International Conference Call
Natura
4th Quarter 2011 Earnings Results
February 17, 2012

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2011 4th Quarter Conference Call.

Today with us we have Mr. Alessandro Carlucci the CEO; Roberto Pedotti the CFO; and Mr. Helmut Bossert, the Investor Relations. We would like to inform you that this event is being recorded and all participants will be in 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 to reach the operator.

We have simultaneous webcast that may be accessed through Natura's IR website at 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 the conference, sir.

Mr. Carlucci: … to discuss 2011 results. I would like to begin my comments by recalling how over the last few years we have brought about profound transformations at Natura. Between 2007 and 2007 we practically doubled in size. Our consultants increased from 700,000 to 1.4 million; Ebitda went from R$ 700 million to R$ 1.4 billion; the contribution from the international operations rose from 4.4% to 9% and we will end from 9 million to 17 million orders per year with over 50,000 orders per day and almost 500,000,000 units sold last year.

To accompany this growth and prepare for the coming years in 2007 we made the largest investment ever in our history of locating a round R$ 350 million in Capex in production, logistics and technology projects. As we mentioned in the last year's call we recognize that simultaneously implementing new systems for capturing orders and developing our logistics model with the inauguration of new DCs lead to instability in our operations, which in turn affected the quality of our services and led some products to be out of stock - especially in the second half of the year.

Today both our system and logistics structure are stable and operating normally. Although the number of products out of stock has decreased we are still not at the levels we want and which we should achieve within the next few months.

At the same time we face the drop in the efficiency of the promotional process. The combination of these two factors impacted our results and required adjustments to our planning during last year. Today we are dedicated to ensure the success of our promotions by better balance the parts done, centralized and regionally. We remain focused on capturing efficiency gains in the company's various processes which will generate the funds needed to operate in a more competitive market.

We are certain that we are under the right path to taking our infrastructure to a whole new level in order to ensure our products reach consultants faster, which will allow service quality to reach a differentiated standard boosting the competitiveness of our company.

In Brazil the strategy in recent years has been based on increasing our penetration in order to take advantage of the fact that our markets was expanding by a 15% to 20% per year, which was the correct strategy and was well implemented. Now we have 1.2 million consultants and our penetration in Brazil's households has reached 60% with around 100 million consumers.

Going forward our strategy will now seek to leverage these assets taking advantage of our brand preference to increase the consumer purchase frequency and the variety of products they buy. For this we are shifting our marketing mix to support this evolution in our strategy, the results of which should be seen gradually over the course of this year.

In parallel we also continue to invest in innovation, which is focused not only on brands and products but also moving into new areas of the market where we currently do not have a presence.

Another highlight was our international operations, which posted very strong results. We remain confident and enthusiastic about Natura's expansion in the region, which is fast becoming a relevant business platform. At the same time that we are promoting development of multiple fronts in the short term we are also moving towards a new outlook for the business. We are motivated in particular by the future of direct sales.

We have always believed in the interpreter it all and transformational capacity of people who are engaged in a common purpose in the world even more connected digitally in which the personalized treatment of each consumer gains greater relevance, direct sales have an excellent opportunity to continue expanding. We see a future in which the relationship between consultants and consumer will be supported by high technology and social networks and services can evolve dramatically while leveraging the creation of value for all involved.

In conclusion we have an excellent opportunity to expand our competitive advantage by improving our service quality; redirecting our marketing mix to increase buying frequency and shopping baskets taken advantage of Natura's high penetration and brand preference while continuing to execute our expansion plan in Latin America.

Those were the main points I wanted to cover. I will not ask Roberto to give us some details on the results.

Mr. Roberto Pedotte: Thank you and good morning. Natura's consolidated net revenue of R$ 5.6 billion grew by almost 9% in 2011. In the first 10 months of last year Natura achieved a market share in Brazil of 23.2% maintaining its leadership position even though they share was down 36 basis points from 2010.

In the international operations we registered very strong growth of 14% in local currency. Note that there was a significant improvement in profitability in Argentina, Chile and Peru with Ebitda margin in the year expanding 12%. 2011 was marked by adjustments and a greater focus on managing in the company's expenses.

The higher profitability in the last quarter was due to various factors which included: first the adjustment expenses; second the favorable comparison base in relation to 4Q last year; and third the nonrecurring impact of the recognition of PIS and Cofins taxes from other periods.

We also took advantage of 2011 to improve our methodology for planning and controlling costs with the implementation of a zero-base budget. We continue to concentrate our efforts on capturing productivity gains in the various processes throughout the company in order to generate the resources needed to ensure our competitiveness.

Ebitda margin was 25.5% in the year, 100 bps higher than 2010. After excluding the nonrecurring impact from other operating revenue expenses Ebitda margin was 24.24%. Consolidated net income was R$ 131 million growing by 12% from 2010. Free cash flow was lower than last year reflecting the higher Capex and higher consumption of working capital. This last factor was impacted by an increase in inventory coverage due to the lower-than-expected sales and by the higher recoverable taxes mainly due to PIS and Cofins tax credits I have mentioned which should be converted into cash over the course of the first half of this year.

We project significant improvement in working capital in 2012. Investments reached 346 million in 2011. The projects were concentrated in our logistics and

IT. For 2012 we estimate a Capex of 420 million. We continue to improve our technology and logistics including a new distribution center in São Paulo. 2012 should also be marked by important investments in industrial capacity with the expansion of our plant in Cajamar and our industrial unit in Benevides, State of Pará. These investments will leave us ready for growth; increase the efficiency of our logistics and production processes and take us to a whole new level in terms of service quality.

We ended the year with a cash balance of R$ 516 million and that net debt corresponding to 0.4 Ebitda.

On the 15th of this month the board of directors approved the payment of dividend and interest of accuracy related to the results in fiscal 2011. This dividend and interest on equity along with the amounts already advanced in August last year represents dividends per share of R$ 1.89, 50% higher than is the amount declared for fiscal 2010.

Thank you very much and let us go now to the Q&A session.

Q&A Session

Operator: Thank you. Ladies and gentlemen we will now begin the Q&A session. If you have a question please press the star key followed by the one key on your touchtone phone. If at any time you would like to remove yourself from the questioning queue, press star two.

Excuse me. Our first question comes from Mr. Reinaldo Santana from Dutch bank.

Mr. Reinaldo Santana: Yes good afternoon Alessandro, Roberto, Helmut. I have one question regarding Capex for 2012 bid is higher than anticipated. I was just wondering if you could give us some breakdown, approximate breakdown of this in terms of how much would be for IT, production and was logistics.

And also if you see a risk of distortion in terms of volumes as it seems that the intensity of the projects continues this year. Thank you.

Mr. Pedotte: Reinaldo, basically what happened in 2012 is that we are still in the end of the cycle, obvious logistics cycle. The logistics cycle started in 2010, 2011 and is in the last part of days in 2011 and we are starting investments in production in 2012. Then we have like an overlap of two important cycles of investment in the company in 2012.

I am not sure if I understood the other question; but if it is related to problems we can have with the implementation of the projects…

Mr. Santana: That is correct, yes.

Mr. Pedotte: We learned a lot last year. We did a lot of learning and we are going to be much more conservative in the way that we are going to implement projects and we are going to run less risks and we are planning all this future implementation with this approach and then we expect to do in a much better way the following projects.

Mr. Santana: Ok great and also what sort of efficiency gains in terms of general and administrative expenses were you able to achieve this quarter and if you see that those are sustainable for 2012.

Mr. Pedotte: Reinaldo, as we mentioned we are approaching efficiency gains in all areas of the company and not only in general and administrative. Even in marketing, sales; all the areas of the company we are looking for more efficiency. Then we are entering 2012 with a more optimized expense base all across the company and we expect to continue to improve this process through 2012.

Mr. Santana: Ok great thank you.

Operator: Excuse me. Our next question comes from Ms. Margareth Kalvar with Harding Loevner.

Ms. Margareth Kalvar: Good morning or afternoon there. I was wondering if you could give me a little bit more detail about the whitespace is that you have talked about going into in terms of increase in terms of the consumer's frequency and the size of their basket, if you entered a new phase as you basically highly penetrated in terms of initial purchase.

What kinds of products, particularly given the increase in modern retail penetration in Brazil are you focusing? Are you continuing to focus on products that are really more department store, channel rather than the hypermarket type of purchase?

Mr. Carlucci: Here is already afternoon, 12:22. Let me talk a little bit about white spaces. Maybe we are talking about two different things: the first one is to offer new categories we are Natura is not present yet, like for example oral care or other categories that we do not have any offer to the customer. The other opportunity is to offer new price points with new value proposition in the categories that we are already now.

So for example today we have only two offers in the hair care and as we mentioned before we can offer more differentiated products, more expensive, more professional like; and at the same time we can offer also some mustige projects for hair care and both of those things we do not have today yet. So these are two examples of initiatives that we should see in the next two years happening in Natura.

And also adding to this only to repeat that an important part of this new strategy to increase the frequency of the consumer purchase is to shift our marketing mix to productivity, to frequency, adapting our promotional campaigns our communications; the recognition; the compensation of our sales force putting all our marketing mix to support this strategy where the white spaces are one of the initiatives but we must not forget that we have a very rich marketing mix when they compare with retail consumer companies because we… in some way “own” the channel and so we can drive the channel to look for productivity while the typical consumer goods they cannot because they are not the owner of the channel.

So that is why we have a very rich marketing mix and we are going to work on this.

Ms. Kalvar: Ok. But at the same time oral care and hair care are two very competitive areas globally in terms of multinational presence and penetration and I have read that L’Oreal is starting up a research center in Rio and I am just a little bit concerned that if you are planning on growing in those areas you may have a somewhat more promotional environment than the basic CF&T products.

Mr. Carlucci: You have a point; but on the other hand if you take a look of our performance in the soap industry - that probably is the most commoditized category in our industry typically, totally led by those companies that you mentioned - Natura after three or four years of offering new price positioning with innovation became the second largest soap industry in Brazil.

So I totally believe that we can do similar things in categories we are typically consumer goods in retail other leaders and we can become maybe not the leader; that is a relevant player. So this is our challenge, but we did before and I really strongly believe that we can also be very well succeeded in categories like hair care; like sun care; like deodorants; like oral care - a lot of categories we are retail typically is the best channel but we can really become a relevant player like we did in soap.

Ms. Kalvar: Ok thank you very much.

Mr. Carlucci: Thank you for your question.

Operator: Excuse me. Our next question comes from Ms. Lore Serra from Morgan Stanley.

Ms. Lore Serra: Hi, I guess good afternoon and thanks for taking the question. Let me ask a couple of questions but I will ask them one at a time. Can you just put for us in contexts where you are in terms of the systems issues and the stock outs? I think you mentioned in your opening comments that these systems are stable but that you are still working on improving your level of ability to deliver products and it will take a few months.

I just want to understand what that means and what the implications or for… what that means for the sales out looking into the first half of the year.

Mr. Carlucci: Hi Lore how are you? Alessandro speaking. Well, as we mentioned in the beginning we are in a very good situation now regarding the stability of our IT systems and also our logistics. So all the problems that we face in the last quarter now they were mostly solved.

On the other hand regarding the stock outs, even though we decreased significantly the number of stock outs we are still far from the place we want to achieve them mainly because we need to adjust all the suppliers and this sometimes needs some months and so all the chain must be balanced and we believe that we will meet probably two or three more months to really decrease the number of stock outs and to reach the level that we want to reach to offer a good service for our consultants. So this is the actual moment that we are living and we are really sure that the worst is gone and now we have still some things to be done but the worst part is already in the last year.

Ms. Serra: Ok I guess that is not clear to me: are you saying your supplier issue? Because I would think that if you got your systems aligned it is just a matter of making sure within your chain you have got the products in the right place.

Mr. Carlucci: The problem is not the suppliers; we had problems in the IT solutions and the IT solutions help us to integrate all the supply chain and the supply chain reaches the supplier. The IT solution is ready but that planning to the suppliers was wrong because the IT had some problems and to adjust, to rebuild all the supply chain we need now some months to be well-balanced again all the chain.

So the problem is not in the supplier; it is in the connection and in the planning for the suppliers that now are adjusting their production also to supply us.

Ms. Serra: Ok and maybe a can ask a little bit about your perspective for growth this year. I know typically you guys do not like to give a growth outlook; but I guess given… it is difficult to separate how much of last year's lower growth both for you and the market was related to each using the economy versus issues specific to the execution of challenges that both you and your primary competitor faced.

So can you give us a sense of how you think this year in terms of growth? I guess it is a bit difficult for the organization to plan, you will do not know if you are really going to grow this year at whatever pace, right? But what is your perspective, what is your best thoughts on how much you and the industry will grow this year and how much should we expect the system seen to continue to be a dragon to the far end of the year in terms of achieving what you think is your potential growth that the market will support.

Mr. Carlucci: Ok Lore. Without giving you any guidance I can share with you some of our expectations. First of all talking about the market we believe that this year (2012) the market should grow between the levels of 2011 and 2010 (so between the 15 of 2010 and 7 of 2011). So something around 11, maybe 12. This is our expectation for the market this year.

And regarding our strategy is totally focused to recover growth in our company and that means that we are putting our efforts to speed up the growth of the company - but this is going to happen gradually during the year. So you probably are not going to see suddenly and one quarter by huge change; but you should see during the year a gradual recovery in sales growth.

Ms. Serra: Ok and I am sorry to ask too many questions; but I appreciate the opportunity. The consultant base continues to grow at a very fast pace despite all of the issues you had last year and it was still a growth of 14% out of a high base and it is growing very fast and what you are talking about shifting the mix to productivity which makes a lot of sense.

I wonder if I could give me your perspective on where the channel is right now. I mean, how much did you grow this year? What is driving that growth despite all the executional challenges? How concerned are you that... when we saw the 10% decline in rep productivity this quarter I understand that you had issues but that is like the highest drop I had ever seen.

I would like to understand the perspective on both the growth and health of the channel.

Mr. Carlucci: It is a very good question lore and in some way the answer of your question is supporting the change in the strategy that we are implementing now. We realized that we are going to have much more efficiency improving the efficiency of the consumer purchase then increasing penetration because we already reached a very high penetration (60% for brand is very high).

So marginally speaking the prophets and the gains of the increasing penetration are going to be lower and lower and I wait to see this is the decrease in productivity.

And on the other hand the opportunity is that is put effort and investment to increase productivity; to use this new capacity of the penetration, the assets of the penetration, and also getting advantage of the fact that we are the preferred brand. So that is why we are moving from one strategy to the other and we believe it was the right strategy until now because the market was growing between 15% and 20% and when the market grows so fast I think the rule of the game is that us penetrate, let us occupy all the places.

And now we, as I mentioned before, our expectation is that the market is growing. It is going to keep growing but lower levels and so this is a time to use this penetration and to increase productivity - productivity a mean not only the consultant productivity but especially the consumer purchase frequency.

Ms. Serra: Great and my last question I just wanted to ask two things on the innovation. What is that… it seems to me that most of the innovation you have done in the last couple years at least, this sort of breakout kind of innovation has been more in the high end and I am thinking about… some of your fragrant launches… I wonder if you could tell us two things or give us some color on two things about your innovation this year: one is when you are talking about filling in white spaces and launching new things should we think about the tilt being... continuing to be in that sort of upper income states? And I know this strategy; but it seems that you have not this much recently into some of the middle to lower points or maybe the lower points? Can you give us some sense of were you will tilt this year?

And if she could also give us a sense of timing and in terms of when we can see some interesting innovation from you guys - and that is it thank you.

Mr. Carlucci: Lore, our strategy to occupy the white spaces is based on both sides: we are going to keep offering some higher-priced products but also lower-priced products. So you are going to have… you are going to see both things happening. So it is difficult to say which one is going to be more important. Depending on the category, if we have opportunities down or up.

And they have projects especially this year and next year where we are going to offer both things. So it is not based only on UNA or high-priced products. We are going also to launch cheaper ones.

Of course as we like to mention excluding the lower price points of the market because in this area we are not going to compete because we cannot offer the level of quality of our brand, and also we are excluding the luxury price point because as a positioning of our brand we are not a luxury brand.

But excluding those two extremes we have opportunities in both parts of the market and we are going to launch products in 2012 and 2013 to occupy those spaces.

Ms. Serra: Ok and any color in terms of the timing of your innovations?

Mr. Carlucci: The color? Sorry. Maybe…

Ms. Serra: Not the color, sorry, maybe should we expect to see some important innovation in the first half of 2012 or is this mostly going to be in the back of the year into 2013?

Mr. Carlucci: Lore sorry, this I cannot answer. So the color is… I cannot sense it to you.

Ms. Serra: Ok I appreciated, thank you.

Mr. Carlucci: Thank you for your question.

Operator: Excuse me. Our next question comes from Ms. Andrea Teixeira from JP Morgan.

Ms. Andrea Teixeira: Hi good afternoon everyone, thank you for taking the question and I am sorry to insist on this innovation; but I guess this is one of the few, one of the couple of things I believe people are going to be focusing on and

I understand you have easy comparisons for sales in 2012 and in some sense you have some tailwind to invest more in money and innovation, so correct me if I am wrong; can you help us reconcile how much you invested? I remember something around 5% would be the kind of historical number.

Given that you have been… you sorted out your DCs and your distribution, I remember 2011 was a year where you had a lot of investments and your prepared comments, Alessandro, suggested that you were pretty much done with that process, the stock outs and distribution seems to be similar now.

Is that a year where you just discussed in the previous answer that you are going to be investing more? Should we see some reinvestment in margins or the level of margins that you have right now are probably recurring into 2012?

Mr. Carlucci: Hi Andrea, this is Alessandro. Would you mind to repeat the question? Because we missed the last part.

Ms. Teixeira: I am sorry, it was along the question. But just as… the last portion of the question is to help reconcile the innovation spending in 2012, if that is what you mean that you were being increasing as a percentage of sales and if that could have an impact on their margins, so in other words how should we project your margins into 2012 and by the same token I kind of like more the strategic side, if you are pushing more into innovation vis-à-vis what you spent in 2011.

Mr. Carlucci: Ok thank you, now we understood. So the level of investment innovation is going to be around or between 2.5 and 3% of net revenue and this is what we have been investing in the last 3 to 5 years and we are going to keep this level of investment.

I did need to keep in mind that those investments are not only for the projects that we are launching in the year but a relevant part of this investment is for basic research for projects that we are going to launch in three years. So it is not totally correlated with the impact or their relevance or the quality of the innovation in the year. So it is more a long-term, medium to long-term strategy and that is why we do not want to change so much in the level is going to be always around 2.5%, 3%.

Ms. Teixeira: And it seems… I am sorry Alessandro, I do not want to interrupt you.

Mr. Pedotte: And Andrea, related to the overall Ebitda margin of the company 2011 the 25.5% has an advantage of other operating revenues and expenses of around 1%. I think you should look for us excluding this 1% extra from 2011. I think it is a good base to look for us.

Ms. Teixeira: So roughly around 24.5 would be the…

Mr. Pedotte: This is the basis for us and then we always manage in a way that we are always looking for opportunities to productivity gains in other areas of the company and to invest part of that in competitiveness in the market.

Ms. Teixeira: Many thanks Pedotte, but just one back to the point where Alessandro… I thought it was very interesting what Alessandro said lastly when he was talking about innovation, given that it sounds to me that you are launching more new categories, right? Oral care and potentially some other lines in hair care. Should we think about a different mix of innovation that… embodying what you just said will be more of a long-term investment would you think that is… is it fair to say that you are going to be having a bigger, longer-term investment? Because the low hanging fruits of the categories you are already in are… obviously there are still a lot of light spaces but you are taking new categories and so it would be more of a long-term effect of this innovation investment…

Mr. Carlucci: I think it is a good question Andrea - but there is one thing that is important to share with you: that the investment in innovation is also dedicated to improve the actual brands and the actual price points on the categories where he are already.

So for example last year we relaunched all of the EKOS Line that is one of the most important lines in our company and we put a lot of money in innovating because we are using recyclable plastic bottles; we increased the percentage of natural ingredients extracted from the local communities; whole new formulas - and this is innovation investment.

So when you see those 2.5% to 3% we are not only talking about to feel the white spaces; but also to renew and to improve the actual brands and value proposition of the company. So you are going to see also the low hanging fruits knocking whitespaces because you are right, when you feel like spaces you have less; but you are going to see other important launches are renewing and improving the actual brands and actual projects of the company.

Ms. Teixeira: Perfect, thank you very much and lastly on the international operations - and I am sorry if you answered this question before the Portuguese call and I am reading the summary - but the international operations you expect… I mean you had an excellent year for the international operations and I know you are still… the last couple of years organizing the structure of there.

What should we see like the pace of growth or do you think we will actually accelerate to 2012 or you think it is going to be possibly the same kind of level in 2011 and given that some of the countries are still growing… actually many countries are growing much faster than Brazil?

Mr. Carlucci: Of course that is because we are becoming more relevant in the markets we should expect lower growth rates; but in the short time, Andrea, we are expecting something similar for the best years. So we are doing a lot of investment to support this level of growth in the region - as you know we now have a team dedicated to Latin America, excluding Brazil and Buenos Aires -

that they have the responsibility to localize all the marketing initiatives, communication, category strategy and also logistics and other things - and we are doing this investment to support and to maintain the actual level of sales growth.

So in the short-term we expect to keep the same levels but you are right that five years and had probably we are going to have lower sales growth.

Ms. Teixeira: Perfect thank you very much again.

Mr. Carlucci: Thank you.

Operator: Excuse me. Our next question comes from Mr. Bob Ford from Bank of America.

Mr. Bob Ford: Good day everybody and call regulations on the quarter it was nice to see a recovery if not in the top line but certainly in terms of profitability. I had a few questions to get some colors. Specifically when you talk a little bit about your efforts to maybe improve the frequency, Alessandro, can you talk a little bit more specifically - and I know you went into this briefly in the Portuguese call - but if you talk a little bit about the incentives that you are providing CNOs today to grow the network or maybe in the past and how those are slowly migrating and what you are doing to drive greater frequency that would be very helpful.

Mr. Carlucci: Hi Bob, thank you for your comments and let me share with you some things that we are planning to do and answering your question specifically speaking about the way that they compensate the CNOs, today they are mostly compensated and rewarded by the number of consultants they have and also how active those consultants are and what we would like to do is to decrease the relevance of those two indicators and to increase and add a way to recognize and to reward them for productivity.

In other words say to them that “look, now more than increasing the number of consultants we would like you to improve their earnings and their productivity; the size of the basket; the different number of categories that they buy. So there are ways to sign allies and to drive the sales force more to productivity than to penetration.

And another thing, probably we will decrease a little bit the number of new CNOs because when you start a new CNO they starts to grow off the channel and now my relationship manager needs to coach the new CNO. And also for our internal people we want them to develop the actual ones (CNOs) instead of recruiting new ones.

So these are two examples of things that we are going to introduce and together with the new promotion plan; motivating more cross category promotions; different level of communication and other things regarding samples for example, also, we can really shift our marketing mix to penetration to productivity.

Mr. Ford: Ok. It sounds as if you are going to put a little bit more markings behind samples… just to strive trial if nothing else; is that a bit of interpretation of that comment?

Mr. Carlucci: Yes but it will depend on the category, because for example that is used only as an example the oral care. The oral care is a category where we will probably not need samples because it is not a very expensive project and so the customer is probably open to try a Natura product or a product we offer different from skin care for example.

In skin care people are worried; maybe I have some allergy or I do not know if my skin is going to accept well this moisturizing and so in this category the samples are really more important as also in fragrance.

So depending on the category we will spend more and depending on the category we will not need to. We can use the promotional planning to increase the number of customers trying the product.

Mr. Ford: Ok and it sounds as if… as part of the frequency will be improving the service levels. Is that fair and… introducing some of the fulfillment times - and I know you have worked very hard to make some big strives in logistics. Can you tell us a little bit about where you are today and where you think you can go over time? And I suspect this kind of ties in perfectly to this big biosphere vision of the company.

Mr. Carlucci: Ok Bob, let me see if I understood your question: today I think that is an average we need five days. The total lead time to deliver an order to the consultant is between 6 to 5 days and we have a plan to decrease to 2 days especially in the main cities - and this is going to happen within the next two years.

And this is of course a way to leverage all the biosphere project, even though an important part of the biosphere project is not only decrease the delivery time but also to offer a new way for consumer to put in order for the consultant - digitally and at the same time in order that we can see because today, as you know, the relationship between the consultants and the consumer belongs only to the consultant. We do not know what is happening today between them. We know as average, we now doing research; but we do not know individually speaking.

And if we can know who is the customer, what the customer is buying, we can help the consultant to offer a better service, better promotions and increase, in our view significantly, the productivity. But the biosphere is a project that if in one hand is going to probably transform our business model on the other hand it will happen in the medium term, medium and long-term.

In the short-term even though we are going to start a pilot in the next two months we do not expect that before two years this is really going to impact our business. But we are sure that it is not going to impact, but more in the medium and long-term.

Mr. Ford: When you look at fulfillment times… because you are running a two-week cycle and most consultants are placing a single order in the cycle - are you looking at ways to further shorts and that fulfillment from the actual client need by changing the pricing may be a little bit for fulfillment or fulfilling regionally more frequently within a cycle?

Mr. Carlucci: Yes. Talking about the actual model - not talking about biosphere - all the logistics new footprint was designed to decrease significantly the lead time. So for example today with the distribution center closer to the main cities we can deliver to those cities in two or three days instead of last year where we needed to shift from São Paulo.

So even without biosphere we are decreasing this lead-time and as I mentioned we believe within two years we can reach an average of 90% of the orders are arriving in two days (in 48 hours) and this will help this increase in frequency for consumer.

Mr. Ford: Another question I had - and maybe this is my feet into (inaudible 50:36) but you made some big strives in terms of the customer. I know that are some one-offs and part of that was some variable (inaudible 50:44) I hope it will come right back this year. But when you look at the cost structure can you give us a sense of maybe the order of magnitude that you have in terms of some efficiency that you may be able to redeploy in higher service levels when it comes to logistics or having market spent in some of the new samples or just general equity investments and when you might be able to return it to the consumer… to the shareholder in terms of higher margins?

Mr. Carlucci: Hi Bob. We are implementing in the last years - and we improved in the last quarter - the implementation of those productivity programs where one of them is the zero-bas budgets and you will see this happening in different lines of the P&L (not only the G&A line) and we believe that we still have opportunities in this year and also in the next year to have productivity gains.

But on the other hand we believe that we will need those resources to increase the level of competitiveness of our company - not only innovation, marketing; but also the investments in IT and all the things that are going to allow us to implement for example the biosphere project.

In other words what I am trying to say is that we are going to have productivity gains but you should not expect a better margin because of this because we have… this is going to be a source of funds to invest in things that are going to keep Natura being competitive and keep growing the market.

Mr. Ford: Great and I think that leads me to my next question which is the dividend. When you look at the big Capex number that you are putting out this year… I mean last year can you sustain it? Because you are paying out almost all the net income and given the heavy investments that you are making do you plan to may be turned back the dividend a little bit this year?

Mr. Pedotte: Bob, we have… we finished the year with a net debt/Ebitda of 0.4. This is a very comfortable level and we expect to have for 2012 very good working capital. Some part of the bad working capital that we had in 2011 was due to invent reasons in the countries we will decline, inventory coverage, in the time. We just need really to adjust all the system.

And also we had some tax issues or tax opportunities that was in profit but not in cash and so far will be converted in cash early in the beginning of this year. Then for 2012 we can continue to invest in Capex. Probably we will have a good benefit of working capital and we can maintain a very low leverage as we have today (0.4, 0.5) and continue in principle with this magnitude of dividend.

Mr. Ford: And as you mentioned if I recall it is just a big improvement you had in payables, right? I think that is where a lot of the working capital benefit came from despite higher inventory levels in 4Q and looks as if he were pushing suppliers little bit; but that is cash margin improvement in every market and I was curious as to what of that is sustainable and now you are generating both improvements in gross margin as you push out those payables.

Mr. Pedotte: Bob I did not understand the relation. I can mention about gross margin. In the international operations like gross margins today are affected by doing a better price management in the companies that the fact that we put the team in Buenos Aires much more closer to the country helped in categories and sub brands in the country and helped us to do better pricing in the company.

The second is that they are taking advantage of a very good program of cost management that today is based in Brazil in our raw materials and all of this; and also we are beginning the local production in that countries. The good effects of local production we still do not have because they are not relevant. But we are producing in Argentina; we are producing in Colombia and this year we will be producing in Mexico and then I think that they have an opportunity to sustain and improve margins and international operations in terms of gross margin.

Mr. Ford: And I promise you that this is my last question and that is that what I understand is you are only doing fragrances in Argentina and you are only doing soaps and Venezuela. When you look at the percent of what you can do in outsourced international marketplaces where are you right now and where do you think you can get and what is this contributing in terms of how much (inaudible 56:29) cost in those categories and how much of an impact is that having in terms of your working capital because of inventory needs?

Mr. Pedotte: We are in the beginning…

Mr. Ford: I said Venezuela by the way, I meant Colombia.

Mr. Pedotte: Colombia, yes. We are in the beginning of this process and this will be relevant because we want to be relevant players in these places and there is no relevant player in any of these countries that does not have a local facility there. I think that during the next two, three years we are going to be 30%, 40% something in this range that we are going to be more locally driven in terms of production.

Mr. Ford: Ok and can you give me a sense of in categories that you are looking at, just an order like a level of magnitude in terms of what it means for reducing our cost of goods sold.

Mr. Pedotte: You are talking about fragrance, you are talking about soaps, you are talking about hair care and I think body care also.

Mr. Ford: Are we talking about 1000 basis points of margin when you look or more when you look at a fully landed cost exported from Brazil versus domestically produced or is it more than that?

Mr. Pedotte: Well I think it varies across categories. Of course the categories that we are choosing to put there are the categories that you have most the benefits. But it changes; I cannot really give a figure to you. And also like the margin management - and I think that is what is happening there that is very good - we are looking not only for costs; they are looking for price; they are looking for the value of the brand; as much as the brand gets better preference they are we have opportunities to manage in a better way; how much we are placed against our competitors. We are doing a whole work on this.

In the short-term what will really influence the margins is the exchange rate of the country versus Brazil because most of the production today came from Brazil. Then in the short term we are still subject to some changes about the relative exchange rate of Brazil and the countries and in the middle term it will be much less exposed to this.

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

Mr. Carlucci: Thank you Bob.

Operator: Excuse me. Our next question comes from Ms. Margareth Kalvar from Harding Loevner.

Ms. Margareth Kalvar: Hi thanks for taking another question from me. I just wanted a little bit more clarity on the Ebitda margin because you had mentioned… and then going through the numbers here… it is really appears that most of the increase was because of the other income and the declines in employee profit sharing.

So how much percentage in terms of basis points can you attribute to the efficiency gains coming from the investments that you have made or are we really going to see that in 2012 and was the increase that to sign 2011 really based on these other factors?

Mr. Pedotte: Margareth, 2011 we had this 25.5 that I mentioned that if I exclude these other expenses this is 24.5. You are right that there is a lower variable in 2011 because (inaudible 1:00:31) internally all the targets that we had.

I think that the second… this part you should not take into consideration looking forward because this is normal in years that we have a better year we can pay more; in the years that we do not have what can pay less. These will be self financed by good years or bad years. I think that this is there.

We had in 2011 similar margins in a year that we made adjustments during the year because we started with a higher expectation of sales and then we were able to manage to run in similar margins. This is what I can mention. I cannot give any guidance for 2012; but I think that is excluding these other expenses this is a good base to think about our business and our ability to manage productivity gains and more competitiveness in the market and this is a good basis to think about 2012.

Ms. Kalvar: Ok thank you.

Mr. Pedotte: Thank you Margareth.

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 sir go ahead.

Mr. Carlucci: I would like to thank you once again for participating in this conference call and I look forward to talking with you again in April when we will discuss the results for 1Q12 and I wish you a good carnival to everyone. Good day.

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