Local Conference Call
NATURA Nac.
2Q08 Results
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Question and Answer Session

Operator: Ladies and gentlemen, we will now start our question and answer session. To ask a question, please dial star one (*1). To remove your question from the list, dial star two (*2). Our first question comes from Ms. Júlia Rizzo from Itaú Asset.

Ms. Júlia Rizzo: Hello everyone, thank you for giving this opportunity to ask a question. I have a few questions. The first is on the tax issue. Would it be correct to say that you are being successful at reducing the amount of taxes paid? And would it be sustainable or is it just a momentary thing that you would have to go back and pay later on? Or has the percentage not really been defined yet because of the tax substitution in São Paulo?

The other question I have is in relation to the Ebitda guidance margin—whether it includes the part that would be non-recurring of taxes, of the 30 million it had this quarter.

Finally, about operational hedge, which had a drop; whether we should adjust this hedge in relation to the CMV, to COGS. Maybe there was a gain that you had in COGS, whose counterpart was a loss in hedge? Hello?

Mr. José David Uba: Hello, hi Julia. This is David.

Ms. Rizzo: Hello David.

Mr. Uba: Let's get to your questions. The first on taxes: with regard to taxes, it is too early to say whether this tax structure that we have been seeing in the second quarter will be valid for the long term; there has been a chance in the tax coverage scheme in the state of São Paulo for tributary substitution taxes—this process is being analyzed; all parties involved in the evaluation of this method, from the Ministry of Finance to the companies, are still following the results; new negotiations will take place, new evaluations will be made on the impact of this measure—on the collection, on tax charges, among the various companies of the sector.

So it is too early to say whether this structure that we are seeing now—whether this charge will remain. But it is not the only cause of the reduction we are seeing. We have some accrued effects, like we announced in the performance commentary, accrued in the distribution, the decentralization of the physical distribution: this also has some impacts on the calculation of taxes and a bit of the mix. For this year, the structure will probably remain more or less as it is; it will probably proceed, but it is not certain that it will continue in future years, and this will depend on this evaluation that is being made by the involved parties. That is the first question.

The second, about guidance: guidance is continuing because the 23%, like we have said, is a level for the Ebitda margin, and, as we have also always said, our top line is the priority; this growth, let's stay, of cash generation, through this non-recurring fact observed here in the second quarter, could perhaps finance some different company than what we were planning, but we have maintained a guidance level of 23% for this year.

Ms. Rizzo: I didn't understand: does it include the 30 million or not?

Mr. Uba: We have maintained the 23% level with the 30 million.

Ms. Rizzo: With the 30, okay.

Mr. Uba: And, like I said, the guidance is a level.

Ms. Rizzo: Of course, I understand.

Mr. Uba: So it gives us some degree of freedom for management; for operating this additional result that we received in the best way possible. And the last question…

Ms. Rizzo: About the operational hedge.

Mr. Uba: On operational hedge… it is not true, we have an exchange risk contention policy here and this policy establishes some limits to the impacts on the company's results in view of certain exchange rupture scenarios, and in fact, throughout this first half-year we have had losses in the order… a net cost in the order of R$5 million. To be credited in the same exchange variation, it can be projected for the second, yes, since our policy will not change; it will remain the same.

Ms. Rizzo: Is its counterpart in the CPV, David?

Mr. Uba: Yes, because as you know, we have a reasonable percentage of our inputs which are tied to hard currency—not necessarily imports, but with an adjustment tied to hard currency because some are imported by our local suppliers. So the counterpart is, yes—most of the counterpart is indeed in the COGS; not completely, because we also hedge some commitments of the international expansion in hard currency.

Ms. Rizzo: You said that it was 5 or 14… the hedge result, exactly? Sorry…

Mr. Uba: The hedge result is 5 million in the first half year.

Ms. Rizzo: Half year… okay, understood. And there was a new story about a drop in the industry volume; have you seen this? Your interpretation: drop in the volume of sales by the president (inaudible X20: 23).

Mr. Uba: Look, we only have the data… at least the official data released by ABITEC; they are for the first four months of the year—we do not have official data for the last two months that end the first half year. In these four first months, the growth was 12%, so compared to the two first months, if I am not mistaken, there would have been 15, so there was indeed a slight slowdown—it was 15% in the first two months, but a growth…

Ms. Rizzo: It talks about an absolute drop in sales, for example 6% for shampoos in the volume of sales.

Mr. Alessandro Carlucci: Hi Júlia, this is Alessandro. We do not have any official information yet from any source showing an absolute drop in the volume of shampoos. It could have occurred, but we have no official information—what we do have is this data that we are releasing to you, which reflects the first four months of the year. It is worth mentioning that the growth—if we look at a slightly longer historical series—the 15% growth in the first two months was a bit beyond the curve, maybe it was extraordinary growth, which breaks away from a historical series, you can't compare other growth with it. But we do not have official data for the last two months because, again, we only have the four first months of the year.

Ms. Rizzo: Okay, great. Thank you very much.

Mr. Carlucci: Thank you.

Operator: Our next question comes from Mr. Marcel Morais of Credit Suisse.

Mr. Marcel Morais: Hello everyone. Alessandro, my first question relates to the market. In the second quarter we saw very strong growth in inflation and we guess that this would have had some impact, at some point, on the consumer's purchasing power. In your sector, are you able to see any structural slowdown in the industry due to inflation, mainly? Because we guess that this should cause part of the income to migrate to food, and eventually, take away from other sectors. The first question is this: what is your view with respect to these occurrences in the second quarter?

Mr. Carlucci: Marcel, I think it is still early; I think you are right, this is a topic that we obviously are following and it is quite important, but I believe that it is still too early for us to conclude anything. I think we do pay attention, I think we all consumer goods sectors are being attentive to the inflation issue; to an eventual change to the consumer profile—but I think it is still rather early to say anything.

Once again, and going back to Júlia's question, since we still do not have the official market information for the past two months, which is when this higher intensity occurred, not only from inflation, but from the price high message that also impacts upon the consumer's confidence, I would not have data to give you. Only that we are obviously attentive and concerned, so I think we will have better information in the next call in three months' time. But it is still too early to say we already feel the impact. In our case, despite being rather slight, we have had better growth in the first quarter.

As for Natura, I would say: look, I don't see this happening yet. For industry, I think it is too early, but I believe that it is something that all consumer goods sectors are attentive to and need to make their plans above the reactions that we are feeling on the market.

Mr. Morais: All right. And in terms of marketing investments in the first half year, they stood at 26 million. We have marketing in other initiatives that is being carried out to accelerate sales—for the three years it 400, I guess for 2008 something between 100… 100 and some million would be reasonable. So in this line of thought, would it make sense to assume that in the second half year there will be strong investment growth in this sense, in marketing, or is 2008 still not the year to go full steam ahead, in this sense?

Mr. Carlucci: Without giving you absolute terms, I think it makes sense for you to imagine that investments in the second half year… are always additional, right? Recall that the 26 million are additional—we invest more in marketing than in this. But the additional investment to which you are referring should indeed be greater in the second half year. If you recall a bit our conversation on the results of the first quarter, in the first three on of the year we still had not had any significant movement in marketing activities, an early movement was "Amor América", which, in reality, started at the end of March and had a stronger impact in April, so it does mean waiting for a greater time for investment, always additional in the second half of this year.

Mr. Morais: All right.

Mr. Carlucci: Now, we will not necessarily have an equal division of the R$400 million in the next three years, but you are right in think that we will have greater investment in this second half year.

Mr. Morais: Great, thank you.

Mr. Carlucci: Thank you, Marcel.

Operator: Our next question comes from Mr. Luis Adaime of Credit Suisse.

Mr. Luis Adaime: Hello. I would like to ask how much reaction you have been seeing in your competition in relation to your new campaigns and your new products. And how have you seen the movement of the new entrants into to the industry? Products that perhaps, have a worrying positioning or mistakes they have been making. Thank you.

Mr. Carlucci: Luis, Alessandro, hello. I don't recall any specific reactive action by the competition, but the competition is continuing with quite high levels of investment, as it has been doing in the last one and a half years. So, on the one hand we have not noticed any specific counterattack, if I can call it that, with respect to company "X" or "Y", we are continuing to see a market with relatively high investments levels, which we have been seeing for the past year and a half.

With respect to new entrants, with the exception of the appearance of small niche brands which are common, we have not had any heavyweight enter our market or make any additional investment, or that has not been in line with what we have been feeling in recent years, especially in the past year and a half, which, as I said, are higher investments, meaning continued high investments; the competition remains stimulated, but we have not seen any specific reaction to any campaign, to a promotion that we have carried out over this period.

Mr. Adaime: And the rationality level, then, you would say is more or less the same level as last year or in the past months? Has there been no upward or downward shift? Is it more irrational or more rational?

Mr. Carlucci: No; or let me grasp your question: whether a price war was starting or something like that…

Mr. Adaime: Exactly—stronger advertisement.

Mr. Carlucci: Not at this point. I think… well it's a rather particular opinion—I think it is unlikely that a large investment change will occur, excluding ours, which happen and is already happening, because this is my personal opinion: I believe that the investments of some competitors are already at a level of efficiency that probably starts to bring out negative marginal results. So I don't believe… it would be a surprise for me if from now one we see new, highly significant changes in the competition's investment. Now, we are monitoring—it can happen; the decision is not ours, but up to now I haven't seen anything—it remains more or less at the same level of competitiveness that we have had recently.

Mr. Adaime: Thank you very much. Have a good day.

Mr. Carlucci: Good day.

Operator: Just reminding you that to ask a question, you just need to dial asterisk one. Our next question comes from Ms. Juliana Rosenbaun from Unibanco.

Ms. Juliana Rosenbaun: Hello everyone. David, let me just go back to Júlia first question that I didn't understand completely. When you talk about the 23%

margin/guidance for the year, do you consider that in the first semester you had 22, that excludes tax benefits, or 24, as reported? Just to clarify.

Mr. Uba: Hi Juliana, this is what I said: our commitment for the 23 level is maintained independent of non-recurring results that could occur. So what I am saying is that our level has not grown due to these 30 million; it continues to be 23%, it is a level, so it could be above 23%. What we are saying is that this fund—this is a fund that can turn into cash in more than 60 days, probably—it is added to the total funds that the Company manages for it to finance its campaigns during this year, meaning the 23% level remains, despite non-recurring results. I don't know if I understood correctly…

Ms. Rosenbaun: It is like excluding this runoff, so you are saying: I made 22 in the first recurring quarter and I maintain my 23 target, right?

Mr. Uba: No, not like that. When we get to the end of the year, including this result our Ebitda will be larger or equal to 23.

Ms. Rosenbaun: Oh, okay. So you made 24 in the first…

Mr. Uba: Yes, I made 24…

Ms. Rosenbaun: Sorry for the misunderstanding.

Mr. Uba: No problem.

Ms. Rosenbaun: I wanted to ask two short questions. First: could you address the size of the volume response, or give us some idea of the volume that you had in response to the lowest prices in specific shampoo, deodorant, and soap lines? Some type of measurement of the elasticity that we have seen in these products.

Mr. Carlucci: Hi Juliana, it's Alessandro. What we can share with you, without giving very specific information, is that the price repositioning in some categories, which are the highest consumption categories—hygiene and cleaning products—they have brought about a significant volume leverage sufficient for offsetting the price drop—in other words, the decision was right and, keeping in mind that these are daily use products, we want them to be consumed and bought less through promotions and more through added value; the right price. And this reduction turned out to be quite satisfactory; I cannot give you the specific leverage data, but it was quite positive and it offset the reduction in prices through margins. So we feel quite sure that it was the right decision.

Ms. Rosenbaun: Does this give you any support in expanding this type of initiative, be it through other lines or even increase the size of this one… in other words, reducing the prices of these products even more?

Mr. Carlucci: Obviously, when taking such actions and seeing positive results, we incorporate this experience, and eventually this could happen in other categories, which need to be studied. Broadly speaking, we have not made any decision yet about doing this in other categories. But I cannot tell you that this could not happen in any category in the future; however, we have no plans right now to do this. Now, we will learn, we will see how the consumer's reaction progresses, and eventually this could happen. But there is no short-term concrete plan.

Ms. Rosenbaun: And given that the average price per unit, in reality, even went up in the quarter, this clearly has something to do with the launches, especially with the launch of Chronos, which is a success and which has a higher price. But could you elaborate on this aspect? Meaning, how has the mix changed in the sense that the launches effectively contributed to leverage the average prices?

Mr. Carlucci: Look…our mix, as you know… we have a rather diversified line of products, so our mix is the result of many ups and downs, so we do not have a product which is the Company's big seller, which would change the mix as a whole if it sold a bit more, so there are many factors involved. In a few words, what can I say? Yes, we had an increase in these daily use products, which have a lower average price than Natura's average price, so on the one hand this brought the average price down a little bit. On the other hand, just to give two highlights: the launch of "Amor América" and the launch of "Chronos", which are two products that strongly impacted the quarter, helped bring up the mix. Now, as you know, again, we have a highly diversified line and, at the same time, we have promotional efforts for many of our products and this impacts on the mix. We have highly significant changes to sales performance when a product is promoted, independent of being a launch of not. So aside from these two effects—one upwards and one downwards—the average price is affected by many factors.

Now, going back to your point, of course Chronos, which had an exceptional result, we put in our ITR which was an anti-aging product with the best one-cycle sales in our history, was a really good launch—it contributed to enriching the mix.

Ms. Rosenbaun: So in this way, putting together these two points, do you think that the gross margin from this second quarter is sustainable for the rest of the year?

Mr. Carlucci: I think so, Juliana. I we are not seeing an unusual effect on the margins of this second quarter. I think so, yes, it would be projected onward.

Ms. Rosenbaun: Great, thank you very much.

Mr. Carlucci: Thank you.

Operator: Our next question comes from Mr. Valter Bianchi from Fundamenta.

Mr. Valter Bianchi: Hello Mr. Carlucci, David, Helmut, and fellow investors. In my first question I would like to just explore a bit further this investment in marketing actions of 400 million over the next three years, especially allocation between operations abroad and the Brazilian operation. Do you intend to maintain a certain proportion with revenues, or do will you focus a bit more over the long term on promoting operations abroad?

Mr. Carlucci: Hello Valter, this is Alessandro. That R$400 investment is exclusively directed at marketing in the Brazilian operation, so it has no correlation to investment in international operations. We give the guidance in relation to investment in international operations, which this year will be 96 million, which obviously is closely tied to the marketing investment in these operations, but not only. So these 96 have nothing to do with the additional 400 million, which are exclusively directed at the Brazilian operation.

And, as we have reported, this additional investment will support narrowing in relation to our Consultants, and this means the implementation of projects such as “Consultora Natura Orientadora” and “Casas Natura”, a significant increase in quality, in the intensity of training. Also an increase in communication efforts, in sampling efforts, in events with Consultants. So these 400 million are allocated to those items that I connected on and are exclusively directed at the Brazilian operation.

Mr. Bianchi: Okay. You haven’t revealed how much of this is an advertisement and publicity allocation. I have noticed—and I even think it is quite obvious—the greater frequency of your publicity pieces in various media channels. How have you been measuring return from this, then, Alessandro? And what is the main goal of this—is it to regain share, to maintain margins? Of course the two benefits are welcome, but what have you been striving for more with these actions and when do you think they will start happening?

Mr. Carlucci: Look, Valter, I’m letting you know that we do divide marketing investment by initiative; we do not release this information, but you are obviously right and we can confirm that we are investing significantly more into advertisement. I think there is an expectation of approximately 60% growth this year.

What’s the goal of investment in communication? We have two main goals: the first, which has always been the most important, is to continue to build an admired brand that is desired by our consumers. If we look—and we have been making releases throughout the year—the preference index; the Natura brand is the preferred brand for the Brazilian woman, for the Brazilian man, and the second-place brand is pretty far behind in preference compared to Natura. So the communication efforts—which, obviously, is not only advertisement, but advertisement plays an important role—is aimed at maintaining our brand, which is preferred and desired by our consumers.

The second goal—which we are obviously striving for—is leverage in the Company's growth, and we believe this comes not only from advertisement. This is why we are reiterating what the biggest accelerated growth signs should come as of this second half year, but it will have a total impact on actions in 2009. Why? Because no only advertisement will accelerate growth; having trained consultants also helps—the impact is not short term, but in the medium term a well-trained consultant who identifies with our brand offers our products with more enthusiasm; with more knowledge. Just to take the training example, the same thing is true for the implementation of the Natura Orientadora Consultancy, which will accelerate the growth in the number of consultants. Altogether, this total… is an integrated plan: the sum of these actions is what will give us accelerated growth. Advertisement alone will not have the same efficiency and has not followed from the sum of things. But clearly, one of the goals is to expand advertisement; also to accelerate growth.

Mr. Bianchi: Okay. Talking a bit about innovation, we have not had any more news about your functional food line. And I'd also like you to content on product lines related to nanotechnology; I have followed some studies which Natura is carrying out in this sense, but how are you doing in this sense? Do you already have products on the market and what is your expectation regarding this cosmetic technology?

Mr. Carlucci: With respect to functional foods, Valter, we are still carrying out a test in a pilot region—which is the Campinas region—and in the second half year will probably make a decision on how to approach the topic; whether we will do a rollout, what we will do. The test is going well, but we have not made any decision, so in fact I have no additional information to give you.

With regard to nanotechnology, for two or three years now we have not only been studying but also using this technology is some of our products. We don't have any plans for making a line using this technological advantage, but it is being already used in some. So, for example, we have a product called Brumas, which is a hydrator from the Ekos line—a liquid hydrator, a very pleasant and sensual product. It is a light hydrator suitable for the Brazilian climate. To give you an idea, it is used in a spray, so it is a liquid hydrator. This product uses nanotechnology to produce this sensation. So it is a form of technology already familiar to us and it is used in some products, but we do not aim to develop a line that specifically makes use of this technology.

Mr. Bianchi: Okay. About the working capital part—you really had a good cash generation gain, and obviously it was due even to the decompression of accounts receivable which increased a lot in the second quarter of last year. Do you intend to use the same flexibility in the payment policy in the four quarter of this year? And could we expect that the year will have a much more comfortable cash generation than last year's?

Mr. Uba: Hi Valter, this is David speaking. Yes, we will have growth in accounts receivable at the end of this year, but not in the same proportion as last year's. At the end of the four quarter, we had already released that the result of that credit expansion, in that sense, had not produced the results we were expecting and that, however, we would not repeat it. So we will go back more or less to the model we had before 2007, of December 2007, with some small adjustments. However, we are not expecting growth in the working capital in the same proportion that we saw in 2007—but rather to those we were used to seeing in previous years—for the end of this year.

Mr. Bianchi: Okay. And my last question is about profit sharing. You mentioned that it was one of the things that cause administrative expenses to go up. Could you explain the logic of this share's calculation and what sum it represents?

Mr. Uba: No, we haven't opened the mechanism for this profit sharing. What we did change was a bit… we made some changes to the profit sharing model and it is a model with greater focus on obtaining results. The only thing I can tell you is that in cases of exceeding results; exceeding goals, it would be a bit stronger. And in unachieved situations, it would be slightly more harmful. But it has an expected component—an expected value that is slightly higher than the previous one, but it is also volatile. So this is the change that we are making.

Mr. Bianchi: But the measure is profit; cash generation—what determines achieving these goals? What is the measure of the goals?

Mr. Uba: The main measure is Ebitda.

Mr. Bianchi: Ebitda, perfect.

Mr. Uba: The main one, but not the only one. It is the main one, the one that weighs most heavily.

Mr. Bianchi: Okay. I'd also like to take the opportunity to congratulate you on your initiative of making dividend distribution higher than cash generation. As a shareholder, this is a very welcome measure; the companies have signaled an important expectation in the continuation of this cash generation. Thank you very much.

Mr. Uba: Thank you.

Mr. Carlucci: Thank you, Valter.

Operator: Our next question comes from Mr. Marcelo Ferry of Itaú Securities.

Mr. Marcelo Ferry: Hello everyone. Almost all my questions have already been answered; I just have one. Do you still foresee spaces for those more significant productivity gains throughout the year?

Mr. Carlucci: Marcelo, could you please repeat your question? We couldn't hear your question.

Mr. Ferry: Sure. It's actually whether you foresee more significant productivity gains throughout the year? From the productivity gains mentioned.

Mr. Carlucci: Marcelo, yes, we do estimate them—in other words, our plan is to finance this increased marketing investment through productivity gains. So for the next three years we foresee where we will go with this increased investment, continuing to have productivity gains. So you can expect us to be able to finance this investment in various processes within the company, and we are putting a lot of work to this end.

Mr. Ferry: And could you indicate, in terms of processes, what could be more relevant in terms of gaining productivity?

Mr. Carlucci: We have been releasing two—not the only ones, but they are two where we can continue to have gains, which are processes that we call the "order cycle". So, for example, we stopped announced that part of the productivity gains came from an increase in the number of online orders is far below those from the call center, and the receiving orders is part of what we call the "order cycle process". But there are still other gains possible in this process, which is Natura's distribution process, which we call the "order cycle". But it is the whole processes of receiving, separating, and sending orders by our consultants—this is one of the main ways we obtain gains.

Another is in the transformation process, ranging from the purchase, transformation, and stocking of our products. We also believe we have opportunities for gains there.

But in truth, we are striving toward productivity in all Company processes. These two have a special focus, but it is not just from these two that we will obtain productivity gains.

Mr. Ferry: Perfect. The last point has to do with the Internet. What portion of orders does the Internet represent? Still very low, right?

Mr. Carlucci: This quarter… let me understand your question better. The percentage of orders coming from the Consultants accounted for 48% of the total. That's quite an important figure against the 40 we used to have historically, and that's where one of the productivity gains achieved in this quarter came from. Is that your question? Because it is not by consumers; our Internet sales for the final consumers, despite sales growth, it is a relatively small figure; it is almost insignificant when compared to the Company's business volume.

Mr. Ferry: Perfect. That was it—now it's much clearer. Okay, thank you very much.

Mr. Carlucci: Thank you.

Operator: Once again, to ask a question, please dial asterisk one. Our next question comes from Mr. Carlos Moraes of Banco Geração Futuro.

Mr. Carlos Moraes: Hello everyone. My question has to do with the inflation situation. I'd like to know if you are feeling any pressure in terms of costs. And is there any perspective, even punctual, for this to generate greater pressure in your COGS? And the other question is about the implementation of the Natura Orientadora Consultancy—what level is it at and have there already been any productivity gains related to the implementation of this program?

Mr. Uba: Hello Carlos, this is David. I'll address the part about inflation. We have long-term contracts here with our suppliers with relatively well-established rules, I'd say, over price adjustment, and in addition to this, we also negotiate periodically with them about price bases, taking into account volume growth and volume concentration in suppliers. This year (2008), we have not had strong impacts on our costs, and I said, part of that… like we said, in other words, in our performance commentary—much of our productivity gains in this second quarter came from manufacturing processes. And a part of the gain from the manufacturing process is tied to the fact that we have not really had inflation, at least in terms of growing inflation, in services too, up to now, the prices have been behaving based on historical inflation indices, so the Company's costs in this first half year do not reflect this inflation growth, and we do not expect this to happen the rest of the year.

Mr. Moraes: Perfect. So if there is any impact referring to inflation, we could expect this to take place much more on the demand side than in the cost itself?

Mr. Uba: Right now I think that's the better position. On the cost side, up to now the Company has been capable of cushioning these impacts and not having them reflected in costs.

Mr. Carlucci: Carlos, now talking about the implementation of the Natura Orientadora Consultancy, we are implementing this model right now in the interior of São Paulo and in the Northeast. Our sales team has already been trained; the Natura Orientadora consultants are being trained to start developing their role starting this month. And by the end of this half year we expect to implement at least 50% of our regions, and conclude 100% of the implementation in mid-2009. Because of this, we cannot yet capture any effect, because the implementation… the start of action is occurring right now, so we still have no effect to be budgeted.

Mr. Moraes: Perfect. Thank you very much.

Mr. Carlucci: Thank you.

Operator: Our next question comes from Mr. Jander Medeiros of Banco UBS Pactual.

Mr. Jander Medeiros: Actually, most of my question has already been addressed, but just to be sure about Julia's and Juliana's question, I mean, does this guidance for a minimum 23% EBITDA margin include all non-recurrent earnings? If, at the end of the year, we see that the EBITDA margin was 23%, of which about one point or 1.5 came from non-recurring gains, there is no problem, the company will assume it reached this 23% margin guidance and that is also favorable for employee remuneration. Is that how we should look at it?

Mr. Uba: You should look at it like this: the 23% includes the non-recurring gain, and the reason for that is for the management to have more freedom to make investments over the year. We can easily find opportunities for accelerating our marketing investments here and achieve a positive outcome, without necessarily having a margin gain equivalent to that non-recurring expense, in margins, in percentage, but in actual value with a very positive return. But your understanding is correct about the minimum at the end of the year—that is minimum, okay? The minimum 23% includes the non-recurring gain.

Mr. Medeiros: Great; just a follow up, I think you've mentioned that the reported gain has a fast cash effect, meaning even if there are new gains without an immediate cash effect, because in that case you cannot use that money to fund other parts of the company, this scenario would still be maintained?

Mr. Uba: If I had a situation with large impact, without cash generation, then things might change, but it would be very specific. In that specific case, the cash conversion is for the short-term, as I said, in 60 days or less, but here it's already included, yes, the minimum.

Mr. Medeiros: Excellent, thank you.

Mr. Uba: Thank you.

Operator: Our next question comes from Mr. Luis Cesta of Banco Espírito Santo.

Mr. Luis Cesta: Good morning, everyone. I have a question concerning the minimum order of Consultants for Natura. Recently, there has been a reduction in the minimum order from 100 points to 80 points, which is much closer to the minimum amount practiced by the competition in direct cosmetics sales in Brazil.

I'd like to further explore this trade-off between the sale gains you will have from this initiative, i.e. with faster product delivery to customers, but also with slightly greater costs, since the package could contain fewer products.

I would like you to explore that a bit further, in terms of the impact that could cause to the results in the coming quarters. And I think the initiative is a bit recent; you had also done that 80-points event, which could be lost, in case the order was made through the Internet.

I would like you to talk a little about what outcomes you see from this reduction in the minimum order value and what impact you expect in terms of result. Thank you.

Mr. Carlucci: Hello, Luis, this is Alessandro. Regarding the reduction in the minimum order, our main goal is to increase the frequency of orders from our consultants and, therefore, as you have said, reduce the waiting time for delivery to the consumer. That is, the consultant can close orders more quickly and, therefore, the consumer waits less time to receive our products. We have started this very recently, so we still do not have definite conclusions, but results are positive regarding the first goal to help increase activity, which is how we call the frequency of orders from our consultants. So, this initiative should be maintained; it was not promotional, it was the adjustment of our minimum order.

The upside from the initiative is much greater than an eventual… than the cost impact, in case there was not an increase in activity. What we see that is happening, and although it is… we are still beginning, going through the first cycles with the change, our perception is positive and, as mentioned earlier, the order cycle, which includes the costs related to the package orders, is a process where we are and where we want to increase productivity. This initiative should not cause cost impacts, it should be amortized by productivity gains as well. So we see it as another initiative to increase frequency and our company's relationship with consultants, and indirectly with consumers.

Mr. Cesta: Okay, thank you.

Mr. Carlucci: Thank you.

Operator: Our next question comes from Ms. Júlia Rizzo of Itaú Asset.

Ms. Júlia Rizzo: Hi, thank you for accepting another question from me. I think I understood it right; you said the US business plan has not been approved yet. What does that mean exactly? Does it mean you could change your minds?

Mr. Carlucci: That is exactly what it means. Although we have a group concentrated on conducting a study, on preparing the business plan, with people in the United States and, therefore, there is a good chance this plan will be approved. Formally, it is still a study. So, is there a chance we could postpone the operation?

Yes, there is. At the right time, after we have concluded the studies and have analyzed and decided, we will obviously share that with you. But, materially, we are making investments; this study requires investments by the company, because, again, there is a senior team conducting the study—which is not only analytical, but to accept the value proposal for our products, so it is quite complete. It should be concluded in the coming two or three months, and then we will make a decision. Therefore, it is possible that we will proceed or that we will not proceed.

Ms. Rizzo: So, more or less two or three months would the timeframe to conclude the business plan?

Mr. Carlucci: Yes, more or less… I would say by the end of the year we will have reached a decision, and then, in time, we will share our decision and implementation plans with you. But, for the time being, we are doing our homework right, but it is still a plan, the operation has not been decided yet.

Ms. Rizzo: Okay, very interesting. So the losses you have recorded in these markets, which consist of France and the US, which were very significant, they are 90% from France?

Mr. Carlucci: No, it is not 90% from France and we are not disclosing that percentage. But a material part of what we invested, the 16 million, in the international operation, refers to the US, which is not an operation yet; it is only expenses, a pre-operating expense, which will only be pre-operating, actually, if we approve the US operation. So, a material portion of the investment between France and the US is related to the US plan.

Ms. Rizzo: Okay, thank you very much. And, back to a question about the CNO, we have had a major experience in the Midwest, for a certain time, which is where you did the roll-out. Have you seen an increase in productivity over there? Or has the gain/benefit come from the channel growth?

Mr. Carlucci: The main benefit comes from the channel growth.

Ms. Rizzo: So there is no reflection of the productivity gain in the revenue, per consultant, it remains stable, right?

Mr. Carlucci: Precisely; there is no productivity gain, although we have an expectation that, at the moment we implement it throughout Brazil, in time, operating a single model, the company can start pursuing productivity gains. As we had a pilot that was separated from the Company's management in Brazil, we eventually did not have opportunities to implement all initiatives that could increase productivity, and we believe that can happen in the future. But the sure thing is that in the Midwest we did observe growth, an acceleration in the number of consultants, but not a productivity gain in the average, of course.

Ms. Rizzo: Thank you very much once again.

Mr. Carlucci: No problem, thank you.

Operator: Our next question comes from Mr. Marcos Bastos of JBS Administração de Recursos.

Mr. Marcos Bastos: Hi, good morning. Actually my question has been answered already, but I would like to clarify something. Regarding that extraordinary effect on the EBITDA margin, when you set the minimum 23%, had you forecasted this extraordinary effect in the result or not?

Mr. Uba: No, we did not have this forecast, as we did not forecast any extraordinary results that may come up negative.

Mr. Bastos: I see.

Mr. Uba: This resulted from a change in the tax model used for credit related to transportation expenses, freight, which was recognized, let us say, recently. Our minimum was set during our first call this year, on February 28, February 29 this year, so, no, we did not forecast this effect.

Mr. Bastos: So, just to see if I understood right, this minimum 23% is recurrent. This extraordinary result may be used for an additional marketing expense that might generate additional revenues and increase margins in the future, is that it?

Mr. Uba: Yes, it may be used for the marketing expenditures, improving the final result, maintaining the 23% margin.

Mr. Bastos: I understand. Very good.

Mr. Uba: Okay.

Mr. Marcos: Good, thank you.

Operator: At this time, we will close the question and answer session. I would now like to turn the floor to Mr. Alessandro Carlucci for his final remarks.

Mr. Carlucci: I would like to thank everyone for participating, for the questions, for following our performance. I would also like to reaffirm our satisfaction with the implementation of our plan, producing results that we can already feel, and which provide us the confidence that we will, gradually, regain the growth pattern and increase market share. Again, the first signs will be shown in the second half-year and more materially in 2009. Thank you and a have a great day, everyone. We will meet again in October to discuss the third quarter.

Operator: Natura's conference call is now over. Thank you for participating and have a great day.