

Local Conference Call
NATURA Nac.
2Q07 Results
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Question and Answer Session

Operator: We will now begin the question and answer session. If you want to make a question press star (*) followed by one (1). To withdraw your question from the waiting list, press star (*) followed by two (2). Our first question comes from Daniela Bretthauer of Goldman Sachs.

Daniela Bretthauer: Good morning everyone. Alessandro, could you talk a bit more about the CNO (Natura Consultant Supervisor) Project, for instance, will it start all over Brazil, in some regions only, how will it work exactly? I would be very glad if you could give us more details about this Program.

Alessandro Carlucci: Hi Daniela, well, perhaps I will extend myself on your question so that everyone understands it. The CNO Program is basically the inclusion of an extra level, only one extra level, between our sales promoters and our consultants, who is the Natura Consultant Supervisor, with the purpose of keeping a closer relationship with our consultants. Each promoter nowadays has an average of 600/650 consultants, which makes it harder to keep a closer relationship, or provide any help in their development. So, what we are doing is creating this position, the Natura Consultant Supervisor who, in addition to being a consultant, also plays other roles, and this is what we will be doing... This is a project developed in the mid-western region under testing for two and a half years now, and we concluded that this test project provided positive results regarding the growth of this sales channel and also regarding the quality relationship with our consultants, once we have more people working. And the program will be implemented gradually region by region in Brazil. And despite the positive results it brings an important evolution to our commercial model and we will implement it gradually. So, I think that we will be able to implement it throughout Brazil over the next two years. Obviously these two years can be reduced a bit or even extended a bit as a function of the implementation, because each region is different. But we will implement it gradually; it is not going to be a big bang. In September we will announce it for the first region, and after the first half of next year for another one, that is, to carry it out correctly, collecting the results that we have already seen in the test project.

Daniela Bretthauer: And in this project each CNO will then be responsible for how many consultants? How will this be called? Consultant Level 1, CNO, Promoter?

Alessandro Carlucci: This is indeed the name, she will be a Natura consultant, and she will still resell the products. She will still perform the regular functions of a consultant, and some extra activities. We call that Natura Consultant Supervisor because she has also the function of supervising, especially the new consultants. So, there is nothing like a Level 1 or 2, her function is Natura Consultant Supervisor. There will be performance differences, so maybe there will be some segmentation, but this is what I call second-level segmentation. And our Sales Promoter will be called

Relationship Manager, because she will become further responsible for the management of relationships as a whole.

Daniela Bretthauer: What about the CNO, will she be a Natura employee? Will she have a fixed remuneration or she will earn based on her sales?

Alessandro Carlucci: No, she will continue to be an independent agent of the company, she is not a Natura employee, and she will continue to have the same treatment given to a consultant. What does she have? She has some bonuses for other things, but always in a variable basis model and as an independent agent.

Daniela Bretthauer: OK, and a last question. Alessandro, we did not see a sound productivity in Brazil, we are still seeing production drops and, again, this is one of the most important issues that I have been pointing out. What can we expect regarding productivity in Brazil going ahead?

Alessandro Carlucci: Daniela, you know that ours is a no guidance policy. Now, what we can see is that productivity is dropping because of a mismatch between the growth of the channel and growth of revenues. As I said in the beginning of our chat, we believe that we can achieve higher growth in the Brazilian market. Since the end of last year we are working toward the improvement and enhancement of efficiency in our marketing strategy. We are confident that we will recover little by little our most significant growth. No, it is this mismatch between the growth of revenues that can be bigger than we first thought, and the growth of the channel is very good, and this is very positive. You know that at a direct sales company if the channel does not grow it is very hard to compensate the growth in the channel with productivity. So, we have one channel in Brazil, which is growing 14% and revenues 10%. This causes a drop in productivity. Right now we are looking at it through a point of view of a positive growth of the channel, as something good, to the extent that this improvement in efficiency of our marketing happens as a whole, and we must rebalance this equation. What I feel is that it has a positive feature, which is a very positive growth of the channel that shows the interest of people of being part of Natura, to resell our products, to be consultants. So, this is not guidance, but I think that we are working to improve the efficiency of our activities, with the purpose of recovering a little and boost our growth.

Daniela Bretthauer: OK. Thank you.

Alessandro Carlucci: You are welcome. Thank you.

Operator: Our next question comes from Andréa Teixeira from JP Morgan.

Andréa Teixeira: Hi. Good morning everyone, good morning Alessandro. Could you explore a little more this part of the growth of the channel and of the revenues? Since we last talked at the end of last year I was very interest in this matter, if revenues are growing a mismatch compared to the channel, this channel is likely to have a product mix which is growing faster. One of the issues we have been discussing is about reaching the market, which is perhaps not buying from Natura or via mix of products or price. I am aware that Aquarela was even a means of you reaching that market, there is also not only the intention of adjusting the mix regarding what happened in the successful past of the products, but also enter into different segments, not only like

you did with part of the tea and soup lines, and also in other lines such as cosmetics and fragrances or toiletries, but enter another segment with another price strategy? This is my first question.

My second question, if I understood it correctly, as we talked previously, is that the CNO, this independent agent, she will be hierarchically superior to the promoters and today promoters in average, sort of, take care of more than 500 consultants. How many CNOs do you plan having? And if this remuneration – given this study that you conducted and before the testing projects, what is the ideal? Will the CNO have an indirect percentage of the consultant or the promoter's salary? How does it work? Thanks, Alessandro.

Alessandro Carlucci: Hi Andréa, good morning.

Andréa Teixeira: Hi, good morning.

Alessandro Carlucci: The first part of your question, which is regarding price positioning and new categories, is an integral part of it and will be present in this improvement process and we will always promote our marketing initiatives, and also focus on which price positioning Natura is in the market. We want to always reinforce the positioning of our brand and the value proposition. So, we are always looking for room or price point in a market a little but more selective, a little bit above the mass market. This is sort of the range; this is where we believe our brand may be placed, so we will continue seeing in the future initiatives like Aquarela and we will continue to see initiatives like Chronos Farma, which are the high-tech products, in a highly priced and very special positioning. What we are not going to see, and we say this quite safely, is Natura lowering the quality of its value proposition, its special features, the good things that its products have, its natural formulas, its products that do what they promise. No, we will not see that happen and therefore we will not stop building our brand in each product offered to the customer. But we will continue our different price positioning focused on the different needs of our customers. The same applies to categories; we are virtually already operating in the majority of the key CF&T categories and, therefore, we should not expect big changes, but we are always studying the possibilities of what we can do in some categories in which we have no operations. This is in our plans, but we do not have anything concrete yet in the short run. Whenever we have anything we will share it with you, I can only say by now that it is part of our plans and that we reflect on a daily basis about the categories in which we still do not operate. And, yes, we have a value proposition and we are interested then in holding operations in this category. So, this will be part of this evolution in our marketing strategy as it has always been.

Andréa Teixeira: But, Alessandro, is it correct to say that growth is coming not necessarily from products with lower value added, or lower quality, but rather from products with more accessible prices, let's put it this way. Are we talking about a more attractive value proposition for the customers, after all or not? Is growth coming evenly?

Alessandro Carlucci: I think that this is not the case; we are not seeing a discontinuity trend toward that, or products with special features or higher/lower price positioning. I don't think so, Daniela, I would not consider it...

Andréa Teixeira: It is Andréa...

Alessandro Carlucci: Oh, excuse me, Andréa.

Andréa Teixeira: No problem.

Alessandro Carlucci: So, I would not take this hypothesis into consideration. That is not what we are seeing as a signal or our strategy. Our strategy is for us to be able to always offer products with a more competitive price as well, because, a good example is the lipstick market – you mentioned Aquarela – even a woman with high purchasing power has lipsticks from a wide range of price, and we also want her to buy ours, from both the cheapest and most expensive lines. But we don't just want to go for the cheapest, we also want products with special features, so, I won't take this as a trend or something, which can be considered one strategy of ours.

Andréa Teixeira: And what about the impact felt this year? Could you tell us, sort of, about the impact that the increased marketing had in the quarter?

Alessandro Carlucci: Which increase?

Andréa Teixeira: The increased expenses with advertising, publicity, in the quarter. And the impact it had in the margin in Brazil.

Alessandro Carlucci: Look; we did not have any significant increase in marketing investments this first quarter. What we are going to do, and what we are doing indeed, is something gradual, because there are some initiatives that demand more time. And it is by increasing efficiency, then, we work toward a better use of resources when preparing our magazine. We have improved its cost and this leaves room for us to allocate this resource in other marketing initiatives. But there was no significant increase in marketing expenses, as a whole. I do not know what you are talking about, this is something that we have been saying, that we really want it. And there was an increase indeed and we want to decrease little by little the weight of discounts, but that is a portion of investments in marketing. Our marketing investment is way wider than that one; it includes promotions indeed, but also training, bonus to our consultants, recruitment, publicity, samples, launching ceremonies. Our marketing mix is quite sophisticated because we are both a developer of brands and a retailer, so we have a set of initiatives in the marketing mix, which is very rich. And what we have been saying is that we want to reduce it because if grew a lot and we think that it should go back to a lower level, it is an investment in discounts, and this we are trying to reduce. Well, there were no higher investments in marketing in the first half of the year.

Andréa Teixeira: Ok, perfect. Actually I was referring to TV advertising, all this higher investment that we are seeing in the press, so, would you still consider that during this quarter and also during the end of last year, you are keeping the target of that margin about which you talked on the beginning of the year? And, as a consequence, we are not going to have this increase and we will not feel this impact the figures because it has been offset by other cost cut initiatives with the magazine and other initiatives. So, this is what we should assume then?

Alessandro Carlucci: We expect to keep the company's profitability at last year's levels.

Andréa Teixeira: Perfect.

Alessandro Carlucci: You also asked me about the CNO, I could give you the data now.

Andréa Teixeira: That is correct, perfect. Thanks.

Alessandro Carlucci: Welcome. The Natura Consultant Supervisor figures are obviously estimated, but, to give you a general idea, if Natura were already fully operating in the Brazilian market as a *hors concours*, we should have around 6,000 Natura Consultant Supervisors in Brazil today. We could say, 'we disclosed this two years ago, we started to work on this project and now it is concluded', and we should have an approximate number of 6,000 CNOs. And the additional cost that these CNOs will have actually comes in its majority from the lower need that we will have to contract new promoters, which is a means of leveraging our growth of the channel. So, indeed, the CNO does not have an additional impact on the sales expenses as a whole, of course that in a first moment we can have a positive or negative impact, but in the end it will be positive, but when it is already implemented, it doesn't have significant impacts in the sales expenses. Actually one thing offsets the other.

Andréa Teixeira: So, actually, you have more or less 1,000 promoters. So, if they used to supervise 500 people they will still take care of these, let's say, an average of 500 or even a little higher, almost 600 people, and... 6000 consultants, and above these 1,000 promoters, I mean, below these 1,000 promoters you will have the 6,000 CNOs. Did I understand it correctly?

Alessandro Carlucci: That is right.

Andréa Teixeira: OK. And these 6,000 people will, sort of, take care of 100... no, actually they are only 100...

Alessandro Carlucci: Yes, more or less that figures.

Andréa Teixeira: So the promoters will continue to be paid by the ones who are employees of Natura and then they will indeed take care of only 6. How will the promoters be assessed, how will you be measuring the performance of the CNOs?

Alessandro Carlucci: Maybe we need some extra time, because there are several indicators to assess the performance of the CNOs, under the scope especially of the performance of the consultants who are linked to them. So, you have a series of indicators: activity, growth...

Andréa Teixeira: But it is not financial, it is not anything... my proposal won't be a model to other multi-peer, I mean, won't they have a variable income in view of the sales made by the people below then?

Alessandro Carlucci: No... this is not a model similar to the multi-level, as it is widely

known. She does not have proportional earnings from the sales of the people below, ok?

Andréa Teixeira: OK. Perfect, Alessandro.

Alessandro Carlucci: So, she will even help the promoter, but this is not the typical multi-level concept.

Andréa Teixeira: OK, perfect. We can talk about this later. Thanks.

Alessandro Carlucci: You are welcome. Thank you, Andréa.

Operator: In order to make questions, press star (*) followed by one (1). Our next question is from José Yordan, from UBS.

José Yordan: Good morning everyone. I have two questions: the first one is regarding the cost of raw material with 1% of revenues, how is it? Did it drop in the second quarter when there was this increased trend in the previous quarters? And my second question is that I think that you had a drop in marketing share in the second quarter, at least it was a little stable in the quarter, and my concern is that you will have to increase marketing expenses significantly in order to compete with Avon. Could you go through this?

José David Uba: José, this is David speaking. The reason why raw material costs dropped in the second quarter is quite simple: we, like every year, apply the increase, we adjust our prices in March, and so it impacts fully in the second quarter. And this year we closed new trading deals with our suppliers due to the increase in volumes in the course of the last years and improved the purchase conditions regarding specifically prices this year and this brought a strong impact on the cost of raw material and, also, we benefited from the appreciation of real, although with a slighter impact, then nowadays we have a percentage a little below 20% in all inputs that we acquired and that are pegged to this strong currency. They are not necessarily important; although some acquisitions in the domestic market have their prices pegged to the strong currency, so the combination of these two elements and with the fact that we adjusted the price in March led to the reduction of the cost of raw material in the second quarter.

Alessandro Carlucci: José, good morning, this is Alessandro. Let me talk a bit about your question regarding the market share, investments in marketing, Avon, etc. If you take a look on the data about our cosmetics industry, maybe you are right; maybe we had a drop in market share in the direct sale industry in the second quarter. But, if you take a look at our results, which are available up to the fourth month so far, regarding our cosmetics industry, you can see where our performance was worse was in the toiletries segment. We gained market share in cosmetics and fragrances, which is where Avon competes against us, especially, and we lost market share in toiletries. Why am I telling you all this? Because I think that there is an exaggerated correlation between market and the performance of Natura with Avon. Avon does not have operations in toiletries, and the ones playing in the toiletry segment are the retail brands, franchise, so in spite of Avon being a big and important competitor, we are not only looking at their current activities, because we have such a performance, and

although it is not our main focus, we have a sound performance in the toiletry category – such as soap, deodorant, shampoo – which accounts for most of the Brazilian market. And because this is a developing country, skin care and makeup are not the biggest figures in the CF&T – shampoo, soap, and dental care, in which we do not have a significant share – account for the biggest part of this market and thus I think we are being slightly biased if you believe that the performance of Natura and of Avon are the only growth drivers in these two companies. So, I think it is really important to share this with you, that we are also working hard toward a strong performance in the toiletry categories, where we believe we have a value proposition quite interesting, compared mainly to retail, the soap market, direct sales, and other than Natura, it is little expressive. So, this is a first point.

And regarding investments and marketing, we already said very openly that the cosmetics market, and not only the interference and increase of investments of Avon, but the cosmetics market in the last years have increased its competitiveness. The brands, not only in direct sales, but also retail have increased investments in advertising, in launches, so, we are working to increase the efficiency of our shares and if it is necessary, and we consider this to be imperious for us to keep our competitiveness and growth that we believe to be possible for our brand, we will increase investments in marketing. But, the most important is that we are working to increase our investment efficiency. Now, if it really is important we can take this decision to increase investments and this is not due to, at least not during this year, if it is necessary, to affect the margin and it still is, as I mentioned, our target is to pursue the same EBITDA margin of last year.

José Yordan: Thank you very much.

Alessandro Carlucci: Thank you.

Operator: In order to make questions, press star (*) followed by one (1). Our next question is from Andréa Teixeira from JP Morgan.

Andréa Teixeira: Hi Alessandro, hi everybody, I would like to take this opportunity and ask another question. When you talk about the size of the toiletry market, I imagine the core market here being for the first 4 months of 2007, which is R\$2 billion; would you be referring to all the toiletry segments, not only the one sold through direct sales. I would like to understand a little bit whether this direct sale of toiletries, as you have been saying, has a big value proposition in the segments - you do not have a really direct competition, Avon does not operate in this segment – I would like to know which would be the size of this channel in direct sales. I mean, the size of the direct sales channel in this segment.

Alessandro Carlucci: Hi Andréa, I can't give you this data now because I don't have it now, but I can tell you that, in general, the size of the direct sales channel in this market is pretty much the size of Natura, because there are obviously other direct sales companies also operating in the toiletry segment, but I can tell you that it is important for us to look at the other competitors. So, there are other direct sales companies selling soaps, shampoos, hair conditioners and other categories that are included in toiletry. But, to give you a rough figure, Natura represents 12%, which is 230 million on 2.2 billion. So, 2.1 billion, around 11% or 12% of this market. I would

dare to say that direct sales would not go above 15%, I mean, Natura is the main player in the toiletry direct sales business.

Andréa Teixeira: So, it means you can't gain market share because you already have a very strong positioning in this category?

Alessandro Carlucci: No, it means we can to the extent that we opened rooms for direct sales to participate in these categories, because we have value propositions for the products that people want, no matter what the channel is. So, I do not think that our growth in toiletry is limited today because of our distribution structure. If I sell a very good shampoo, for instance, when the consultant sells one product of the Chronos line, I also buy the shampoo. This is a little bit the rationale behind our entry in the category. What I really think we should wait for is to have a market share the same size we have in the cosmetics and fragrance segment. We can't really expect that indeed. But we are far from thinking that we have reached the potential level. So, regarding the market share, we are 39.5% in the first 4 months of this year, a growth of 0.7% in the cosmetics and fragrance segment and 11% in toiletries. "But, can't these 11% become 39%?" I do not think so, but these 11% can grow. Within the several categories we have categories with a market share of 16%, 3%, so we think that we can grow these 11% indeed.

Andréa Teixeira: But I understand it as you already having – if I did the right math – more or less 70% of the direct distribution channel for the toiletry segment, so, actually, the game would be you growing because you were the first ones, and each time you introduce new services. So, you will be able to expand this channel; so I think that not only these 70% will change to almost 100% but it will expand as a whole, let's say 'the pie will grow', isn't it your market share that will grow along?

Alessandro Carlucci: Yes, exactly, and this is why I think it is important to emphasize that if you take a look and take into account the other competitors who are only in the direct sales segment – because the customers desire the value proposition of our products, they want to buy a Natura soap, they are not selecting another soap: 'oh, do I go to the supermarket or should I call a consultant?' Customers want our brand and product. So, this is why it is important indeed. We expect that we can push direct sales, the growth in the direct sales channel in toiletry, which is what happened. Again, direct sales model in toiletry is mostly due to the success we have had in the last few years in some categories. So, you are right, that is right.

Andréa Teixeira: And taking this chance, this discussion about market share, fragrance is the segment that has the highest value, and I am not talking about value added, but value per unit. Is it correct to say that this is the segment in which you are working more energetically as a function of what happened at the end of last year? Is your proposal to improve the lineup of products? What have you guys learned from these marketing initiatives so far, which are clearly reflecting as a sequential improvement, if we consider the quarters? What can we assume that changed in terms of mix or what have you learned from this experience?

Alessandro Carlucci: Andréa, I am sorry, I quite didn't understand which ones is the experience you are talking about.

Andréa Teixeira: Of course, excuse me. I was sort of unclear there because I know that you cannot give out the details, but, for instance, what have you been doing in a different fashion? What happened with the kits? You said that there was a cannibalization of products, which you have already identified the problem to be in 4Q and also in 1Q. What is the major problem there and what is you launching next? And regarding the new products, are you withdrawing those products from 2006, 2005/2006, that just did not make the trick? What are your plan regarding that? If you could simply summarize your marketing initiatives aimed to recover the sales growth.

Alessandro Carlucci: I really cannot give out a lot of information because there are very important things for our competitors here as a whole, so I will not be able to give you a lot more other than what we have already said which is the higher efficiency of the shares and, for instance, the reduction of costs with the magazine in order to invest in other things. And further balance between the short term and long term activities. So, I don't really have more details to share with you. Regarding specifically the strategic issue and special dates, which is a history point, it is not the whole thing, and it is just a punctual event in 4Q. What we did was to adjust, especially for Christmas, because these strategies are defined beforehand, so we didn't do a lot for the first strategies, which were already planned. It is about causing changes in the marketing mix every end of year in order to prevent a high concentration of sales in discount products, which is what happened with the kits last year. As we said, we had very good sales, but because o fit these kits had lots of discounts and ended up cannibalizing the sales of other products. And this sort of what we were trying to adjust or that we are going to adjust, the planning was adjusted and now we need to wait for the real world at the end of this year.

Well, regarding the marketing initiatives, unfortunately I can't give you more details, but we are obviously planning a series of initiatives which we think are interesting and good for us to recover the growth that we believed we can keep up.

Andréa Teixeira: OK, perfect. Thank you very much, Alessandro. Thanks.

Alessandro Carlucci: Thank you.

Operator: We will now conclude the question and answer session. I would like to pass the floor over to Mr. Alessandro Carlucci for his final remarks.

Alessandro Carlucci: Well, good morning everyone and thank you for attending this meeting. It is always a pleasure to be with you, answering your interesting questions, which make us think a lot. I would also like to reinforce our confidence, motivation that we will continue to have daring growth plans and for the international expansion, because we believe that this is the way Natura has to continue profiting from good businesses and generating results to the shareholders and to all the markets in which it operates. Thanks you and have a sound day and see you at our next teleconference relative to 3Q results this year.

Operator: The teleconference of Natura is concluded at this time. We thank you for attending and have a great day.