

International Conference Call
Natura
1Q09 Earnings Results
April 24, 2009

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2009 first quarter conference call. Today with us we have Alessandro Carlucci, the CEO; Roberto Pedote, the CFO and Helmut Bossert, 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 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 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'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. The comments herein are in accordance to Law 11,638. Now I will turn the conference over to Mr. Alessandro Carlucci, the CEO. Mr. Carlucci, you may begin the conference.

Mr. Alessandro Carlucci: Good morning and welcome to our conference call. Once again we are pleased to share our 1Q09 results with you.

The effects of our action plan announced in the beginning of 2008 gained more visibility as of the second half of last year and should remain during 2009 and 2010.

In our last report for the 4Q08 we also emphasized the trust in our fundamentals: the first one the lower exposure of Brazil, our key market, to the crisis; the second, the historical resilience of the cosmetics, fragrances and personal hygiene industry with regards to the changes in the economy; the third, the strength of the Natura brand, which keeps on gaining consumer preference; and the fourth, the business model based on direct sales that does not rely on credit.

Natura's 1Q09 performance proved to be consistent with these expectations. Consolidated net revenues totaled nearly R\$ 845 million, an increase of more than 26% versus the 1Q08, period when the results had not yet reflected the action plan.

The number of consultants grew by 20% this quarter while Ebitda was R\$ 184 million, up 38% with a 21.8% margin, up 180 bps over the same period of last year.

For 2009 we have maintained the guidance of a minimum 23% Ebitda margin. Even though our first quarter results in 2009 were significant, we are still monitoring the changes in the economy due to the international crisis scenario and the likely effects on our market; nevertheless, we remain confident about our company's strategy and vitality, as well as in the economic niche in which our commercial model is present. Our focus on launching important innovations and the continual rationalization of our portfolio have been extended to the 1Q09.

The highlights are new launches in the *Humor* fragrance line and the new *Tododia Todanoite* Natura line, which consists of products specially developed for night use.

By the end of the quarter our portfolio had 685 SKUs versus 739 SKUs in December 2008 and the innovation index reached 67% versus 65% in the first quarter of last year.

The additional marketing investments have already totalled since the beginning of the plan more than R\$ 100 million and have been funded by the productivity gains, which amounted to R\$ 130 million in the same period.

The new super consultant sales model (CNO in Portuguese) reached an implementation rate of 85% in Brazil up to the end of the first quarter and kept on contributing to the expansion of our sales channel.

At the end of the 1Q09 the total consolidated number of consultants reached 863,000 and an increase of more than 19% versus the first quarter of the last year.

International operations once again posted high growth rates and market share gains, resulting in an increase in the company's sales participation. The countries under consolidation, Argentina, Chile and Peru, have already contributed positive results measured by Ebitda.

We intend to speed up the growth of the operations under implementation, especially Mexico and Colombia, as part of our strategy to expand operations in Latin America.

The sales channel, which expands at rates over 30%, already comprises 90,000 consultants in the operations under consolidation and almost 30,000 consultants in the operation under implementation.

Lastly, regarding our sustainability aspect, I would like to mention that in line with our corporate behavior targeted at creating value in a sustainable manner, since 2009 we have included our international operations in social programs such as *Crer para Ver*, which contributes to the improvement of the public education now also in Argentina.

Likewise, our mobilization to face the climate change crisis involves the whole company. Again, the Carbon Neutral Project, whose mission is to reduce greenhouse gas relative emissions by 33% in our whole productive change from 2007 to 2011 has been meeting its goals. In the first years after the implementation we have eliminated 9% of our relative emissions. There is a big challenge ahead, but we are sure the gains for our business and for the environment are even bigger.

Before closing I would like to give the word to Roberto Pedote, who will give more information on our company's economic and financial performance. Roberto please.

Mr. Roberto Pedote: Thank you Alessandro, good morning everyone. I would like to mention some important subjects regarding our financial position and a few aspects that affected our net income in the first quarter.

First I would like to mention that our capital structure remains strong with a net cash position of R\$ 28 million at the end of March 2009, with cash of R\$ 465 million and debt of R\$ 437 million.

One second point that I would like to mention is the free cash flow. The free cash flow generation of about R\$ 130 million was below the same quarter of 2008 in view of the investment in accounts receivable made at the end of 2007 and its recovery in the 1Q08, as already mentioned in the previous quarters.

Excluding the extraordinary effect from the extension of financing terms during Christmas 2007, we would have had a 45% growth in free cash flow.

Another important fact regarding our results is the R\$ 13 million net gain in financial results. Since the end of 2008 the Law 11,638 requires us to mark to market our derivative operations. The law requires we only mark to market the long position of the operations, our hedge, whereas the short position, which is the financing itself, remains at its accounting value.

In the 4Q08 the mark to market had resulted in a loss of 13 million in our income statement as already mentioned in our last reports. In the 1Q09 this resulted in net

financial gains of the relative same amount, given the improvement in market liquidity.

I would like to point out that these are non-cash accounting effects that are transitory, as we intend to maintain our financing to its maturity.

Finally I would like to highlight that the 19% effective income tax rate that was applied this quarter based on the annualized rate was mainly from two nonrecurring effects that will impact 2009: the first one is the appropriation of the tax benefit from the payment of interest on own capital related to 2008 in addition to the estimates for 2009.

The second one is the acceleration of the goodwill amortizations from the corporate restructuring that was done in 2004 that was originally forecasted to end in 2011 and will be done in 2009. For the coming years we expect the rate to be back to the levels we saw in 2008.

In summary, this year the income tax rate will be around 20% and next year will be around 30%. This concludes my comments, thank you very much. We may now go to the Q&A session.

Q&A Session

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

Our first question comes from Mr. Reinaldo Santana with Deutsche Bank.

Mr. Reinaldo Santana: Yes, good morning everyone, congratulations on the results. I have two questions, the first one: there has been a price adjustment in the catalogs recently and you can comment perhaps on the reaction and your opinion, whether you think these price increases will stick in these market conditions. That is the first one.

Mr. Carlucci: Hi Reinaldo, Alessandro speaking. Yes, we increased our price in April in 5% as we use to do every year and this is only a replacement of inflation, so there is no impact in our sales or in our customers because they are used to see all the competition raising the prices to avoid the cost inflation. So this is something that we use to do with no impact relevant in our business.

Mr. Santana: Ok great and the second question has to do with SKUs. There has been a faster rationalization of products. What is your target or what level would you feel is optimum as we are trying to see how much room is left in terms of product rationalization?

Mr. Carlucci: Reinaldo, first of all this is not a science, but we believe that we can manage the business with a number of SKUs between 650 and 670, 680 maybe.

So the biggest effort we did last year. In this year we still have some adjustments, some reductions, but I think that we must keep our portfolio around this range that I gave you and of course that this number is going to vary on each quarter because sometimes you have a new line and you did not have time to discontinue the old products.

But in the medium-term we think that we should reach around these numbers, 650 and 670. But again, this is not a science, but this is our target in the medium term.

Mr. Santana: Ok, I understand. Thank you very much.

Mr. Carlucci: Thank you.

Operator: Our next question comes from Mr. Bob Ford with Merrill Lynch.

Mr. Bob Ford: Thank you and good day everybody and again congratulations on the quarter. I already touched on this in the Portuguese call, but I was also very impressed with the growth in the consultant base, but perhaps more so with the increase in productivity per consultant.

And I was curious in areas where you first piloted the CNO Program, could you comment a little bit in terms of what kind of outstanding impact you had in productivity levels and how much of this would you attribute to perhaps improvements in best practice sharing and perhaps could you comment a little bit on what happens with the retention rates, or your turnover rates as a result of bringing in the Consultora/Orientadoras?

Mr. Carlucci: Hi Bob, Alessandro speaking. I think that we cannot relate the productivity gains with the CNO implementation. In the pilot we saw, as we mentioned several times, in this sequence those impacts.

The first impact is accelerating the growth of the number of consultants; the second is a gain in the activity - activity means the frequency that they put orders; and the third point in the medium and long-term productivity gains.

So the productivity gain that we had in this first quarter of 2009 was not related directly to the CNO implementation. It was more an effect of a lot of different actions, but not directly related with the CNO even though, of course, after four years piloting, when we started to implement in the medium of 2008 we tried to put all the best initiatives and learnings from the pilot, but the productivity gains related with the CNO we should see in the medium and the long term.

On the other hand because of more advertising, because of more training, because of a lot of other marketing initiatives and especially in this first quarter a stronger

mix in our portfolio, we can see some gains in productivity. But they are not, again, they are not related directly to the CNO implementation.

Mr. Ford: Thank you very much Alessandro, still impressive nevertheless. And then I have another question. When I look into your minimum order size compared to your biggest rival in Brazil there are big gaps and when I look at your cost structure relative to your biggest competitor in Brazil - I know I am just using a kind of shadow figures right now, because they are not publicly available - but I have a question as to how you benchmark when they allocate their overhead and I am sensing that there continue to be some big opportunities in your cost structure and I know you have been looking at that for quite some time now.

What do you think you can do in terms of perhaps reducing the minimum order size to allow activity to grow, to improve service levels and in what period of time can we anticipate this and when you look at your cost structure can you give us a sense of the magnitude of the opportunity that you see?

Mr. Carlucci: Bob, as we mentioned before we believe that we have huge opportunities to look for productivity gains in the logistics, especially the outbound.

So we started a re-engineering process to have those gains, but also trying to decrease the minimum order and to give a very differential service to our consultants, because this is a characteristic of our brand.

As I think you know, our consultants they can put orders every day through internet, they do not have a specific day and the end of campaigns; so we are well known as a company with different services from the competition.

So we want to keep this impression, but in the same time decrease the costs and try to reduce the minimum order and unfortunately I cannot give you much more information because of strategic reasons.

But a reason of the amount of those R\$ 400 million that are going to fund the investment marketing, the raise in the investment marketing are going to come from the logistics, the outbound logistics, because we really believe that we have a huge opportunity to increase the quality, to be faster and to be cheaper at the same time. It seems difficult, but we really believe that we have this opportunity.

Of course this is not something to be done in one quarter, this is a project with a lot of investment because we need to redefine the process, to invest and we started to do this. So in the next two years we should see improvements in this area.

Mr. Ford: And that obviously means a decline in the minimum order size, which is today about R\$ 200, right?

Mr. Carlucci: Yes, this is our objective. We do not have a date to reach, but we want to decrease the minimum order that today is around R\$ 200 and something.

Mr. Ford: Did you say 220?

Mr. Carlucci: Sorry, R\$ 220 is the average of the minimum order.

Mr. Ford: Great and one last point: you highlighted some of the innovation that was very relevant, *Tododia Todanoite*, the new fragrances from *Humor*, but I have been reading a little bit about Natura plans and it seems very intriguing in terms of some of the product plans and in general I was wondering how that may be testing.

And when you look at some of the bigger daily use categories and some of the opportunities you have in the emerging middle class in Brazil. Can you comment a little bit about what you are doing in those products that maybe have more price points, but a greater potential in terms of the size of your market place?

Mr. Carlucci: Hi Bob. I will answer your question maybe not talking only about plans, but talking about our approach for this segment of the population in Brazil and Natura is already ... how can I say ... a democratic brand. We have good market-share in all the classes, even though we are in a different price positioning because of the quality of our products. So we are already in the houses and in the consumption of different segments, economic segments in the Brazilian society.

Even though we are, of course, looking for opportunities, new opportunities, new price points in the categories that we are or even new products. But of course, all these new projects must be developed with the guarantee that we are not going to impact the profitability of the company and with no cannibalization.

So we have new projects or new thoughts and if we think that they are going to add revenues and add to our brand we are going to implement. But again, we are a brand that today offers products to all these classes and we know, because we have the market share segmented by economical class and we see that even the C class buy a lot of Natura. So we are looking for opportunities, but we are reaching these guys today.

Mr. Ford: Ok thank you very much and on stock plans can you say anything specifically, Roberto, or are you going to hold that until it really is market ...

Mr. Carlucci: Bob, I think that I did not understand what is your question about the specific plans line; could you repeat for me please?

Mr. Ford: I think that I am considering more in categories like shampoo and just big product categories in Brazil that may be more in daily use and in good opening price points and that sort of thing and I was curious as to when you look at your innovation pipeline is that where you intend to focus a little bit more this year?

Mr. Carlucci: I think that shampoo is not a focus, a specific focus for this year; but on the other hand you are right, shampoo is the biggest category in Brazil, it is a

category where the direct selling system is not the best one - the retail is the best one - and because of this yes, we have some plans and we are studying how we can increase our market share in these categories. But I cannot say that this category is going to be the focus of this year.

But on the other hand we are studying and we would like to raise our market share in the medium term, not in the short-term because this is not only a matter of products, this is a matter of the channel, cost structure and other aspects that the marketing mix of this category is very pull driven, not push; so a lot of issues to analyze and we are developing a study, but nothing to be implemented in this year.

Mr. Ford: Great, thank you very much.

Mr. Carlucci: Thank you Bob.

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

Ms. Lore Serra: Hi, good morning. I have a couple of questions. If we could start with revenue, in the quarter your revenue in Brazil accrued 24% with ... I think it was something like 17% higher reps, so there looks like there was a very good increase in the rep productivity.

But when I look at your press release you talk about productivity of active consultants grew only 0.7%; so could you help us understand what was driving the productivity? Was it new consultants becoming very productive upfront or was it that you had a lot of inactive consultants that you are managing to engage more? What is accounting for that big increase in productivity that is not coming from your active consultants?

Mr. Carlucci: Hi Lore, Alessandro speaking. What happened in this first quarter is that we had an increase, a relevant increase in the activity rate. That means that we had more consultants putting orders and also more frequently.

So when you look for the individual consultant per cycle - and the activity rate measures this - you are going to see a lower productivity than when you see all the revenues from the quarter divided by the total consultants, because in this last example we are going to count all the orders, it is a sum of all the orders of this period.

So when you look only revenues per consultant we have a higher productivity gain when you see the number of actives per cycle, because they have more than one order during the period. So this is the explanation why our number is probably different from yours when you divide only revenue per the total of the consultants.

Ms. Serra: I am sorry; does this 0.7% include any consultant who is putting one order during the business cycle, so that the difference is that you had more

consultants putting in at least one order in the business cycle - that is the difference?

Mr. Carlucci: Yes, yes.

Ms. Serra: Ok and that would be owing to some of the training effort you mentioned or is it the minimum order size? What do you think is driving that?

Mr. Carlucci: This is a very good question, Lore. As you know, productivity gains are a result of a lot of different initiatives. I do not have a good answer to say look, it is because of this.

I am sure that it is a mixing combination of different factors: more advertising; better products - not only the products that we launched in this quarter, but also the good launches that we had in 2008 that they can sell in this quarter and they did not have in the first quarter of 2008; more training because we raised the training effort.

So a lot of different combinations. I cannot say to you that this is because of one specific event or one specific action.

Ms. Serra: Ok perfect and I wanted to also ask a last question about the rep growth we have seen accelerated in a very good way as you did rolling up in the CNO program and I wanted to ask you, now in the final stages as you mentioned you are up to 85% rolled out on the program, would you expect to see a continued kind of growth rate you have seen in the rep base in a sort of 17%, 18% continue because your CNOs are doing a better job of recruiting or is this spike in the growth in reps something you would expect to temper over the next year?

Mr. Carlucci: Lore, I think that we should expect that in the short and medium term - without giving you a specific time - but in the medium term we should see higher rates of growth; probably decreasing, but higher rates of growth.

In the long term we are going see a lower rate and at that time I hope that we could have a new project to raise again this rate.

But because of the CNO again, in the short and medium terms I think that we should see higher rates and then a decrease in the long term.

Ms. Serra: Ok and just very quickly on the gross margin. I just want to make sure I understand with the change in the accounting. etc., do you see your gross margin go up so much given the real devaluation in the quarter? I would have thought that would put a bit more pressure on your gross margin.

So I just want to make sure I understood that the higher cost of dollar base from materials was in fact incorporated into the cost of goods sold in the first quarter and was not booked below the line with the derivative gain ... and if that is correct, I just

wanted to see if you could give any more color on what drove that large gross margin increase despite that tough down by the real base cost ... or dollar base cost rather?

Mr. Roberto Pedote: Hi Lore, this is Roberto. I think that the main impact that affected positively our gross margin was the improvement in the mix. We had a better mix this quarter in relation to the same quarter ...

Ms. Serra: Does that mean more perfume? What do you mean by that?

Mr. XXX: I mean more ... I cannot mention categories, but I mean more products with higher price - let us say like that, because we cannot talk specifically about the categories - but especially this impact was mix.

We had an impact of the devaluation, the dollar impact, but this impact will be very gradual in our gross margin, because as we have more than 100 days in stocks, the increase in our cost is diluted through the year. We expect ... now we expect even that the impact of the worse exchange rate will be higher in the second quarter than in the first quarter because we still ... we operate with these 100 days of stock.

Another thing that impacted was losses that we had a better management of our losses.

But basically the key driver of this improvement in margins was mix.

And for the second ... as you heard, we are improving, increasing prices now in the end of March, beginning of April around 5% that could compensate, probably will compensate this impact in the exchange rate looking forward ... hello?

Ms. Serra: Thanks.

Operator: Our next question comes from Mr. Celso Sanchez with Citigroup.

Mr. Celso Sanchez: Hi, good afternoon. If you could maybe help us understand a little bit the impressive shift in your online ordering. How does the profitability of that differ than the regular, old fashioned way of ordering or if we could think of a trend maybe as to how much that might have helped, because obviously the margins did grow up pretty fast?

Mr. Carlucci: Hi Celso, Alessandro speaking. Even though the part of the logistics cost of the way that they use to send the order is a third or one-fourth of the total cost of the logistics, the difference between an order from the call center ... the cost, the difference in the cost from an order from the call center and the internet is dramatically, it is very huge, so this impacts very well in a positive way the costs.

To give you an idea, a cost of one order - only did this part of the cost, ok? Because the delivery, the freight is the same of course – but the cost to receive the order through the call center is R\$ 4 and the cost to receive the order through the internet is almost R\$ 0.

So this affects very positively our profitability and that is why we are working to increase the number of online orders. Not only, of course, because of a cost-reduction; but also because it is a better service for the consultant, because they can put orders 24 hours a day, so it is also a better service for them.

Mr. Sanchez: Great. Can you ... and I heard you right that a third of the freight delivery processing cost is the processing part of the order itself?

Mr. Carlucci: It is around one-third and one-fourth of the total cost, it is around this. It is a part of the total cost. This is ... more important than one-third or one-fourth, but it is around this. The fact is that we have a lot of other costs in the logistics cost.

Mr. Sanchez: Ok and in terms of the timeline for ... obviously you have moved aggressively towards the online ordering; is there ... you would like to have 90% by the end of next year, end of this is year (inaudible 39:38) or something?

Mr. Carlucci: We have a goal that around the end of 2010 we could have 85% of our orders coming through internet. This is a goal, of course this is going to depend of the internet penetration in Brazil and some external factors, but we would like to reach around 85%.

Of course that 100 is our dream, but maybe this is not going to be possible in the next two years.

Mr. Sanchez: How much of that ... 25% or so do you see coming from the building of Casa Natura to make it easier for reps to do that or is not a big part of that?

Mr. Carlucci: A small part. I think that Casa Natura can help, but the bigger effort is not to use Casa Natura, but to change the consultants' behavior and to support them to have some kind of access to internet.

In this part of course Casa Natura can help, but this is not the main reason to put the Casa Natura, so the big effort to increase the orders through internet is behavior, a change in the behavior of the consultants.

Mr. Sanchez: How are you helping them gain access? Are you helping subsidize web access to them or are they just trying to go to net cafes, or ...

Mr. Carlucci: We do not have an institutional program, but our sales force invests a lot of time to teach them to try to find a local cafe like you said, net cafes or even

in the meetings that they have they try to support the consultants but in a very local way.

So we do not have an institutional program, but our sales people try to support them differently, depending on the region and the situation of each sector.

Mr. Sanchez: Thank you very much.

Mr. Carlucci: Thank you Celso.

Mr. XXX: Hi, we have two questions coming from the webcast. Just one second, we will make a question and make the answer as well. Just one second please.

The first question comes from Kurt Meyerhof from Consumer Edge Research. The question is: can you talk about how you view your reps incentives or commissions as it compares to the other direct selling competition? Has it changed? Are you more competitive than the other direct sellers with the commissions you are paying?

Mr. Carlucci: Ok Kurt, thank you for your question. The discount that we suggest - because this is only a suggestion to our consultants - is 30% and this is mainly the same discount that our more important competitor has in Brazil and we did not change, it is 30% in the last 4 years, so this is the average of the market.

On the other hand we are more competitive not because of the discount rate, but because the productivity of our consultants is around the double of the average of our industry in Brazil.

So that means that when you apply the 30% on the amount, the total amount of Natura, the cash profitability, the cash gains that a Natura consultant has is much bigger than any other competitor in Brazil - again, not because we have a higher rate, but because they sell more reais with Natura brand.

Mr. XXX: Ok. The second question ... just one second ... the second question comes from Alexandre Coelho from Plus Capital and the question is: could you please comment the 2.7 million stock option granted this month? According to Law 11,638 what would be the total expenses over each period and in 2009?

Also could you please comment how all Natura's total management compensation (salary + bonus + stock option) stands vis-a-vis market practice?

Mr. Carlucci: First of all thank you, Alexandre, for your question and because it is a very long answer and we have a detailed definition of our policy, of our stock option program in our site that is available since yesterday, I would like to invite you to enter in our site because you are going to have a lot of details, including the total value in the last four or five ... three or five ... three to four years.

So I would like to invite you to see all the details in our site and also you are going to have a detail of the salaries, bonus, stock options, all those things split, so you are going to have a lot of information.

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

Mr. Carlucci: I would like to reinforce to you once again that we are very confident in a solid evolution of our CF&T market and in the growth of Natura's position in this market and once again thank you for joining us in this conference call and I hope to meet you again in our next conference call in July. Have a good day.

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