

**International Conference Call**  
**Natura**  
**2<sup>nd</sup> Quarter 2012 Earnings Results**  
**July 27, 2012**

**Operator:** Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2012 2<sup>nd</sup> Quarter Conference Call.

Today with us we have Mr. Alessandro Carlucci, the CEO; Mr. Roberto Pedotte, the CFO; and Mr. Fabio Cefaly, the Investor Relations. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Natura's remarks are completed there will be a question and answer section. At that time further instructions will be given.

Should any participant need assistance during this call please press star zero (\*0) to reach the operator.

We have simultaneous webcast that may be accessed through Natura's IR website at [www.natura.net/investor](http://www.natura.net/investor). The slide presentation may be downloaded from this website. There will be a replay facility for this call on the website.

Before proceeding let me mention that forward looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward looking statements are based on the beliefs and assumptions of Natura Management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Natura and could cause results to differ materially from those expressed in such forward looking statements.

Now I will turn the conference over to Mr. Alessandro Carlucci, the CEO. Mr. Carlucci you may now begin.

**Mr. Carlucci:** Good morning everyone. Welcome to Phoenix's earnings conference call for 2Q 11. We are pleased to once again have an opportunity to share with you the latest information on our performance. We are very satisfied with the results of 2Q, especially the improvement in our service level, our sales and our channel, which reached 1.5 million consultants. Consolidated net revenue grew by 15.4% with growth of 12.5% in Brazil and 26.2% in our international operations in local currency.

First I would like to comment on some of the main points of our operation in Brazil. The new level of service quality and the recovery in the efficiency of our promotions made to very important contributions to the recovery of our sales revenue in Brazil. We have begun to enjoy the benefits of the strategic, logistics

and IT investments made over the last few years, which will allow us to improve the level of our service quality in relation to last year and our historical levels as well. To give you an example, in the last quarter our average delivery time to consultant was 4.5 days compared to the average of 6 days during the same period of 2011. We continue to evolve in order to improve services, reduce costs, lower CO2 emissions and optimize inventories.

Another important factor was the excellent reception of the Mother's Day kits, which highly exceeded our expectations. Because of this revenue growth on 2Q exceeded our expectations.

In July we also continued to make gradual progress on implementing the set of initiatives to increase the productivity of our consultants. The innovation index stood at 67.9% with investments in research and development close the aligned with our strategy. We made relevant product launches during the first half of the year, such as the perfumes Kaiak Urbe and Humor no Ar.

I would also like to share with you our market share data for the first four months of the year. According to Sipatesp our target market grew by 14% in the period while our market share contracted by 160 bps to 23.8%.

In our international operations, which have already grown to represent 10.8% of consolidated net revenue we continued on the path of consistent growth and higher profitability. In Chile, Colombia and Peru we concluded the implementation of the CNO model and are confident that it will leverage growth in our consultant base. In Mexico, after implementing the sustainable relation network model we continue to make adjustments based on the learning process.

In Argentina we are feeling the effects of the more challenging institutional environment, which has led to higher product shortages compared with the historical average. We are managing the situation and intensifying local production, which to date stands at around 50% in order to meet the demand from consultants and customers. Note that the recent hearing of imports in the country has allowed us to rebuild our inventories for the short term.

I also want to highlight our social and environmental results which registered important progress, in line with the commitment assumed at the start of this year. For example we reduced our greenhouse gas emissions by 6.4% compared to last year and have already raised R\$ 6 million through the Crer para Ver Project which is allocated to initiatives that improve public education through Instituto Natura.

Those were the topics I wanted to cover today, so I will now hand the call over to Roberto will present the details of our financial results.

**Mr. Roberto Pedotte:** Good day everyone. As Alessandro mentioned our consolidated net revenue grew by 15% in 2Q compared to the year ago period with growth of 12.5% in Brazil and 26.2% in the international operations in local

currency. Consolidated Ebitda was R\$ 391 million with Ebitda margin of 24.3 pending by 90 bps on a year earlier.

Gross margin in the quarter expanded 30 bps to 70.7% driven by the improvement in our international operations, which benefit from the better management of costs and promotions as well as the favorable foreign exchange impact.

During 2Q we observed a slight increase in the (inaudible 08:05) levels; but we do not see any signs of further deterioration and we expect to return to historical levels in the second half of the year.

Consolidated net income in the first six months of the year was R\$ 366 million with free cash flow of 433 million, improvement of 180% on the same period last year. This improvement was driven by lower working capital as a consequence of better management of inventories and suppliers and recovery of taxes.

Closing I would like to comment also that the board of directors approved the payment of dividends and interest on equity for the first six months of the year in the net amount of R\$ 0.83 per share, which will be paid on August 15 to shareholders of record on July 31.

Those were the main points I wanted to cover today. Thank you very much, let us go now to the question and answer session

### **Q&A Session**

**Operator:** Thank you. Ladies and gentlemen we will now begin the Question and Answer Session. If you would like to pose a question please press the star key followed by the one (\*1) key on your touchtone phone. If at any time you would like to remove yourself from the questioning queue, press star two (\*2).

Excuse me. Our first question comes from Ms. Lore Serra from Morgan Stanley.

**Ms. Lore Serra:** Good morning, thanks for the call and congrats on the results. I just wanted to ask a couple of questions. Maybe I could ask you first, Alessandro, for your perspective on... somebody mentioned if you are implementing right now in terms of trying to incentivize more the productivity of consultants, how you see that progress and give us any sense of a kind the timing when you see... you hope to see improvements on a sustained basis in terms of your productivity. The second quarter was a good piece of news; but obviously that compared with the challenge you had in the past couple of years. That would be really helpful.

**Mr. Carlucci:** Hi Lore how are you? Well as you know we started to focus the company to increase productivity since the last months of the year and from that moment we started to implement some initiatives. The first two of them that are already impacting our results are, as I mentioned, the improvement in the services and also the better efficiency in the promotions and we are already being... we are already improving the productivity... better, not improving but we

are changing the curve and starting to decrease the rates on productivity. So those two things already happened.

What we are doing now? We are starting to implement also some changes in the sales force management driving our salespeople to boost productivity and also we are changing a little bit the way that the CNO they received their commission also to boost productivity. At the same time we are implementing better communication and better relationship initiatives like training recognition to boost until the rest of the year the productivity.

And on top of this we are also working - and this is not something that we started now, we have been working in the last years - to produce innovation to occupy some white spaces with new categories are sometimes new price positioning.

So this is the set of initiatives that are going to improve productivity and as we mentioned to you before the effects of all this program we are going to see gradually during the year. So this is mainly the description of the program that we presented to you some months ago.

**Ms. Serra:** Great. Can I ask a question about the market share? I understand it is only four months; but when I look at the market share decline in toiletries it is real strong relative to your share in toiletries and maybe on the longer basis it will look different. But can you comment on what you are seeing in that space? What are the areas where the market share is under more pressure? And I know you do not want to talk about innovation; but do you see this trend changing if we look out over the next one or two years?

**Mr. Carlucci:** Lore first of all I would like to remember that CIPATESP's market data is based on the industry revenue. In other words it is more a sell-in market share; therefore growth in the first four months of the year could have been influenced by a stocking trend at retails. When we look at the first two months of the year which registered a growth of 17% - and this was driven by toiletries such as soap, which is a category with high penetration - that does in fact appear to have been stalking trend at retailers and not the change in consumption and when you compare the 17% of the first two months with 11% of the third and the fourth months we strongly believe that this is more a sell-in effect in some categories then a change in consumption.

In addition this indicator does not yet consider the acceleration in Phoenix's revenues especially in May and June, which registered a recovery in growth. We expect market growth this year to be slightly stronger than last year and therefore we expect Phoenix to maintain its market share stable this year. At the end of the year we believe that we are going to be either slightly higher or slightly lower, but with sign of stability in market share.

**Ms. Serra:** Ok and I guess last question for Roberto: you have talked about a goal of having flat Ebitda margin this year excluding some of the one-time income you got last year from some tax credits and you are doing a really good job on margins so far this year, but 4Q last year was a really strong margin

quarter for you. Are you still comfortable with the view of that flat Ebitda margin for the year?

**Mr. Pedotte:** Hi Lore. Yes, we believe that we continue to say that to look for last year excluding the nonrecurring items I think that is a good basis to think about this year - a little bit higher, a little bit lower - but this seems to be a good basis for the year.

**Ms. Serra:** Thank you very much.

**Mr. Pedotte:** Thank you Lore.

**Operator:** Excuse me. Ladies and gentlemen as a reminder, to pose the question please press star one. Excuse me. Once again, to pose a question please press star one.

Excuse me. 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:** Thank you for participating in today's conference call. I would like to emphasize that 2Q results reaffirm that we are moving in the right direction. We continue to focus on the challenge of gradually improving our service quality and productivity of our consultants while investing to optimize our model and enhance the buying experience of our consumers over the medium-term.

Thank you and I look forward to our next meeting in October to discuss the results for 3Q of the year. So good morning and have a nice weekend everyone.

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

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