

International Conference Call
Natura – Q&A
4th Quarter 2007 Earnings Results
February 29th, 2008

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 (2). Ladies and gentlemen, again, if you would like to pose a question, please press star (*) one (1). Excuse me; our first question comes from Mr. Robert Ford with Merrill Lynch.

Mr. Robert Ford: Hi good morning everybody, good afternoon to those of you in later times also. But Alessandro, you are pursuing many initiatives that seem very compelling, right? Individually and collectively and I was wondering if you could expand on some of the efforts to perhaps improve the relationship with the consultants and maybe the *Consultora Orientadora* Program with the *Casas Natura* in Brazil.

Mr. Alessandro Carlucci: Hi Bob, good morning, how are you? Let me explain a little bit more about the investments in the relationship with our consultants and you already mentioned some of them. Maybe the first one, the most important one, is the implementation of the CNO model - the *Consultora Natura Orientadora* - that is going to start in the middle of 2008 and we are going to finish the implementation all over Brazil in 2009, so in one year and a half ahead we are going to operate all our operations in Brazil under the CNO model.

And another initiative to establish better relationship with our consultants is the implementation of Casa Natura. We are going to implement around 30 Casas Natura in the next three years, this year probably 6, 7, and the rest in the next two years. Another important investment, we are going to triple the investments in training. We are recognized as a company that invests in training and we see an opportunity to offer better training sessions to our consultants and we are going to do it starting this year.

And another initiative that is going to help the relationship with consultants is the decentralization of our distribution centers looking for the ... to shrink the delivery time, the total delivery time to our consultants. So with these four main initiatives we believe that we are going to have more loyalty, we are going to have our consultants more satisfied, so this is going to be an important part of the R\$ 400 million investment for the next three years.

Mr. Ford: And Alessandro, when it comes to pricing I know you took some price on soaps, took some at additional price in sunscreens; are there other categories that you will take price in? And if you could give us an indication of what some of the volume responses have been in soaps, sunscreens and perhaps other categories? And I perceive - I know whether accurate and not – that you may be able to fund this with reductions in packaging cost simply by changing packaging not necessarily changing the impact of the presentation, but you... I perceive there would be cost opportunities in some of these things without impacting gross margin.

Mr. Carlucci: Bob, just a minute please. Hi Bob, let us see if I understood your question. We have in our portfolio in some categories we have some products that should be used every day, as soaps, as shampoos, as deodorant and other kinds of products. What we did in soaps and we are going to do with other categories - and I can tell you the next one, only the next one because it is public - and the other one for strategic reasons I am sorry I am not going, I cannot give you the information, but the next one is shampoo, we are implementing this month.

We are decreasing the price and stopping the promotional efforts in those products because we believe that we should have the right price instead of doing promotion campaigns and at the end the price is almost the same, but the customers they do not see the real price. So our decision is to avoid the promotional campaigns and decrease the price to have the best value between ... the best relation between the value and the price in these products. So this is part of our strategy. And we are not going to change any package, any quality formulation, the products are going to be the same and we do not believe that this should impact the gross margin, because there are other movements in the richest part of our mix that can compensate this effect.

And with the soaps we had a very good response in sales, so we believe that this is a good decision to be implemented during the first semester of this year.

Mr. Ford: And just with respect to some specifically, Alessandro, can you give me a sense of the magnitude? Was it a price cut of something between 20%, 25%? Traces to what the response was in terms of volume, because I perceive that those products were featured a little bit more heavily maybe not promoted, but ... and traces to what the volume response was to that move?

Mr. Carlucci: Bob, unfortunately I cannot give you the precise increase in volume because I think this is very strategic to us, but I can guarantee you that the response of the customer was very good, it was better than we supposed to be and

in fact we had some stock outs of soaps in the end of last year and in the beginning of this year and we are preparing, we are prepared now with this learning to do the same with the hair-care products. But the response was very good, but sorry, I cannot give you the precise number. Maybe when we have implemented all the strategy I can give you some numbers.

Mr. Ford: Ok, I understand. And then just lastly with respect to the tremendous growth that is happening with lower income groups, it coincides with the launches, which I think is... you are probably attempting to target that tremendous increase in disposable income among C and D consumers. Can you talk a little bit about what you are doing to perhaps enrich your strategy better focusing on that segment of the population?

Mr. Carlucci: This reduction in price is a way to capture a part of these customers. Of course that is not only the C class, the B and A too, because there are going to buy more soaps or shampoos of Natura. But this specific action that you were talking about is a way to capture this new customer. So this is the only specific thing that we are doing to capture and we believe that this can help us a lot to increase productivity and to decrease the promotional effects, because we really believe that those products are going to be ... we are going to sell without promotional efforts only because they are the best value proposition in the market with a good price.

Mr. Ford: Ok great, thank you very much.

Mr. Carlucci: Thank you Bob.

Operator: Excuse me; our next question comes from Mr. Reinaldo Santana with Deutsche Bank.

Mr. Reinaldo Santana: Yes, good morning Alessandro. If you can... two questions, first if you can expand on the competitive environment in Brazil, as of late? And also my second question has to do with margins. If I understood correctly, with this program you expect a minimum Ebitda margin of 23% for the period that you are investing; and if you are expecting higher marketing expenditures in 2008 in what areas do you expect to generate savings and better margins? Thank you.

Mr. Carlucci: Hi Reinaldo, is Alessandro speaking. I will start with the competitive environment and I think that in the last years - and probably this is going to happen in the next one - the competitive environment in Brazil is getting tougher and tougher. We have a market that is growing, we are in a market that grows in the

last 10 years, so I think that every company wants to have a piece of this market and we have all the major players here in Brazil now, so the competitive environment is getting tougher.

Nothing specific in this year, I do not believe that in this year we are going to have something special, but it is getting tougher and tougher. This is my perception. Even though, as I mentioned in the initial speech, we are the preferred brand in Brazil with 42% of preference and a very high score, especially because the second preferred brand has 18% of preference. So even though the competitive environment is getting tougher, we keep the preferred brand with the same high score that we had in the last years. So we think that we are prepared to be an important player and to increase market share in the next years. Now I will pass to David to explain to you a little bit more how we are going to finance the R\$ 400 million of investments.

Mr. José David Uba: Reinaldo, our cost savings program is quite broad, it involves mainly manufacturing and distribution processes. I will start giving some examples of opportunities we have in the manufacturing process and how we are going to get those cost savings. As you probably know, we have already decided to decrease the number of SKUs in our portfolio and that will be one of the triggers for obtaining higher efficiency in the manufacturing processes. We are very confident that we will be able to get a higher efficiency in the supply chain coming from higher purchases by SKUs combined with a more stable demand for those items. The idea here is for Natura to share gains from this favorable change in the supply processes.

We also have a very specific plan for higher utilization of our assets. We will decrease the setup times in our manufacturing process through this higher volume per SKU and also as an effect of all those moves we expect a reduction on transformation costs.

We also are putting in place a better and more comprehensive loss prevention process and system in the company. In this year of 2007 we had an increase in our losses coming from products being discontinued and we expect, by a lower turnover, with this lower turnover in the portfolio combined with a much better loss prevention system to reduce dramatically those losses in the near future.

On the distribution side we will get much lower order taking costs through the high utilization of Internet, we have a specific plan for the medium-term for that. We also will have a lower transportation cost coming from the decentralization of our distribution and a reorganization of our cycles, our timetable of our cycles in the

country. So those are some examples of initiatives we are organizing now, we are implementing in order to decrease our costs. Those 400 million in three years will come from operational costs of usually variable costs that will gain a higher productivity through a different approach and some structural changes in our processes.

Mr. Santana: I understood great, thank you and one follow-up. Do you expect any pressures from raw material prices?

Mr. Uba: No, we do not have any specific expectation. Maybe on plastics that might happen if the new oil prices stabilize, although here in Brazil there is always a kind of cushion provided by Petrobras on those prices. But we are not expecting much pressure on raw material prices. Last year for instance, average inflation for our raw material and packaging costs was very, very low, lower than the general index for inflation. So it seems that the supply side of the business is very stable and calm, we are not expecting any big change in costs.

Mr. Santana: Thank you, thank you very much.

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 Mr. Celso Sanches with Citigroup.

Mr. Celso Sanches: Hi, good afternoon. I just want to talk a little more about the revenue drivers and an update on the numbers for the fourth quarter, but as a look out the next couple of years and clearly you are assuming your margins assumptions - which were very helpful by the way from our standpoint - how do you see the industry growing? Alessandro was talking about the past, if I remember correctly about industry growth in nominal terms of somewhere in the neighborhood of 13% to 15% if I am not mistaken - nominal of course, not real - is that something you see accelerating? We saw a little bit of a drop in the growth rates in the second half of last year. Do you think that is temporary? And more importantly within that, do you see direct sales participation stabilizing here or decreasing as (inaudible 28.12) a lot of people to shop in more formal channels?

And then related to that same question, rep recruitment in the medium term if the economy continues very strong it is going to become more difficult as there are more work options for women and also can you just update us please on your turnover rate? In 2007 it was not lower than the past, if that moves up dramatically 2007 or not? If you could update us on those things please? Thank you.

Mr. Carlucci: Let me see if I understood all your points. If I miss one, please say to me. First of all I believe that our industry should grow almost at same rates of last year this year, between 12% and 14%. So I think that in nominal terms we are talking about the same rates of the last two years, this is my projection for this year.

Talking about the channels in the cosmetic industry, in 2007 we saw a slight increase of the participation of retail and franchise, even though the direct selling grew the retail and the franchise grew a little bit more. But I do not see a change in the structure of the channel organization in our industry and I believe that we are going to be an important player; the direct selling is going to be an important player in this industry for the next 10 years, at least. So I do not see a change in the structure of the industry. And you asked something about the turnover, could you repeat because I think that I did not understand well what you would like to know.

Mr. Sanches: Sure, actually before I say that could you give clarification, a little bit more detail, when you say a slight increase in retail and franchise, if you have any numbers that it would be helpful.

And then secondly the turnover, your consultant turnover has been trending down, even though it has slowed that downtrend it was still trending down over the last few years. With the success of your competitor I was wondering if there has been a change in that trend and what is the number for 2007 if you have that? Thank you.

Mr. Carlucci: Celso, let me share with you some numbers. We do not have the numbers of the whole 2007; we have only the numbers of the first 10 months of 2007. With these numbers we can see the retail growing 13%, 13.1%; direct selling growing 12.9% and the franchise 20.9% and it is important to share with you that the franchise is the small part of our industry, is less than ... is around 5% and in the last three years franchise was in a very bad moment in Brazil, so they are recovering their participation. So as I mentioned there is a slightly better growth for the retail, but 0.2%, so it is almost the same of the direct selling.

And talking about the turnover we saw last year a slight increase in the turnover in our consultants, but it is not a trend because it was really little, small the increase, so it is not a trend, we cannot configure that it is a trend. But we saw a small increase in the turnover.

Mr. Sanches: Do you have a number you could attach to that for us?

Mr. Carlucci: Yes, we had last year 28.8% against 26 in 2006.

Mr. Sanches: That is great, thank you very much.

Mr. Carlucci: Thank you.

Operator: Excuse me. Ladies and gentlemen, again, if you would like to pose a question, please press star (*) one (1). Our next question comes from Ms. Daniela Bretthauer from Goldman Sachs.

Ms. Daniela Bretthauer: Good afternoon. A quick question on an interview that appeared in the local press today regarding your Internet strategy. Apparently you want to have like a global store; can you comment a little bit on that strategy Alessandro? Thank you.

Mr. Carlucci: Yes Daniela, this is a brand strategy. We want to offer our products for Brazilians and non-Brazilians around the world and this is not a business strategy, we do not want to have a business under Internet at least for the next years, so this is only a brand strategy to offer the products for people that want to buy all over the world independent that we have or not a local operation. So this is the main strategy.

Ms. Bretthauer: And who is going to handle that, meaning are you going to have an agreement with an Internet company and logistically?

Mr. Carlucci: Yes, definitely, we are not going to operate this logistic process and it is going to be based in France, because it is the best place today for us to operate, so it is going to be a third-party that is going to operate.

Ms. Bretthauer: Ok, thank you.

Mr. Carlucci: You are welcome.

Operator: Excuse me. 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 go ahead, sir.

Mr. Carlucci: I would like to thank you all for your time, for the questions, and again say that we are confident that we are going to start a new growth cycle in Brazil, that we are going to continue to grow in Latin America and prepare a very good plan to start our operations in the United States in 2009. Have a nice weekend and thank you for your time again.

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

