

**Local Conference Call**  
**Natura Int'l – (30067)**  
**1Q07 Earnings Presentation**  
April 27, 2007

**Begins at 10.03”**

**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 (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press \* two.

Our first question comes from Lore Serra from Morgan Stanley.

**Ms. Lore Serra:** Good morning. I guess I have a couple. Let me just... if I could start with making sure I understand the market growth and you were helpful in giving us some off the data in terms of the first two months of the year. Both of these growth rates of 6.5% in the cosmetics and fragrances' market and in personal hygiene, seem low both relative to what the growth was last year as well as the growth you had in the quarter. So I guess I am wondering, was there something about in March that was a much different quarter and could you help us understand if you have a perspective, I know you don't like to give growth rates forecasts for the year but... help us put those 6% and 10% nominal growth rates into perspective - that would be helpful?

**Mr. Alessandro Carlucci:** Hi Lore, It's Alessandro speaking. How are you?

**Ms. Serra:** I'm fine, thanks.

**Mr. Carlucci:** Even though you are right that the growth of our CFT market was lower than the previous year, in 2006, the market in the first two months grew less than the average of the year. The growth was 9% and the average of the year was around 13/14, so I think we should not take this specific growth in these first two months as a pattern to the rest of the year. So I think it is too early to conclude something about the market growth for this year.

**Ms. Serra:** I understood and it is helpful and I guess and you think about March and April do you perceive that the growth has been a bit stronger in the last few months or the run rate is a bit stronger than what you are quoting here in January and February?

**Mr. Carlucci:** Yes, yes. We don't have the data but I think we are going to see a better growth in the next months of the year.

**Ms. Serra:** Ok. And just switching gears to call for a second, I understand that you were successful in reducing the discounting or the promotions in the quarter because we saw nice increase in your gross margin. I guess I am trying to understand why are we still seeing a couple hundred bases points decrease in the gross margin and should that level out as you stabilize some of the revenue trends?

**Mr. Davi Uba:** Lore, this is Davi speaking. We, actually in this first quarter, we lost 170 bases points as compared with the first quarter of last year and 150 came from higher promotions fees quarter as compared to the last year and twenty, only twenty bases points as a net cost effect in this quarter. For the costs we expect it to disappear as we move ahead in the year and for the discounts, as Alessandro mentioned before, we have a very precise plan for changing the marketing stimulus during the year from discounts to other marketing tools, more related to product, more promotions to the consultants, campaigns with the consultants. Anyway, a large set of marketing tools that will substitute the price discounts along the year. What we expect is to see a full impact of those changes in the second half of the year.

**Ms. Serra:** Ok, thanks very much.

**Operator:** The next question comes from Margaret Kalvar from Harding Loevner.

**Ms. Margaret Kalvar:** Hi, good morning. Further on the discounts, was this still a hold over of the problem in the 4<sup>th</sup> quarter, in other words, were there still kits that were out there, and the sale of them hitting first quarter contributed to the higher discounting percentage or were you finding that you had to maintain discounts on new sales in order to keep your market share growing? That's my first question. And then I have a question, another follow-on.

**Mr. Carlucci:** Hi Margaret, it's Alessandro, how are you?

**Ms. Kalvar:** Fine thank you.

**Mr. Carlucci:** What we saw in this first quarter were not related with kits from the last quarter of 2006. While we are having more efficiency in the marketing tools and this efficiency we are going to have gradually during the year, in this first quarter, we had more price promotions and we are going to see a decrease during the year on this kind of effort, because we are going to have better marketing tools, more efficient, so we are not going to use as we used in the first quarter. But this is going to happen gradually during the year. But it is not related with kits or something that came from the last quarter of 2006.

**Ms. Kalvar:** Would you characterize the first quarter then, having a more intense use of promotional activity in terms of price than you have had in prior quarters? Because it seems like you have never really had to... intensively promote on price before.

**Mr. Carlucci:** Yes, it is a little bit different when you compare this quarter, the first quarter of this year, with the first quarter of last year. But when you compare with the second part of 2006, and especially the last quarter, we believe that we are seeing an evolution and as I said we want to maintain this evolution, decreasing the impact of those price promotions during the next quarters of this year.

**Ms. Kalvar:** Ok, and then my other question was on the innovation index, which seems to be continuing to decline. Is that expected to continue through the year or is this that you have more products coming out that will start hitting in the second quarter?

**Mr. Carlucci:** The decreasing that you see on the percentage of total innovation is based on the fact that we had some products launched in 2005, failed. So, they are still on the numbers, on the index and we are going to see these effects probably during the next one or two quarters, but this impact is related with launches in 2005; for this year we have a lot of launches, in 2006 we had important launches with success, so this is not a relevant aspect; it is only related with those failures in 2005. But you are going to still see this index lower than the previous year for one or two quarters, probably. But we have very innovative products that are going to be launched in this year. And as you can see the number of new launches in this first quarter was significantly higher than the previous period of last year. Thirty new products compared with five in the first quarter of 2006.

**Ms. Kalvar:** And then, just back to this price promotion. Have you been able to raise prices as you often do when the first quarter is about to begin to show up or have you had to hold back on increases?

**Mr. Carlucci:** Margaret, we usually increase our price between March and April just because of the Brazilian inflation and this year we did, around five 5%, increase our prices, so we did... we raised our prices this year as we did the other previous year and we do this increase around the same period, between March and April.

**Ms. Kalvar:** Ok, thanks.

**Mr. Carlucci:** You're welcome.

**Operator:** Ladies and gentlemen, as a reminder, if you would like to pose a question, please press star (\*) (1). Again, to pose a question, please press star 1.

**Operator:** The next question is from Celso Sanchez from Citigroup.

**Mr. Celso Sanchez:** Hi, good morning. I apologize this is already answered; I just hopped on the call a couple of minutes ago. Could you give us a update on your thoughts, if you could speak a bit about this New York as a launch of the C&O program...perhaps with respect that you had said you might share some

conclusions with us, I guess was in June or July, is that still a timeframe you think you could share them and more important and generally speaking should we be thinking about this to the extent that it is implemented as a recruitment tool or as a productivity tool, you know, which of the two would it lean more towards ultimately in terms of the benefits it might bring, thanks very much.

**Mr. Carlucci:** Hi Celso, how are you? It's Alessandro speaking. Celso, we still...we are still keeping the C&O project as a pilot in a specific region in Brazil and we don't have a conclusion about the project to share with you, when and how we are going to roll out to other regions of Brazil. I hope that we could be able to decide something in probably two or three months, but because it is a pilot I can't be sure that we are going to have a conclusion in this period. So, I can't share with you so many things about the C&O. But I can say that this is a project that is probably going to enhance more the recruiting and the relation between Natura and their consultants than the productivity. So I should not expect a change in the productivity because we implement, if we implement the project. Instead of this, in the recruiting and the relationship, the quality of the relationship, yes, we would like to see some increasing, but, as I mentioned before, we don't have conclusions so this is only a hypothesis, this does not represent the fact that we are facing on the project. Maybe, again, we could be able to share with you, in some months, some conclusions and then decide how we are going to implement and if we are going to implement the projects in other regions.

**Operator:** The next question comes from Tatiana Feldman with Morgan Stanley.

**Ms. Tatiana Feldman:** Hi Alessandro, how are you guys? Just a question as far as the gross margin and the change in the marketing tools, we saw selling expenses jump to 35.3% of sales in the quarter, which seems to be the highest level we have seen in a while. I am just wondering if you also got a 150 bases points hit to your gross margin through the promotional activity, I mean, is this a new level of selling expenses, is this how we should think about it for the rest of the year or do we start to see a transition between gross margins and maybe that is even higher as we go forward?

**Mr. Carlucci:** Just one second, Tatiana.

**Mr. Davi Uba:** Tatiana, this is Davi speaking. We had an increase in sales expenses in this first quarter due mainly to higher marketing expenses. In part of these higher marketing expenses were associated with our catalog that we are reviewing, we are redesigning that catalog and you will see a more efficient catalog in the coming months and with a lower cost. So probably, you will see a smaller increase in the sales expenses for the next quarters, but at the same time we also have some larger expenses coming from our higher investment in the international expansions and those effects should remain for the rest of the year.

**Ms. Feldman:** But you think 35% as a net number is fair or you think we lose the catalog affect and the expansion is already at a certain round?

**Mr. Uba:** Our sales expenses have a strong sazonality in they do not have to repeat itself from year to year because a large part of those expenses are discretionary expenses related to promotion, advertisement, investment and communication with our consultants. What we see here is 35% it should not be considered as a percentage for the total year, it is higher; 35% is higher than the total expenses for the total year.

**Ms. Feldman:** Great, understood. Thank you so much.

**Operator:** Ladies and Gentlemen again, if you would like to pose a question please press \* 1. Once again, to pose a question please press \* 1.

**Operator:** Our next question comes from Margaret Kalvar, at Harding Loevner.

**Ms. Margaret Kalvar:** Yes, hi. It's just another question on the price promotion issue. If you are not going... if you are going to be using other marketing tools and more heavily during the balance of the year, could you give a little detail about what they might be? And also again if you could discuss the competitive environment and whether that... how much that has been a factor in your needing to go to a price promotion strategy?

**Mr. Carlucci:** Margaret it's Alessandro speaking. First of all, the promotional price increasing was more a deviation than a strategy. So, this is not totally related with the competitive environment. So, even though, we really believe that we are going to have a more competitive environment for the next year, and 2008 is going to be worse. So, our marketing is getting more and more competitive every year and every day probably. The efficiency in the new and the actual marketing tools are going to be based on four or five main issues, and I will try to share with you some thoughts, even though I can't give you the precise information because this is a strategic issue.

**Ms. Kalvar:** Ok.

**Mr. Carlucci:** As David mentioned we are going to decrease the cost of our magazine at the same time that our magazine is going to be more effective to show the value proposal, the Natura value proposal to the customer. For example, we are going to increase the training area and the events with our Natura consultants. And this is not new. We are only going to increase and to do better events and better training sessions than we did last year. And of course we are looking for some new marketing tools to implement during this year. And to finalize we are preparing some important launches, products for this year to support our growth and to support our competitiveness in some categories that we operate. So without giving so much and precise information this is a general idea of how we are going to implement and to have more efficiency in our marketing area.

**Ms. Kalvar:** Ok, thanks.

**Mr. Carlucci:** No, thank you.

**Operator:** 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. Alessandro Carlucci:** I would like to thank your participation, your partnership with Natura and invite all of you for our next conference call and we are always available, everyday to answer your questions and to talk about our plans of the future and we are sure we are going to have a very good year implementing some adjustments in our strategy but... keeping growing with the international expansion that we mentioned before. So, thank you again for your presence and your participation.

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

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