

Local Conference Call
NATURA Int'l
2nd QUARTER 2007 RESULTS
July 27th, 2007

Q & A Session

Operator: Thank you. 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. If at any time you would like to remove yourself from the questioning queue, press star two.

Our first question comes from Margaret Calvar of Harding Loevner. Please go ahead.

Ms. Margaret Calvar: Yes hi, good morning. I have two questions; the first concerns the innovation index. I believe you usually show a slide on that and maybe I missed it, but I did not see one in this presentation and could you discuss if you have a number for what it is or what is the direction that it is going? And then the second question refers to the overall competitive environment in the Brazilian market and whether or not the consumer is slowing in the purchases of CF&T products in general, if you see any displacement of income to other things as interest rates are coming down in the country? Thanks.

Mr. Carlucci: Hi Margaret, good morning.

Ms. Calvar: Good morning.

Mr. Carlucci: This is Alessandro speaking. First of all you have the numbers on the presentation that is on the site about the innovation index, but I can talk about it. In this quarter we had a decrease in the total index innovation and this is an effect that we are probably going to see the next two, probably two quarters and is due because we had some bad launches or bad products performance that were launched in 2005. Basically we are talking about the fragrance part of our products and they are going to still count on this index, still the end of this year, and this is the main reason because we are seeing some decrease in this index. But again, is in the webcast presentation and you can take a look.

Ms. Calvar: Ok.

Mr. Carlucci: Ok? And talking about the competitive environment in Brazil, as we said before it is in the last three, four years our market is more and more competitive.

And regarding your question about the change in the consumer behavior investing more money in other categories than the CF&T, I think that we are seeing this in Brazil, even though our market is still growing as you can see in the numbers, so probably we are seeing other industry growing more than the history and in our

case we don't see a change in the growth pattern in the cosmetic industry; but we are talking in high numbers - 13% in the beginning of this year is a relevant number in our industry. But for example we are seeing in Brazil that the cellular industry is growing faster than in the past, the automobile industry too, so there are some industries that are growing more, so they are having a better performance in the pocket-share of the customer than compared to the CF&T. Even though, again, the CF&T is growing well as we saw in the last years here in Brazil.

Ms. Calvar: Ok. Could you do, could you expand a little bit on the marketing, on your changes in the marketing strategy that you say you are making in the earnings release?

Mr. Carlucci: Margaret we, unfortunately I can't give you so much detail because this is very strategic for us and it will be nice to our competitors, but I can say to you that we are working hard to be more efficient and to reach a better balance between our investments in the short and the long term; and of course we are going to give a better value proposition, better products, more innovative and evolutions and part of those evolutions we mentioned - like the CNO - that is an evolution of our commercial structure; the Casa Natura is another one, but they are examples of the things that we are going to do. And in the short-term we are going to be more efficient and probably we hope to accelerate the growth of the company.

Ms. Calvar: Would you say ...

Mr. Carlucci: Sorry, especially in the Brazilian market, because we believe that we can grow a little bit faster than we are growing.

Ms. Calvar: Ok. Would say that you are moving from a single-level direct sales model to a more multi-level then across the board?

Mr. Carlucci: No, is not a multilevel, it is a bi-level because the CNO is not going to have a fixed percentage of the sales of their group, so it is more a bi-level than a multilevel, even though the CNO is not an employee of the company, they are going to be representatives, they are going to buy and resell our products, but they are not going to have the same scheme that the multilevel has, so they are not going to have bonus based on the amount of the sales that their group have. And we are talking - to give you more information - that if, we are going to implement gradually the CNO in the whole country in the next two years. We started the project in a specific region and now in the next two years we are going to roll out the project to all the country and imagining that today we were already, all of the country, operating with the CNO, we imagine that we will have 6 thousand CNOs in all the Brazilian market - just to give you a rough idea about the project.

Ms. Calvar: Ok thank you.

Mr. Carlucci: Thank you.

Operator: Our next question comes from Celso Sanchez of Citigroup. Please go ahead.

Mr. Celso Sanchez: Hi, good morning - I guess good afternoon in Brazil. I just would like to get a bit more clarity if I could on the productivity, the drivers of the productivity; obviously it has been a while, a trend now for a while that has been declining and I think to some extent there is always the sense that that would happen as you grew reps, consultants very rapidly; but to what extent do you think this is really a function of, perhaps is not getting a merchandising strategy right? And then you talked about it a couple of quarters in the past, but one has to wonder if it is, it has actually become more than just the new reps because if you have been growing in a very high rate some consultants for a while and it always seems to appear in the last few quarters so could you comment on how much of the productivity short fall or drop you would attribute on a relative basis to just the newer members of the sales force and how much you can attribute to the merchandising or marketing strategy or products selection I suppose in the market? That is the first question.

Mr. Carlucci: Hi Celso good morning, is Alessandro speaking. I think that even though, of course there is always an impact of the lower productivity of the new consultant, I don't believe that this is the reason why we saw a decrease in our productivity because as you know, in the last four years we are growing fast the number of consultants, so this is not an explanation why we saw this decrease, even though it always has an impact on the number. I think that this decrease is based on the fact that we are growing the revenue less than the channel and as we mentioned we really believe that we can grow a little bit more in Brazil and this is mostly based on the marketing strategy that, as I mentioned, we are going to, we started in the beginning of this year to plan and to implement some adjustments, so this is the main reason. I think that there is a positive issue on that, that is the fact that the channel is still growing 14%, and this is a very important number and represents the preference and the acceptance of people to be part of Natura business and I think that this is a good point to share with you.

Mr. Sanchez: I would agree that the growth of the channel obviously slow, is a lot more encouraging; however, one has to wonder longer-term if the marketing strategy does not keep up with the strength of recruitment and retention - your very low turn over rate - I wonder if that becomes an issue at some point where the product mix, even your merchandising strategy is not keeping up with the successful recruitment efforts and it becomes an issue of a cycle of people looking at the product portfolio, wondering if there are other opportunities with other product portfolios out there; I guess that is more than concerns, I guess along those lines do you have any, do you feel like you are going to see, you expect to see results in the second half of this year from your marketing strategy tactics that you may have implemented in the last few months? Have you already started to show a turnaround in that trend or do you think it is a much longer evolution on the other quarters rather than months to see those marketing changes that pay off?

Mr. Carlucci: Celso, certainly because we are working hard to make those adjustments we expect some changes. It is difficult to give you some expectations about how much and when they are going to occur, but we of course expect some changes in the growth of the company.

Mr. Sanchez: Ok thank you. If I can just follow then on the CNO development. First of all it is to hear that you there to share with us details; can you give us a little more color though on how you think it will, how you think it will roll out? You said that next September – I assume just to clarify - September of 07, two more months next year, right?

And then the second part of that is, can you give us a sense for how you see the cost structure evolving as you hire, or as you look to get as many as 6 thousand of these folks out there? If I remember correctly was the target, each one would be responsible for about 100 or 130 consultants; is that still the target? And then you can obviously draw on that to decide what that means in terms of total consultant force eventually. And just maybe a comment on how it falls out and also the way to structure the work in terms of personnel please? Thanks.

Mr. Carlucci: Hi Celso, we – let me see if I understood your question - first of all we are announcing the beginning of the project on the first new region on September and we are going to need probably two years, so in the middle of 2009, in the end of 2009, we are going to complete all the implementation in Brazil and we are going to start announcing in September and probably on March, February, the first CNOs are going to be, are going to work in the next new region and we are going to implement regionally as I said.

Regarding the costs, in the short term we are going to see probably slightly, a higher cost slightly, but a higher cost in the sales expenses and in the medium and long term a lower cost and it is little, it is not so relevant that we have today. So in the average the cost impact of the project is almost zero, so we should not see something relevant even in the short as in the long term. But in the beginning is going to be a little bit higher and in the long term is going to be lower than the cost that we have today. But this is not relevant, this is not relevant in our projections and we are going to have around 100 and 120 consultants per CNO as you mentioned, this is still the plan - that is why we believe that if we were today running the company with all CNOs implemented we will have 6 thousand, so almost 100 per CNO.

Mr. Sanchez: Ok thanks and just lastly on the costs, you said the costs should be pretty material; how about the benefits on the revenue side? Do you think it helps if you had an order then in priority – productivity, recruitment, retention, which of those is the biggest benefit of this rollout do you think?

Mr. Carlucci: Celso, the most important benefits of this project are the recruiting and the retention, because we believe - and we saw in the pilot - that the relation between the consultant, the Natura consultant and the company is stronger when the CNO is in the middle, because it is something else to establish relationship with

the consultant. In the long term we could see some gains in the productivity, because if they stay more, as you know the productivity is higher; but we only are going to see those effects in the long term. In the short term we saw gains in recruiting and in retention and in satisfaction of course, because they feel better in the relationship with Natura.

Mr. Sanchez: Thank you very much.

Mr. Carlucci: You are welcome, thank you.

Operator: Excuse me. Ladies and gentlemen, as a reminder, if you would like to pose a question, please press star (*) one (1). Excuse me. Our next question comes from Mr. Márcio Kawasaki from Unibanco.

Mr. Márcio Kawasaki: Hi, is just a quick question. I did not get the new capex for 2007, can you repeat please and explain why will you increase it?

Mr. José David Uba: Márcio, this is David speaking. Actually we are decreasing the capex for the current year, it was planned to be R\$ 190 million for 2007 and now we are decreasing it in 15 million to 175 and the main reason is that we have some projects taking more time than we expected - you can see that the total investment we made in the first half of the year was 48, I am sorry, R\$ 43 million if you compare the last year was 60, so we are expecting some delays in some of our projects, so that is why we are decreasing the expected investment from 190 to 175.

Mr. Kawasaki: Ok thank you.

Mr. Uba: Thank you.

Operator: Our next question comes from Mr. Gustavo Hungria with UBS Pactual.

Mr. Gustavo Hungria: Hello, good morning everyone. I have a question again on the innovation index. I also could not see that on the presentation, actually I did not get the presentation - there was something wrong with the website - but I did not see that figure there and as we are seeing and as Alessandro mentioned in the beginning, this rate has decreased over the past quarters and you expect this to continue going down up to the year-end because of products that - if I understood correctly - were launched in 2005. So I just would like to see if you have an index that only takes into account the products launched over the past 12 months, so in that way we could see how these newer products are doing. Is there any way we can see that **(XXX 25.39)** as well?

Mr. Carlucci: Hi Gustavo, how are you? Is Alessandro speaking.

Mr. Hungria: Good, how are you?

Mr. Carlucci: We don't have this index because we decided, in fact we could calculate this index on the 12 months, on six months, but we decided to use the 24 months because gives more stability of this index. We are a very promotional industry, especially not because of the cosmetics but because of direct selling so a way to decrease those specific effects on promotion efforts is using a longer time to use those indexes, so we decided to use 24 months, so unfortunately I could not give you any information about this good information; even though, as I mentioned we believe that we are going to see some decrease in the next two quarters and probably in the next year we could see this number getting higher, especially because of those fragrances launched in 2005 that we did not succeed as we expected.

Mr. Hungria: Ok, but you do have evidence that these newer products, let's say the products launched over the past 12 months, they are showing a different behavior than those ones that were launched in 2005 so that once these products launched in 2005 they get out of the sample, then we should see a recovery of this trend? That is now I am trying to understand.

Mr. Carlucci: Yes, we expect to, we saw better results in the launches of last year and this year, so that is why this index should be better next year than in this year, exactly what you said.

Operator: Excuse me. Ladies and gentlemen, as a reminder, if you would like to pose a question, please press star (*) one (1). Our next question comes from Guido Giammaddi of Rixder Capital Mgt. Please go ahead.

Mr. Guido Giammaddi: Good morning. I apologize, I joined the conference call a little bit late, so I apologize if this question has already been asked. Could you give us a feeling of the competitive environment and secondly also we noticed a big improvement in the gross margins, if you could **(XXX 28.15)** a little bit for that? Is it sustainable? Thank you.

Mr. Uba: Guido, this is David speaking. I will start with the impact on the gross margin, then Alessandro will explore a little bit on the competitive environment. Yes, I expect this improvement in the gross margin is sustainable; it came from two main sources, the first one was a dilution of our fixed costs in the manufacturing process. We had overhead expenses in the manufacturing processes **(XXX 29.08)** from last year to this year and that **(XXX 29.10)** impact on our decision to keep all the overheads, the overhead of all processes **(XXX 29.17)** for this and next years, so that had something like 40 basis points impact in our gross margin. The remaining impact came from a better negotiation with our suppliers and also reminding you that we had an increase in our selling prices in March - we adjust our selling prices every year in March to reflect the inflation in the domestic market, so the combination of better terms with our suppliers and the price adjustment made in March resulted in the remaining impact in the gross margin. And as I said we expect it to remain for the rest of the year.

Mr. Carlucci: Hi Guido, is Alessandro speaking. As we mentioned several times, the competitive environment in Brazil regarding specific the cosmetic industry is getting tougher; and not this quarter, but in the last two or three years Brazil is an important market, our CF&T market is growing fast in the last five or six years, so all the competitors want to get profits of this good market that we have in Brazil. So the competitiveness is getting higher, but as in the other industries in Brazil too, because we are talking about a huge market in the world so we are facing probably what other industries are facing too, the same.

Mr. Giammaddi: Thank you very much.

Mr. Uba: You are welcome.

Mr. Carlucci: Thank you, you are welcome.

Operator: Ladies and gentlemen, 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 of you, to participate on our conference call and invite you for the next one for the results of the third quarter of 2007 and so see you soon and thank you for your time.

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