four, five months we are going to have enough results to decide what we are going to do; but probably I think that ... I still don't know the real impact at the end, statistically I don't know the

real impact of the project but I am almost sure that we are going to implement something because the ratio between the number of consultants and sales promoters is not good for a company like us, that really would like to have a personal relationship with people. But sorry, I don't have enough information but only to say that we are happy with the project, but we didn't decide when and how we are going to implement in the other parts of Brazil.

**Question:** Ok thanks and the second question is more the Casa Natura concept you have one, I thought you were going to have another one relatively soon in Brazil; is that still on track and if so how aggressive, how comfortable do you feel that the concept that seems to have given you confidence for Mexico is applicable to Brazil and will be rolled out more aggressively?

**Mr. Carlucci:** It is on track, we are probably going to have 3, 2 or 3 more this year and we really believe that this is, as we were mentioning, the Casa Natura could be a very new marketing and important tool for our brand, so it is on track and we are going to implement, probably 2 or 3 this year.

**Question:** Can you talk about the earnings opportunities for new consultants and given the thought about retail competition and so on, how competitive that is these days versus other employment opportunities?

**Mr. Carlucci:** In an individual perspective as an activity you are talking about? What can I ... I can give you some examples, let me try to answer your question. The first one is the average income of – the average of course and you have a lot of people selling less and a lot of people selling more - but the average income of a Natura consultant in Brazil is almost the minimum salary in Brazil, so that means that it is attractive because it is an opportunity to have some money, it's not so much – nobody is going to be a millionaire being a Natura consultant and this is not our proposal – but the average income is relevant from a Brazilian perspective, the Brazilian society and – it's a guess – but probably for four hours; if they sell three products per day, excluding the weekends, they can have the minimum salary. So you don't need more probably than three or four hours per day or maybe less to sell three products. And the unemployment rate in Brazil unfortunately is high and I don't see a huge change for the future in the short term, so I think that the direct selling will be a great opportunity, not only for unemployed people, but for people who would like to enhance their salaries or people that want to be part of something. You know that in our company we don't split these numbers, but it is really interesting that we have a lot of highly educated persons in our channel: lawyers, professors and why they are doing this? Is not because of the money; of course that everybody likes to have some extra money, but they are doing something, they are participating, they like our brand; sometimes is only because they want to be near of the company. So all the effort that I was trying to mention to you that we do to establish relationships, quality relationships, is because we know that the decision, the first decision to start a direct selling enterprise is probably the economic one, but this is not the most important to stay in the industry and we have a lot of people that don't need the earnings, but they like to be part of Natura,

they like to invite their friends for a beauty party or something like this and they like the brand, so they buy, they consume, they buy for the family, they sell to their friends. Because our brand is a preferred brand, it is nice to be a Natura consultant too, it is not a fancy thing or a chic think, but it is nice because it is a good company, people like our brand, so we have, of course, a lot of people that want to have only the earnings but we have a lot of people who want to be part of the community Natura. When I mentioned quickly some initiatives in the social and the environmental aspect, they are important not only to support the value proposition, but also to motivate people that are in our business not only because of the earnings, but because they want to participate in something else so they sometimes they want to help us with the “Crer para Ver” that is an educational program; we have a program where we make - the Natura consultants, they make up some people in the hospitals; so there are a lot of social and environmental programs that people like to participate. So we have one of the attractions of our business is the fact that they can earn the minimum salary or much more if they work more – there are people that they have good earnings, really good earnings – but we have people that want only to participate.

**Question:** I wanted to ask a question about international; I understand your point that the way in which you are investing internationally means you can sure make marginal decisions before you put a lot of capital in any market, and I understand that you guys have a lot of incoming capital giving a financial strength; but I guess what is not infinite, is your time, top managers, the talent, you obviously are pulling people back to Brazil to make sure Brazil is doing well so I don't understand, I don't understand why you are going into Russia, and I don't know enough about Russia to probably say that say that, but it is intuitive to me that you are doing well in Mexico, you like what you see, is a market that has a lot of good characteristics **XXX (18.45)** but why put your effort into Russia, which is a market where you constantly may or may not translate and why so many markets at once? Why not just **XXX (18.55)** Mexico and push Russia out to 2010 and make sure, and why do you need so many markets so fast?

**Mr. Carlucci:** Ok, it is a good question. I don't know if it is so fast, of course that may be in a foreigners' perspective could be fast. We have two issues probably to mention in this question: the first one is that we believe that there is a window of opportunity to our brand – and when I mention our brand I mention all the way that we manage the business – to start new markets. Companies like Natura, worried about the social issues, environmental issues, using natural ingredients, are popping up every time. I don't want to seem arrogant, but there are a lot of concepts that Natura started; I am going to mention only one that started a lot of years ago that now big companies are using. I can't say that they are copying us and maybe they are not, the fact is we thought about those things 15 years ago and now there are huge companies talking about this and I could mention what we call “the truly beauty woman”. We launched in 1994 a skin-care line with the age of the customer in the package, saying that everybody had the right to be beauty and we are against the stereotypes because they are like a prison to our bodies and to our minds. And this is a thought in our essence, is not a product marketing line, is

one of our beliefs, we didn't have time to ... we don't use models; we don't use personalities, because we don't believe that this is the way to be happy, to build a better world. Now there are other companies using practically the same concept, so we really believe that there is a – this is just one example – we really believe that there is a window of opportunity to start new markets in the next five or maybe 10 years. After this time probably, we are going to see, we could see Natura around those markets.

So we would like to, in a selective way – not big bang – but selecting some important markets, as I said, taking care of the size and taking care of the fact that they can ... you can have a direct selling business you would like to start new operations in the next five or 10 years. So this is the first issue. The second is that we are trying to develop a new way to enter in one market and Russia is an example. We hired a person, a Russian guy, two years ago and he stays two years in Brazil with us learning. This is a faster way to start a Russian operation without so dedication of Brazilian management, because you are training people from this new market two or three years before. So we are trying a lot to avoid this management dedication, trying to – not to hire, but to have local people two or three years before. And another thing that we did, and this is one of the reasons that the administrative expenses rise the last year, is that we developed a structure dedicated to the Brazilian market, huge comparing with the previous year. We have a good structure to take care of Brazil to allow me for example, just an example, to be here with you today and the last weekend and Sunday and Monday I was in France; so a part of our people can start to help the international process.

So with those two perspectives: one we really believe that we have a window of opportunity; the second, we are trying to be organized in a way to maintain the focus in Brazil and to start to help local guys that we would like to hire ... I don't know if hire is the right word, but to hire in advance, and that is why Russia ... because Russia we have this guy and this is really important, and Russia is a very good market for direct selling companies and it is growing a lot.

So this is the way that we would like to do it and we can invest in Mexico, there is something in the direct selling business that if you decide, for example: let's stop the US and Russian approach and let's focus only in Mexico. There is a rate to grow in Mexico, I can't with more US\$ 50 million to increase the growth rate in Mexico because in the direct selling you need to invite, to recruit the first consultant, the second, so it is different from the retailing when you can put a huge advertisement campaign, a deal with Wal-Mart or another distributor and occupy a very important part of the country with a huge penetration. In direct selling business you have a specific speed. So we are going to grow in Mexico independently of the decisions of Russia and the US.

**Question:** Can you give some examples of adapting to local markets? Because you said in international markets, you go, you start out and...It would be fun to hear some examples, so maybe different products, different marketing positioning, different types of people, strategies etc.

And then the Orientadora is that going to be an employee of the company or is that going to be somebody who is commission-based and will they rise through the sale ranks or will they drop down through the company or I don't know how that...

**Mr. Carlucci:** The CNO is not going to be an employee, they are going to be independent contractors; they are not going to be employees they are going to receive bonus on their own sales and on the size of the group that they manage and they are not...

**Question:** Is it fair to call that multilevel then?

**Mr. Carlucci:** No, it is not a multilevel; no it is far from a multilevel because they are going to win probably ... not more, but almost the same earnings on the individual sales than the group's sales, so it is not a multilevel approach. It is, how can I say, it is a kind of spice of multilevel in our model but we could not be called a multilevel system. Yes, we are going to pay the commission to the Orientadora and not the field and the second part or the first to be ... is the differentiation in the international market – if I understood well your question. We have some differentiations, for example in France, and we are going to use it, as I said we are learning so much in France – in France we started our operation not with the whole portfolio we have today, 600 SKUs in Brazil, and we started the French operation with 100 and we started the direct selling pilot, and is a pilot, with, compared to Brazil, a huge productivity even if we have six times less SKUs. So one of the things that we are going to be different in the international approach is that we are going to start with a smaller portfolio focused on some lines to build the brand. This is the first one. The second one is that some we are, for example, in France we have what we call "atelier do bem estar bem", means a meeting where they Natura consultants can show our products. It is some, how can I say, some spice of the party plan to help us to build the brand. We are not going to recruit in this meeting, that is why it is not a party plan approach, but it is something from the party plan experience that we are using in France and we are facing some good results.

There are... for example in France we developed 40 new and specific products for France, so that are some specific marketing approaches in the countries and probably here in the US we are going to develop some specific products, too that the market needs and I could say that we are going to have some variations but we are using the direct selling, we are using the mega log, we are using the concept, the Internet. Of course that here in the US the Internet is going to be a very powerful tool for us. For example in Brazil, we don't have of course the penetration, the Internet penetration you have here in the US, but nowadays 38%, almost 40% of our orders came from Internet in Brazil; this is an amazing number when you think about Brazil, and of course that could be a higher percentage if the Internet penetration in Brazil could be higher, too. Here in the US that you have a huge penetration we can use the Internet as a very powerful tool to enhance the relationship between the Natura consultant and us and the relation between the Natura consultant and their customers, and we have almost the tools to do it because they are already done in Brazil and we can apply better here and develop something specific. In Internet for example USA can be a very good lab to develop new things. So there are some specific issues in the international approach.

**Question:** **XXX (30.30)** multilevel?

**Mr. Carlucci:** No, no. A typical multilevel no, a typical multilevel no.

**Question:** You just mentioned a while ago that you saw the window of opportunity for international expansion would be five, next five to 10 years and I wanted to ask you that, assuming that you are going to attack this window opportunity that you see, how fast you see your Capex growing due to this expansion in the short, medium and long term, if at all?

**Mr. Carlucci:** Ok, Good question. The Capex is not related with the international expansion, we don't need so much Capex to be international. The Capex is more related with the size of the company and because today 96% of our revenues are done in Brazil, it is more related with the Brazilian expansion than with the international one. The international approach it is a slow approach with low, low Capex related, so we are not going to see an increase in Capex because of the international process.

No, no, I don't have any strong reasons to believe that we are going to have different Capex that we are having today. Maybe one year or the other you can have a change, but no; we could use the size of Capex that we are having now. Of course that if for example in 10 years again - we are talking about the future – in 10 years if we decide to build a plant in the US because the US operation is doing so well, so maybe you can see in this specific year an increase in the Capex, but otherwise no.

**Question:** Just on the same question, it seems the Capex levels are significantly above your depreciation levels; can you just maybe give us a sense in 07, 08, what are you spending on? A break down the Capex?

**Mr. Carlucci:** We don't give guidance to the Capex but I can split. The Capex, the first part is to finance the equipment for the industry – molds and machines and the distribution facilities to operate our logistics; this is probably the most important part of our Capex. A second part is the IT investment. We really believe that we need more IT investment to be more international and to have better relationship with our sales force and this is the most important.

Yes, this year we have the R&D center that I mentioned, but this year and the next year it is a specific investment in R&D and in the R&D facility but the most important part of the Capex are the IT and the industrial investments to support the physical growth of the company. And as I said I don't have strong reasons to believe that we are going to have changes in the future for Capex. If you see in the past we had a very low Capex before 2004 and this was because we moved to the new facility in 2001 and in the new facility we had a lot of excess capacity, thank you, and we occupied this excess capacity in two years fortunately, because we grew a lot, so that is why when we see two or three years ago you see a lower Capex; but now we are facing more or less the Capex that we should have for the next years.

**Question:** Hi, assuming that there is going to be some kind of slowdown in overall

market do you think that the retail channel and the direct selling channel might respond a little bit differently? If there was a slowdown?

**Mr. Carlucci:** In Brazil? Yes, of course. I am a fan of direct selling so I am going to answer your question trying to forget this, but I think that when you have a slowdown... we have something different from the retailing: we have people that look for the customer; they want to sell, they want to have earnings, so they look for a new customer while the retailing must wait for the customer. So I think that we could be benefited ... benefit is not the best word, but I think that it could be worse for the retailing than for the direct selling if there is some slowdown in the growth of our market in Brazil. But I don't have a strong reason to believe that in a medium perspective we are going to have a change in the growth of our market. I hope, and probably doing our business well in Brazil we can help in a small way but we can help, that maybe in the next five years, Brazil could start a more frequent series of growth in the GDP and this could change really a lot, the power of the customer because we could have 20, 30 new million customers in the market because today we can reach, not only Natura, nobody can reach them. So if Brazil starts sequence of four or five years of 4 or 5% of growth we can have a huge change in the market, not only for Natura of course, but as the preferred brand and with a channel that grows by itself we don't need huge investments, we don't need local distributors, we grow by ourselves, we could benefited from this growth. But this is maybe a dream and an effort to be done but even though I don't believe that we are going to see a slowdown, a real slowdown in the market growth.

Is there any other question? It will be a pleasure. If you don't have today, we are always available to answer and to talk about Natura and I would like to thank you again for your time and for me it is a pleasure to meet you personally and I hope that we can follow together this story about a company that really wants to generate benefits for everybody involved with our business, so thank you, you are a part – an important part – of the shareholders of Natura and I would like to say thank you for your presence and have a nice day and have a nice week for you.

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