

International Conference Call
Natura
3rd Quarter 2009 Earnings Release
October 23, 2009

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2009 Third 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 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: 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 the 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 everyone and welcome to our conference call to discuss our 3Q09 results. I would like to begin our presentation by reminding you that the company commemorated its 40th anniversary in September. We choose gratitude as the theme of our anniversary celebration, so I would like to start by saying thank you to all of you who helped us by offering the suggestions, questions and challenges that have helped us build Natura.

Coincidentally we also are celebrating having reached 1 million sales consultants in consolidated terms this month with 850,000 in Brazil and 150,000 working with our international operations, which is a remarkable achievement.

I want to express that we are very excited about our performance in our sector, which has been growing at an impressive pace of 20% in the 1H of the year. We point out that Natura gained 0.5 p.p. of market share at the same period.

Our Ebitda came to R\$ 272 million on the Q and totaled R\$ 704 million in the first nine months.

Margin reached 25.8% and 24.1% in the same two periods, in line with our target floor of 23% for the 2009 and 2010 period.

Our channel experienced strong expansion in the 3Q, growing by 23% in consolidated terms. In Brazil we grew more than 21%, reaching a total of 839,000 sales consultants at the end of September.

Our CNO model *Consultora Natura Orientadora*, which we continue to improve, and the strength of our brand are major factors driving this growth. In the other countries of Latin America we grew more than 33%.

This year we continued the Natura show room, the *Casa Natura* Project, opening four new show rooms, the most recent in Guarulhos and one at our Cajamar site for visiting consultants and our own employees, many of whom are consultants. We now have a total of five of these *Casas* or show rooms in Brazil and 10 in our foreign markets.

Year to date additional marketing investments totaled R\$ 183 million and productivity gains came to R\$ 204 million in the same period. The highlight in the period was online orders, which reached 74%.

Innovation at Natura continues to be strong. Our innovation rate at the end of the 3Q was 66.1 ... 66.8%, remaining stable in the year on year comparison. We had important launches this year, which 3Q highlights including the new *Aquarela* makeup line and the relaunch of *Kaiak* perfume.

Toward the end of the quarter we launched the *Natura Ekos Açaí* (Acai as you used to say in English). This product line had a very good reception by our customers.

I would like to call attention to the work that we have been developing with local communities that extract Brazilian biodiversity ingredients in a sustainable way. Since 99 we have been working on improving relationship with those local communities in order to integrate them into the Natura business model.

We currently work with 1,670 families organized into 21 supplier communities of some ingredients, located in areas such as Amazon and Atlantic rainforests. In addition to the purchase of raw materials, we have established benefit sharing agreements and in some cases financially supported the development of these providers and their productivity chains.

One recent example of this relationship is the new *Natura Ekos Açaí* product line, whose active ingredient (the native açaí berry) is acquired from Cofruta, a cooperative located in the Abaetetuba community in the Pará State that has been a Natura partner since 2007 and also supply other ingredients.

Our international operations continue to grow at a fast pace. Net revenue rose more than 46% in domestic currency terms and accounted for 7.2% of consolidated net revenues. Countries under consolidation (Argentina, Chile and Peru) achieved positive Ebitda margins in the last four consecutive quarters.

Finally we would like to point out once more the strength of our market, which continues to show high growth rates and our consistent result driven, above all, by our strategy of profitable growth in Brazil; the new growth cycle with relevant market share in Latin America - excluding Brazil - and the improvement in our management model including the implementation of regional and business units, investments in leadership development and strengthening of our organizational culture, which is our chief competitive advantage.

I will now turn the time over Roberto Pedote who will share with you some information regarding the company's financial performance. Roberto.

Mr. Roberto Pedote: Thank you Alessandro, good morning everyone. I would like to highlight four points: I would like to begin by informing you that our Board of Directors approved this week the structuring of an operation designed to raise up to R\$ 350 million through an issuance of simple debentures.

The objective of this increase is to roll over short-term debt that is to mature in early 2010. These are primary, foreign denominated debt that has been swapped to Brazil's overnight interbanking lending rates. The operation will not affect the level of the company's overall debt structure.

Another point I consider important to highlight here concerns our net financial results. Fluctuations in the exchange rate led to different effects. In the 3Q08 the real, the Brazilian currency, experienced depreciation which led to a negative impact on costs and the positive effect on the financial results due to the operational hedge and exchange variations on exports. In 2008 the real depreciation versus the dollar was 20%.

This year the opposite has happened. We had gains relative to costs and losses in the operational hedge and foreign exchange variation in exports due to the real's 8.9% appreciation.

The third point is the inventory level in the end of the 3Q. Our inventory grew at a higher rate than revenue growth. In addition to the company's growth in Brazil we would like to highlight advances in our international operations including increases

in the level of inventory coverage and the decentralization of logistics operation in Brazil.

We would also like to point out that the increase in the 3Q inventory level was driven by a strategy on improving and anticipating our coverage for the Christmas sales for this year. In Brazil not only Natura, but we are quite optimistic in relation to Christmas not only in our industry.

Before I finish my remarks I would like to speak briefly on our recent stock offering. Demand was 2x greater than the offering, whose per share price was R\$ 26.50. Liquidity has increased by approximately 35% and the shares have posted an average daily trading volume of approximately R\$ 30 million. As you know, the offering increased the company's free float from 25% to 40%.

Those were all the points that I wanted to highlight, thank you very much for your attention. We cannot proceed to the question and answer session.

Q&A Session

Operator: Excuse me. 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.

Our first question comes from Mr. Robert Ford with Bank of America Merrill Lynch.

Mr. Robert Ford: Good day everybody and in the spirit of gratitude, Alessandro, thanks for the call and congratulations on the 1 million consultant milestone as well as the 40th anniversary, tremendous achievements.

I had a question with respect to the Q. I understand that Aquarela's new color pallet and Açaí were both very successful as was Kaiak. Did you have any out of stocks? Did you feel as if you were unable to respond to what seems to have been some very strong demand from some of these initiatives?

Mr. Carlucci: Hi Bob, nice to hear you and thank you for your words. As we mentioned, we had very good launches in the Q and in Aquarela we had some stock outs; in Kaiak we did not have, but in Aquarela yes, we had some stock outs.

And this is one of the reasons why we raised a little bit the stock levels in the end of this year, as Roberto said, to guarantee that we are going to have a last quarter with a better service level to our consultants and our customers.

Mr. Ford: And Alessandro, the new multi-level or two-level direct sales model seems to have dramatically have accelerated the growth in the network in Brazil and it feels as if it is lowering your fixed costs as well and I was curious if you feel at this point that you have sufficient confidence in these changes to perhaps take

some of these learnings into the Hispanic Latin American markets where you are still trying to build scale in.

Do you think that some of these modifications might be appropriate and if they are do you think that they could maybe accelerate your breakeven point and accelerate the growth rates in markets like Mexico for example?

Mr. Carlucci: Very good question Bob. Of course that we are looking for the CNO model as a new platform for us and we are studying what are the modifications or the adjustments that we need to do to implement this model in the other countries in Latin America and yes, we believe that we can. This is part of the new strategy in Latin America: to accelerate revenues and also to reach the breakeven point faster in Mexico, but also in Colombia.

So the answer is yes, we are studying how we should implement the CNO. But we want to do some adjustments, because in Latin America we have a different situation; we do not have a very well-known brand, so we want to produce some modifications. But our plan is to implement the CNO in those markets.

Mr. Ford: And Alessandro is that something that we can expect perhaps in 2010 or do you think it is going to require a longer period of evaluation before you are prepared to make any substitute changes?

Mr. Carlucci: As a full implementation, Bob, I think that 2011 it will be a better time. But maybe and probably in 2010 we are going to implement as a pilot in some country or in some region outside Brazil. But as a full implementation I think that only in 2011.

Mr. Ford: Ok great and one really short question and maybe one that is a little bit longer if I might and one is I know in the Portuguese call you mentioned that you expect to reach break even in France by 2011, at least by year end 2011 and I was curious as to how.

And then Marcelo on the call a question with respect to some of the SG&A increases and you responded that you had several operating initiatives under way, I know one of which is regional distribution, improved service levels.

But I was curious if you could expand on some of the other efforts that you have underway in terms of what those benefits are expected to be, whether they are efficiency initiatives or service initiatives or innovation initiatives or whatever?

Mr. Carlucci: Bob, your first question is about how we are going to reach the break even trend and sorry, probably it is a very, very simple answer, but we are going to reach the break even because we are going to keep growing the revenues with the same fixed costs.

As you know, most of the growth that we are having in France is due to the direct selling implementation in France, even though it is a very small implementation - I think that we have around 10 relationship managers only in France - but we do not intend to hire new people.

So what is going to happen in the next two years they are going to grow their sectors, so this is going to dilute our costs and that is why we are going to reach the break even. We do not intend to open new stores. We have our flagship. It is a fixed cost; so in other words growing top line. This is going to give us the break even, allows us to reach the break even around the end of 2011.

And you are asking, if I understood, what are the main benefits of the Projects - we call Projects here - the initiatives that we are implementing and part of the benefits are related with the productivity gains: so the logistics area, the cost of our products, the outbound cost to deliver the orders and also some of those projects are going to give benefits for the future, so the innovation, for example.

And another important that we started last year is a bigger investment in leadership development. This is something that we want to keep investing for the next 10 years, because as you know this is the thing that is really going to make a difference in our company. As a very cultural driven company we need to really invest in leadership development. So in other words those projects are helping us to reach productivity gains and also investing in the future: innovation mostly and leadership development.

And also a last point is a huge evolution in the IT platform and in the next years we are going to invest ... continue investing for the IT platform to really support our growth.

Mr. Pedote: And in addition to this, Bob, this year we had some investment in tax compliance. All the companies in Brazil we need to implement electronic invoice system, let us say like that, and some electronic tax we need to send electronically a lot of tax information now to the Government and this year especially we had some important investment in these systems also.

Mr. Ford: Great thank you both very much.

Operator: Excuse me. Our next question comes from Ms. Andrea Teixeira with J.P. Morgan.

Ms. Andrea Teixeira: I am sorry, good afternoon. I just wanted a follow up with some of the changes that you mentioned in the Portuguese call on some of nonrecurring items on the inventories side. The increase, part of the increase coming from the fact that you are having more distribution centers in Brazil.

And my second question goes into the regionalization customization, which is a great idea in my view, regarding even in Brazil to customize the catalogs. Can you

tell us not only on the distribution side the level of service being improved, but can you comment regarding your experience in the Northeast, how you believe the catalogs can actually be customized and what are your plans going forward related to that? Not only like the product line and pricing, if you can expand on that and lastly give us some sense of your views for 2010, how growth might be? Thank you.

Mr. Pedote: Hi Andrea, I will just start by the stocks. What we mentioned in the earlier call is that we have increased ... there is a structural change in stocks when we talk about higher growth in the international operation that we have a higher coverage than in Brazil.

There is a second element that is the decentralization of the CDs in Brazil that also has structurally increased our stock level and there was what we mentioned that was a nonrecurring increase in stocks because this year we decided to anticipate the stocks for Christmas and to be quite well prepared.

As Alessandro mentioned, in the 3Q we had some stock-outs in some products and we believe that the demand is quite unpredictable ... not unpredictable, it is quite good now in Brazil and then we anticipated some stocks. We believe that perhaps 15% of the stock level that we have is this anticipation that we did for Christmas.

Ms. Teixeira: Ok 15%, thank you Roberto.

Mr. Carlucci: And Andrea yes, about the regionalization even though the catalogue is very symbolic when you think that we are going to have four or five different catalogs it is a very symbolic thing, this is only the consequence of different strategies.

In other words, what we would like to achieve during the time - and we are not going to do it, all those things that I am going to mention to you, next year - but some of them are going to start from 2010 and probably we need still 2011 to implement all of them.

But what we want to do with the regionalization? First of all, different category strategy. In Brazil the relevance of the categories are different from region to region, the competitors are different. So we want to have different strategies.

We are starting to develop some specific products to support those different strategies and as you know, because of geography and cultural aspects we can develop products only for one specific region and we are starting to do this.

The third point is a brand approach. Even though Natura is the preferred brand in Brazil, there are some differences about the awareness of the brand in the regions in Brazil. So different strategies to keep building the brand.

And also all the channel approach is going to be different. Training, recruiting programs and relationship; we are customizing or adjusting - maybe adjusting is a better word - according to specific needs of the region.

And because of all of those things the catalogs are going to be different, because if I am going to launch only a product in the northeast area of Brazil I am going to produce a specific catalogue there.

And also the portfolio maybe could be 10% different, because some of the products are best-selling in the South and not in the Northeast; so we are going to offer them only in the south part to Brazil.

So in other words ... and also pricing. You know, we could adjust in some way prices according to the competitive level in each of our regions. So I do not know if I can explain, but in other words we are going to adjust the marketing mix as a whole and of course that we are still going to be a one-only brand, one-only company. Probably 70% of our marketing initiatives are going to be national and 30% are going to be local.

So we are taking care to guarantee that only efficient initiatives are going to be local and to produce good results.

Ms. Teixeira: That is wonderful Alessandro, thank you so much for the explanation and congratulations again for the achievements.

Mr. Carlucci: Ok thank you Andrea.

Operator: Excuse me. Our next question comes from Mr. Reinaldo Santana with Deutsche Bank.

Mr. Reinaldo Santana: Hi, good morning everyone and congratulations again on the anniversary and the consultants number. I have two questions, the first one in terms of productivity numbers that you achieved this quarter that we saw a decrease that perhaps is explained by the faster growth in consultants, which was quite impressive in Brazil.

How soon should we see a reversal in productivity because of the CNO Program? And if you can expand on it please.

The second question following Robert's question on brand in this time in Mexico that you said that you plan to break even in Mexico sooner than expected. What are your initiatives in order to achieve that and if that adjustment and customization you are doing Brazil also applies to the international market. Thank you.

Mr. Carlucci: Hi Reinaldo. Talking about productivity you are totally right. What you see when you see this decrease is only due to the mix effect, because we

have so much more new consultants and they have a lower productivity they impact negatively the average.

But if we compare the same consultants, we can see a small growth. So excluding the new I have in front of me – even though we do not show this data - I have in front of me a chart that shows me that if I compare the same consultants this year and last year I can see a small growth. So the effect is only because of the number of new consultants.

And you know, I think talking about the future we have been asked about this effect and I think that we are not expecting to have gains in productivity in the short or medium term and mainly because with the CNO implementation, as we announced, we are reaching a very fast growth in the number of consultants and after that we started to see a better activity, so they are more frequent.

And in the medium and in the long-term - not only because they are getting older, but also because of better innovation, better marketing - in the medium and in the long-term maybe the productivity is going up, slightly up as the average.

But in other words, as I mentioned before, if we compare the same consultants they are growing; slightly, but they are growing. So I would not expect a huge change in productivity levels for the next years. So I would project the same levels that we have today.

And talking about the international ... Mexico, the same explanation that I gave to Andrea we could apply to Mexico. What we are starting to plan and from 2010 we are going to implement is some localization in the marketing approach; not only in Mexico, but also in Colombia, in the other countries.

Of course we are not going to do all the countries in the same period and Mexico, because of the size of the market, is one of our priorities. What we are going to do is change our strategy from an export model to a local model where we are going to adjust some of the marketing mix and only avoiding to repeat all the aspects that I mentioned to Andrea we are going to do also in Mexico. So category, products, brand approach, training, catalogs and all the aspects of our marketing mix.

And to finalize I would like to thank you for the compliments of our anniversary, because this is a very important moment for us and thank you, thank you so much for your support and for your help.

Mr. Santana: Thank you.

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

Ms. Margaret Kalvar: Yes, good morning and I will add my congratulations to those already expressed for your several milestones. I wanted to ask a little bit

more about the overall growth in the market and the category growth of 20% was not exactly echoed in your revenue growth in Brazil this Q, which was 14.2%. However, you did post a market share gain.

Could you talk little bit about the growth in Brazil and what you are expecting? I mean, I am sensing a good 4Q on the way with Christmas, but perhaps if you see an acceleration and possibly a high-teens growth level in Brazil for next year.

And also whether you are seeing any increase in ticket, in average selling price or in the enrichment to the mix as consumers are becoming wealthier and certainly disposed to spending and this growth going up?

Mr. Carlucci: Margaret, this is Alessandro speaking. Let me see if I understood well your question and talking about the market growth, as we saw in the 1H of the year our market grew 20% and I do not have any reason to believe that we should see huge change in the future in the growth in the CF&T market in Brazil.

Of course we can see two, three points of difference, so maybe 17% or sometimes 20 and something percent of growth, but I think that for the next two years - at least two years - the CF&T market in Brazil is going to keep growing in a high rate and this is a historic aspect in our market. So I do not have any reasons to see a huge change.

And regarding the average, the basket from each one of our customers, what is driving this growth are both things: more people, or a higher penetration - the penetration in some categories is increasing - and also the average purchase is also increasing. So both things are driving this growth in the market: more people - in other words more penetration - and a higher ticket when we see the whole market.

Ms. Kalvar: But in terms of your sales, your net operating revenues were from the 9 months 17.8 and for the Q 14.2 in Brazil. Do you see that rate increasing back up to very high teens or 20% range?

Mr. Carlucci: I understood now. Talking about our growth we saw ... I do not have yet the market numbers from the 3Q, but talking about the year - because I have data from the first six months - so I can share with you, even though are not the same period, that we saw an increase of penetration; so in other words we raised the number of customers at Natura.

So this was the main driver to support our growth and this is totally correlated with the fact that we are growing the number of consultants. This is the most important drive to support our growth and a new consultant is probably selling for a new customer. So in other words what we are seeing in the first six months of this year is a growth in the penetration, so more people buying Natura products.

And just sharing with you an information that probably it is better to do this kind of comparison is you should take the gross revenue and not the net revenue, because you have some tax impact and if you see the gross revenue you are going to see that in this quarter in Brazil we grew 16.4%, because the gross revenue is what really represents what the customer - and in our case the consultants, but we could say customer - they are paying for Natura and paying to buy our products.

Ms. Kalvar: Ok thank you, that is very helpful.

Mr. Carlucci: Ok thank you.

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

Our next question comes from Ms. Juliana Rosembaum with Itaú.

Ms. Juliana Rosembaum: Hi again. I would like to discuss a little further the development in the personal care segment. In the previous call Pedote was mentioning the growth of soap sales. So specifically on the can you give us a sense of how much that is growing in terms of sales and even how much the categories that you lowered prices a while ago how they are growing and if it is still fair to say that the margin has been kept at the same level, so no more erosion coming from this pricing?

Mr. Carlucci: Hi Juliana. As you know, we do not give information of a specific category; what Roberto was saying in the Brazilian call is that the effect in the revenue was due of our growth in soaps because we produce also the raw material in soaps. But soap is not the only category that we have been growing in the last years; it is one of them and we are growing in other categories, but unfortunately we do not open this kind of information.

And regarding the margin it is important to share with all of you that the profitability of our products is almost the same independently of the price point. In other words, we develop products targeting a narrow variation in the profitability levels to guarantee that we are not going to lose profitability if we start to sell more soaps, for example, than fragrances or if we start to sell more deodorants than skin care products.

So the variation in the profitability is very low. So you are not going to see an effect of losing profitability because we are decreasing the price points or the average price points of our sales.

Ms. Rosenbaum: Great, but I understand you do not break down the products, but is it fair to say that the personal care segment is still going very well after this price repositioning in terms of volumes?

Mr. Carlucci: Yes it is going very well, but not because of the price reduction. We did the price reduction last year, if I am not wrong, in the first four months of the year. So what we are having is the effect of new products launched, the value better proposition of products that we launched last year. So it is not anymore because of the new price positioning in some of those categories.

Ms. Rosenbaum: Ok thank you.

Mr. Carlucci: You are welcome.

Operator: Excuse me. Our next question comes from Mr. Celso Sanchez with Citi.

Mr. Celso Sanchez: Hi good afternoon. In light of the obviously very strong performance Brazil has had over the last quarters and the international operations that have been doing quite well as well, are you considering revisiting the opportunities in the US? Is that something that might be back on the radar for you now or does that remain on the sidelines and you will focus on the operations you currently have?

Mr. Carlucci: Hi Celso how are you? This is Alessandro speaking and I think that this is a very good question and I will answer very directly: we are not thinking to restart our US operation now. We are focusing our efforts to speed up our growth in Latin America, even though we really believe that our brand can be a global brand and in the future we can have some operation in the US - but not only in the US, maybe another countries.

But our plan today is to accelerate our growth in Latin America. In other words, we do not have any plan, any decision regarding the US. In better words, we have a decision: we are not going to do anything in the next period.

Mr. Sanchez: Ok thank you.

Mr. Carlucci: You are welcome.

Operator: Excuse me. Our next question comes from Mr. Luiz Cesta with Banco Espírito Santo.

Mr. Luiz Cesta: Good afternoon. Well, we see that you are very optimistic about Christmas sales and I just want to know if you have any kind of different strategy to finance the consultants in this year and if it could increase receivables above normal levels by the end of the year. We remember some years ago, I think that 2007, you had a huge increase in the receivables, so I was just wondering if it could happen again this year?

Mr. Pedote: Hi Luiz. I was not here in the end of 2007 but I remember this and we are not planning, we do not have any plans to change our policy this year as we have not done last year also. You are going to see normal levels of that.

Mr. Cesta: Ok thank you and I have another question regarding Capex for 2010. I just want to know if you could give us some color about what would be the guidance for next year and if you can if you just could inform us if you think that it is going to be higher or lower than the 140 million for 2009.

Mr. Pedote: Probably higher and the guidance we will give them the next call. But we believe that we need to invest more than what we invested this year in order to accomplish all our strategy in Brazil and Latin America. Probably higher, but we can give a better guidance in the next quarter.

Mr. Cesta: Ok thank you very much.

Operator: 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: As I mentioned in the beginning of the call, I would like to reiterate to you the trust that we have in the evolution of the CF&T market and the Natura growth within that market.

I would once again like to thank you all for participating in the conference call and we hope you will all join us for our next conference in which we will discuss our results for the year 2009. Have a wonderful day and we see you in the next conference call.

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