International Conference Call
Natura
1st Quarter 2010 Earnings Release
April 30, 2010

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2010 1st Quarter Conference Call. Today with us we have Alessandro Carlucci, the CEO; Roberto Pedote, the CFO and 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 session. 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: 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's 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.

Advice to Investors

On April 28, 2010 our Board of Directors approved the issuance of simple, non-convertible into shares, registered, book-entry and unsecured debentures in the total amount of R$ 350 million (three hundred and fifty million Brazilian real) ("Issue"), which will be subject to a public distribution with restricted efforts placement to qualified investors, pursuant to CVM Intruction No. 476 of January 16, 2009 ("Restricted offer" and "CVM Instruction No. 476/09" respectively). The proceeds raised through the Restricted Offer will be allocated do lengthen the average maturity of our debt.

The restricted offer will be automatically exempted from registration with the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários* – "CVM"), pursuant to CVM Instruction No. 476/09 and therefore from the fulfillment of certain conditions and procedures commonly seen in public offerings of securities registered with CVM, with which usual investors of capital market may be familiar. Accordingly, no prospectus will be prepared comprising information about the Restricted Offer and the documents relating to the Issue and the Restricted Offer will not be subject to review by CVM.

The disclosure of the terms and conditions of the Restricted Offer will be subject to the limits and restrictions established by CVM Instruction n. 476/09. Qualified investors interested in acquiring debentures under the Restricted Offer must have knowledge of the financial market and the capital markets enough to conduct their own research, evaluation and independent research on our Company, our activities and our financial situation, and be familiar with the information usually disclosed by our Company to our shareholders, investors and to the market in general.

We recommend to investors interested in purchase debentures in the restricted offer a careful reading of informational material that contains the terms and conditions of the restricted offer, as well as our reference form (*formulário de referência*) of our standardized financial statements - DFP and our quarterly information – ITR, which contains relevant information about our Company, our activities and our financial situation, in particular of the section entitled “risk factors” of our reference form, which contains a description of certain risk factors that must be taken into consideration before the implementation of a possible investment within the restricted offer.

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

Mr. Alessandro Carlucci: Good morning and welcome to our conference call for the 1st quarter 2010. First of all I would like to share with you the recently released figures for market share in 2009. We gained market share of 100 bps in our target market in 2009, reaching 22.5% of market share. Last year the CF&,T industry grew by 15% in nominal terms, while our revenues grew around 18%.

Now regarding 1Q, Natura recorded very solid results with consolidated net revenue growth of 21.7% and Ebitda growth of almost 30% and margin of 24%. We enjoyed robust growth in Brazil with the sales channel expanding by 19.3%, which reflects the impact from the full implementation of the CNO model in May last year.

The other operations in Latin America continued to grow at an accelerated pace driven by a more robust development plan in the Mexico and Colombia operations, which grew by 90% in the quarter.

Considering our consultants base we reached 1,044,000 consultants, including international operations for growth of 21% from 1Q09. This means that every day more than 1,000 consultants join Natura’s team.

Natura also maintained its strong performance in the area of innovation. We launched 14 new products in the quarter and kept the innovation Index at the high level of 67%.

Moving to market mix investments, the commutative additional expenses since the start of the action plan in 2008 reached R$ 222 million with this investment fully financed by productivity gains, which the same period totaled R$ 292 million. The share of orders made over the Internet by our consultants followed the same upward trend, surpassing the mark of 80% of all orders made in the quarter.

It is important to note that our operations in Chile were impacted by the earthquake with our facility partially damaged, which interrupted our revenue flow for a period of 22 days. Fortunately all our employees are well and the operations have returned to normal.

Despite its adverse impact, the international operations posted revenue growth of 37% in local currency, following the trend of prior periods. In our operations in consolidation the highlight was the first product developed locally: the perfume *Ritual*, which was launched in Mexico with media support and strong initial results.

I would like to highlight an important issue, which was the 10th anniversary of the Natura Ekos line, which was launched based on an innovative model of doing business sustainably.

I will now hand over to Roberto that is going to present details on our financial results. Please Roberto.

Mr. Roberto Pedote: Thank you Alessandro, good morning everyone. First I would like to reiterate that we achieved solid results in the Brazil operation and very strong growth in the international operations. At the consolidated level we reported net revenue of R$ 1 billion; Ebitda of 243 million accompanied by an Ebitda margin of 24%, which exceeded our guidance for the year of a floor of 23%.

The net income of R$ 142 million was 2% higher, with this growth rate impacted by the normalization of the income tax rate given the end of the goodwill amortization, as we already commented over the course of last year. For the results of our operations in consolidation in the countries of Argentina, Chile and Peru revenue increased by 31% in local currency, despite almost one month without revenue in Chile.

In terms of cash flow, these countries posted an Ebitda loss of 3.5 million reflecting the impact from the earthquake and the lower gross profit in Argentina due to the local currency depreciation of 28% against the Brazilian real.

The impact in Chile totaled approximately R$ 3 million in lost sales and inventory damage. In Argentina we have already implemented a price increase of 14% in

March. We are confident that this operation will improve substantially over the course of this year.

Our capital structure remains strong, with a net debt position of R$ 59 million at the end of March 2010 formed by a cash position of R$ 567 million and a debt position of R$ 626 million. Working capital remained high despite the initial signs of improvement in inventory coverage.

As we announced last year, we continue to work on structural measures to increase the flexibility and integration of the supply chain and to improve the continuous planning and optimization of the distribution network over the middle and long-term.

Investments in fixed assets totaled R$ 12.8 million in the period, which was used primarily for molds and operations. For 2010 we maintain our estimate of capital expenditure of R$ 250 million.

And finally I would like to highlight that at the end of the shareholders meeting held on April 6 shareholders approved the payment of dividends. We had already paid dividends last August of R$ 0.55 per share and in April we complimented the payment for the year with an additional R$ 0.82 per share for a total dividend payment for 2009 of 1.37 … R$ 1.37 per share.

This concludes the points that I wanted to cover. Thanks a lot and let us now go 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 have a question please press the star key, followed by the one key (*1) on your touch-tone 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: Hi, good morning or good afternoon and congratulations on the strong quarter. I wanted to ask a little bit about sales productivity. You saw some strong increase - or nice increase I should say - in sales productivity per rep and it seems like your pricing was also strong as was your gross margin, implying the mix was strong.

So I wonder if you could talk about what you think drove that. Was it something specific with the innovation you mentioned and if it is something that you can see sustain as we move through 2010 please?

Mr. Carlucci: Hi Lore, how are you? This is Alessandro speaking. In fact what we saw in this quarter was a specific combination of different effects that impacted positively the productivity in our channel, but this is not a structural thing; so in other words we do not expect to see - structurally speaking - the productivity raising for the year.

As we mentioned to you in the last year, we do not see a major change for the future in the productivity, even though you are going to see, depending on the quarter, sometimes a little bit … a small growth or you can see a decrease in the productivity - but this is not structural. So it is a seasonal effect impacted from our marketing mix especially in this quarter.

Ms. Serra: Ok thank you and in terms of the rep growth you comment in the press release about how you are now … you got almost a year of operation in terms of the CNO model and obviously the initial results were very, very promising in terms of what you have been able to do in terms of rep growth.

As you proceed on that one, two years, I suppose we will still continue to see strong growth in reps, but possibly maybe not at the pace we have seen over the past years. Is that a fair statement?

Mr. Carlucci: Lore, as you know we still have a lot of room to grow in this model because we are far from the total capacity. Each CNO can have more than 150 consultants and now the average is 100 and also every relationship manager can have more than 15 CNOs and now the average is around 10, so we still have a lot of room to grow.

On the other hand, it is fair to say that in the first months of the implementation you have a higher growth, because it is in the beginning, where the CNOs put in the group their friends, the people that they know; so in the first two months you have a higher growth.

But after this first and initial period we believe that we can keep growing fast the number of consultants. So in other words, I think that we should see a good channel and rep growth for the future especially because we already know the results in a specific area of Brazil where we implemented the program five years ago. So we are very confident that we can still have good sales and rep-based growth.

Ms. Serra: Thank you very much.

Mr. Carlucci: You are welcome.

Operator: Excuse me. Our next question comes from Mr. Luiz Cesta from BES Securities.

Mr. Luiz Cesta: Hi, good morning everyone. I have a question about investments in advertising in 2010. Do you have any sense of how big you are going to be or maybe you think to be in advertisement for the sector in Brazil for this year and just for comparison reasons, what was the number for 2009? I mean, the market share in advertisement in Brazil you achieved in that year and you are thinking to achieve in 2010? Thanks.

Mr. Pedote: Hi Luiz. We do not share the specific information about the investments in media, but what we have mentioned is two things: first is that we have much more marketing tools than only media, because we have training, we have events, we have the magazines. Our marketing mix is much richer than only operating in the media.

Despite that, if we see what happened in 2008, in 2009, in 2007 Natura has invested less in media, as you know, and we put that plan of that R$ 400 million, and in 2008 we got a very good position in relation to our main competitors in a relative way in share of invoicing and share of (inaudible 19:34) in 2008 and 2009 the same ratio that we got in 2008 was repeated for 2009.

As Alessandro mentioned in the beginning of the conference, we gained market share last year. It means that in a relatively way our investments are … they are competitive, and this is the way that we want to continue. We want to continue to be very competitive in this investment looking for the total market investments that we have.

But so far we believe that we are competitive and our brand preference has increased - we have 46% brand preference - and we think we are competitive in this investment.

Mr. Cesta: This 1Q do you see any movement coming from competitors regarding increasing advertisement or maybe thinking about increasing advertisement or this is something you did not see at this beginning of the year?

Mr. Pedote: It is too early, Luiz, because we have some information about January and February, but this is not the highest moment for the advertisement in Brazil, like it is a low-season period, let us say, like that in terms of advertisement. It is too early to comment if we believe that there is a change. What we comment is that we are prepared to maintain a very competitive level during this year, but we have not seen any special movement so far.

Mr. Cesta: Ok, thank you very much for the answers.

Mr. Pedote: Thank you.

Operator: Excuse me. Ladies and gentlemen as a reminder, if you would like to pose a question please press star one (*1).

Our next question comes from Mr. Celso Sanchez from Citigroup.

Mr. Celso Sanchez: Hi, good afternoon. Just following on this line of thought of the competitive environment and potentially increasing competition it is obviously been seen that we have both heard about that you had a deal over the last several years.

Is there any thought that … obviously you feel like you have positioned yourself better than you were a few years ago. I think the idea is sometimes when there is a love more competition there is a lot more noise, and therefore there is a lot more interest perhaps that helps drive even higher growth rates for the industry.

Is that something you think that could happen or is your concern more that it could be price-based or destructive competition? How do you look at the potential for new entrants and specific companies, particularly maybe at the higher end? How do you see that evolving? Thanks.

Mr. Carlucci: Hi Celso, this is Alessandro speaking. It is a very good point and I will be glad to comment that even though we keep seeing a very strong competition in Brazil, I am glad to say that it was always an ethical competition and an intelligent one. So in other words, the competition is for more innovative products, for new categories, better products and not for price or to damage the other competitor. Fortunately we are in Brazil and the economy in Brazil is also growing, so this is a good breeze for everybody. But I can say that we have a very good competitive environment.

That does not mean that it is easy, that does not mean that we can sleep. We need to be awake and to be prepared to invest and to be more innovative and we really believe that we are prepared now not only because we have the resources, the money to invest in the marketing, but also and mainly because now we are organized better to understand the customer, to be closer to the consultant and also to understand the local competition in Brazil with the business and regional units. We are now faster and closer to the market.

So in other words we are prepared and also we face a good competition - tough but good, ethical and we see everybody trying to develop the market and not only to fight between the competitors.

Mr. Sanchez: Ok thank you and just to follow up on the question, I think was addressed both on the Portuguese call and I think earlier: the dry powder that you have in terms of the savings that you have put through in the three-year program that you have not spent yet, if I read that right you have effectively about 180 million savings to generate … sorry, savings that you can spend between now and the end of the year, but of course as soon as they gap … that you have now as well as incremental savings to get to the 400 and the idea is - just to make sure that I understood it correctly - is to as of this point spend it as planned or … is that a priority or is it … perhaps to pocket some of that as savings for future reference?

Mr. Carlucci: Celso, first of all I want to be sure that we have a clear understanding: these additional investments are always compared with 2007, the investment of 2007. So yes, we have a margin and the answer is it is too soon to say that we are going to have some reserve of this 180 million that we theoretically still have and we are prepared to invest this amount if it is necessary.

Maybe in the last quarter or in 3Q we will be better prepared to say looking for what happened in the year, to say if we are going to have some savings or not. But today our strategy is: let us have this amount and be prepared to invest. But if it is not necessary - and we are going to manage on a day by day basis - we are going to have some savings. But today we are prepared to invest all the R$ 180 million.

Mr. Sanchez: Ok great, thank you.

Mr. Carlucci: Thank you.

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

Ms. Margaret Kalvar: Yes, good morning. Just a follow up on the question on productivity gains. I had understood before that you expected some structural growth in rep productivity as the reps became more seasoned.

I understand initially they bring in the low hanging fruit for them and then it falls off a bit and then over time as they get better at it their productivity improves and now you are indicating that the current rep productivity level is probably what is sustainable. Could you just review the dynamics of this one more time for me?

Mr. Carlucci: Hi Margaret, let me see if I can help. You are right to say that with more time in the activity we should expect looking for the same consultant a growth in her productivity and this happens during the first 10 years. So gradually you see an increase in the productivity on an individual basis.

On the other hand, as you saw we still - and I hope that for the next good years ahead - we saw a solid growth in the number of consultants mainly because of huge amounts of new ones. So when we talk about the average there is a mix effect of the old one that is more productive and the new one that is less productive.

If we split - and we do this internally, even though we do not share this information with you - and we compare the new with the new last year and at the old with the old last year (the same consultant comparison) we can see that they are growing productivity.

So this paradigm of during the time they keep growing productivity is still relevant and is still true. But in the average you cannot see this because, again, you have a lot of new, low productive consultants. So in other words if we stop to grow the channel you are going to see an amazing growth in productivity, but we are going to lose sales, because we are not … the sale for the new ones. I do not know if I can help you saying this, but this is what is happening to Natura.

Ms. Kalvar: Ok well, it is a mix obviously, as the number of new consultants overwhelms the productivity gain of the existing; but did I understand you correctly and you just said the new ones this year are more productive in the initial stages than the new ones were last year and does this represent anything sustainable or is this just a fortunate accident?

Mr. Carlucci: No, no. Sorry, thank you to ask, I think that I express wrongly: the new one this year is as productive as the new last year.

Ms. Kalvar: Ok, I understand.

Mr. Carlucci: What happens is the new of last year today is more productive than last year, so individually speaking they are still growing - but the new ones they have the same productivity.

Ms. Kalvar: Ok, ok, I understand now, ok.

Mr. Carlucci: Thank you to ask.

Operator: Excuse me. Our next question comes from Mr. Tim Robinson from Voyant.

Mr. Tim Robinson: Good day guys, thanks for taking my call. I just had a quick question about inventory level. Do you have a target range that you are shooting for?

Mr. Carlucci: Hi Tim. We have internally, but we do not give this information with this precision; but what we are saying - and represents what we want to do this year - is to see the inventory decreasing slowly during this year and we are going to see better or less inventory from 2011 and 2012. In 2010 we are going to see still some high inventories, even though decreasing gradually during the year.

Mr. Robinson: Got it. Thank you very much.

Mr. Carlucci: You are welcome.

Operator: Excuse me. Ladies and gentlemen as a reminder, to pose a question please press star one (*1).

This concludes today's question and answer session. I would like to invite Mr. Carlucci to proceed with his closing statements. Please go ahead sir.

Mr. Carlucci: Closing I would like to say that we are confident and enthusiastic about our company. We think that we are well prepared for the new area ahead and we expect to report figures above the average of the CF&T industry.

Once again I would like to thank you all for participating in this conference call and I look forward to our next meeting in July to discuss the results for 2Q. Thank you, have a good day and have a good weekend.

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