International Conference Call
Natura
4th Quarter 2009 Earnings Release
February 26, 2010

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2009 4th 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 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 the Law 11,638.

Following, Natura would like to state CVM recommendation: on October 21, 2009 our Board of Directors authorized the Executive Board to develop studies for the preparation and structuring of a debt issuance in the local capital market through a public distribution of simple, non-convertible into shares and unsecured debentures totaling up to R$ 350 million debenture public offering. The proceeds from the debenture public offering will be used for increasing the average term of the amortization of our debt.

We are currently at the preparation stage of the documents related to the debenture public offering, whose filling request will be later submitted for analysis by the Brazilian Association of Entities of the Financial and Capital Markets - ANBIMA and to Brazil's Securities and Exchange Commission - CVM under the terms of the applicable law and legislation.

We recommend a careful reading of the debenture public offering prospectus, which will be later made available to all parties interested in participating in the debenture public offering, especially of the perspective section named risk factors, for description of certain risk factors which must be taken into consideration before investing.

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

Mr. Alessandro Carlucci: Good morning everyone and welcome to our conference call for the 4th quarter and fiscal year of 2009. I would like to begin by saying that for Natura 2009 was another year of strong results in the year that we celebrate 40 years. We continued to see strong growth in our business in the Brazilian market, and driven by the excellent results of our action plan we gained market share.

The Latin American operations continued to expand and account for an even larger share of our business. The results achieved in the year were in line with what we had expected for the period, with confidence in the Brazilian economy and in our markets; the country's lower exposure to the international crisis; the resilience of the personal care, perfumery and cosmetic industry; the strength of the Natura brand and a business model based on direct sales.

Consolidated net revenues in the year was R$ 4.2 billion, 19% higher than in 2008. Ebitda was over R$1 billion, 17% higher than a year earlier with Ebitda margin of 23.8%, which surpassed the lower limit of our guidance for the year of 23%.Net income was R$ 684 million, an increase of 32% from 2008.

Based on data from our association, Natura's target market grew by 16% in the first 10 months of the year, while our market share increased from 21.4% in 2008 to 22.1% in 2009.

I would like to point out some important events and actions of 2009: the evolution in Natura's management model; conclusion of the implementation of our new sales model in Brazil, Consultora Natura Orientadora – CNO; continuation of our additional investments in marketing expenses, which reached R$ 204 million accumulated in 2008 and 2009; our investments in innovation, with 113 products launched in the year, with the innovation index reaching the high level of 68%.

The international operations continued to report significant growth. Net revenues from international operations increased by 43% in local currency, accounting 7% of overall revenue. The operations and consolidations in Latin America (Argentina, Chile and Peru) ended the year with a robust Ebitda of R$ 8.9 million.

The operations in implementation (Colombia and Mexico), in which we continue to make important investments, grew 74% in local currency and 56% in the total consultant number, which reached more than 44,000. Our Latin America operation as a whole currently has 160,000 consultants and more than one hundred … thousand, sorry, employees.

Our commitment to sustainability continued to generate important results. We made advances in generating and distributing wealth to our main stakeholders. We improved the quality of our relationship by formulating specific plans and actions that increase the satisfaction of our stakeholders regarding the relationship with our company.

We implemented a new policy for the sustainable use of biodiversity and cultural heritage that guide us how Natura operates with regards to production chains, research lines and the sharing of benefits with extractivist communities.

Since 2007, when we first created the “Carbono Neutro” Project, we have neutralized the greenhouse gases through our entire chain, from the extraction of raw materials and packaging materials to the final destination of products and packagings and also our goal is to reduce the emissions by 33% by 2011 from the base date of 2006. In 2009 we reduced 5.2% our greenhouse gas emissions.

“Crer para Ver”, our program to invest in projects that help improve public education, was expanded to include our operations in Latin America and in Brazil we invested R$ 3.7 million in this program to include approximately 200,000 students in 210 municipalities in Brazil.

The significant results delivered in 2009 and the advances in our management have encouraged us to adopt an optimistic view of the future. We recorded growth above the industry average, confirming the acceptance of our value proposal in the markets in which we operate, all with potential for expansion.

The economic growth forecast for Brazil in the coming years and probable impacts on improving income distribution and the participation of women in the economy point to consistent growth in our industry in Brazil.

In the other countries of Latin America our horizons have become even brother. We have now achieved scale that will allow us to launch a new expansion phase, with the commitment to sustainable development and based on operations that are more in tune with the demands of each market and effectively transforming the region into an important business platform for our company.

Another important issue is the evolution of our management model, which is supported by three pillars: managing to processes, strengthening organizational culture and developing leaders. This model gives us a structure that will allow us to be increasingly more agile and decentralized, closer to our publics and more innovative.

Lastly I would like to emphasize that we remain confident and enthusiastic about our company. Confident that we are prepared for a new era ahead and expected to deliver above average performance in our industry.

I will now pass to Roberto, who will present some details of our results.

Mr. Roberto Pedote: Thank you Alessandro. Good morning everyone and thank you for participating in our conference call. First of all I would like to point out that we have already incorporated all of the changes introduced in 2009 by the Accounting Pronouncement Committee … by the Brazilian Accounting Pronouncement Committee into our 2009 and 2008 results.

The adoption of this package is mandatory only as of 2010, but we have decided to adopt them immediately. Note that the adjustments do not have a material impact on Natura’s numbers.

Furthermore, on our website we have presented the financial statements in accordance with IFRS, which does not result in any difference in the results presented, which already incorporated the most recent Brazilian accounting pronouncements. As of this 1Q we will report our results based on IFRS.

Also I would like to take advantage of this opportunity to explain certain issues that are important: first I would like to comment on our working capital, which increased in 2009. As commented in the last conference call, the main reason in this increase is the inventory … is the increase in the inventory coverage.

Over the cost of last year we have observed some deterioration in the service provided to our consultants and we decided to expand the coverage of our inventory in the short term. The short-term policy has generated good results and we managed to improve the level of service in the second half of the year.

For the medium and long-term we are also implementing structural measures to increase the flexibility and integration of the supply chain, to improve the continuous planning and optimization of the distribution network, which will allow us to reduce inventory coverage while still improving the level of service.

Another important point is the higher capital expenditure planned for 2010. Capex in the year is estimated at R$ 250 million, 110 million higher than 2009, when we invested 140 million. In 2010 we will keep investing in the manufacturing capacity and other fixed investments in order to support the company's growth as we did in 2009.

This additional investment of 110 million will be concentrated in improving the technological platforms that support our commercial and logistics processes and in expanding the capacity of our logistics chain, storage capacity and distribution and many concentrated in our Brazilian operation.

The level of Capex for 2010 represents 23% of the 2009 Brazilian Ebitda and is aligned with the level of investment that Natura had in the period 2004 to 2006.

The issue of income tax of net profit is also important. In 2009 we were benefited by the anticipation of goodwill amortization, which has come to an end, which means that in 2010 we will return to a normal rate. In 2008 income tax rate was 32%; in 2009 22% and we expect an income tax rate around 33% in 2010.

About dividends, we received approval from the Board of Directors to submit to the annual Shareholders Meeting the payment of R$ 591 million in dividends and interest on equity. A portion of this approval in the amount of R$ 236 million has already been paid in August last year, which was related to the first six months of that year.

The dividends and interest on equity related to the fiscal year 2009 represent net remuneration of R$ 1.37 per share, which corresponds to eight-sixths of net income in 2009 and a 20% increase over the last year.

And lastly I would like to reiterate our guidance of Ebitda margin in 2010 of a lower limit of 23%. Thank you very much and we can now proceed to the Q&A 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 Mr. Reinaldo Santana from Deutsche Bank.

Mr. Reinaldo Santana: Yes good morning Alessandro, Roberto, Helmut. I have two questions, my first one you have spent R$ 204 million of your 400 million three-year marketing budget in two years, which implies you are somewhat behind schedule. Could you explain the reasons why and should we expect then R$ 200 million in marketing spending this year or would that budget likely change?

Mr. Carlucci: Hi Reinaldo, good morning, this is Alessandro speaking. As we announced two years ago, we are prepared to spend those R$ 400 million in addition … additional in our marketing expenses. So we can reach this level of investments in 2010, even though we are managing the company month by month and if we realize that we do not need to spend those extra R$ 200 million we are not going to.

But the plan is to be prepared to invest because, as you know and as we mentioned in the last conferences, we are facing in the last two, three years a higher competition in Brazil and that is why we are prepared to invest more in marketing.

So in other words we are prepared to invest, but we are going to manage day by day the company to see if this is really necessary or not.

Mr. Pedote: Just to complement, in 2009 our relative share of marketing investments were very similar to 2008 and in the end you saw the results and we improved and gained share and in 2008 and we believe that we invested a fair amount in marketing and we are prepared to invest more if the market conditions require. But we do not need to do the 400. We are prepared for them.

Mr. Santana: Ok, I understood and then the second question what did administrative and general expenses grow so much in Brazil in the 4Q - as far as I recall 28% - while we were expecting perhaps more pressure from selling expenses. What is the overall outlook for 2010?

Mr. Carlucci: Hi Reinaldo. Could you repeat the question please?

Mr. Santana: Sure. I noted that administrative expenses in Brazil grew 28%. I am wondering why this relevant growth and what we are expecting four 2010 in terms of general expenses in Brazil?

Mr. Pedote: Reinaldo, in 4Q the main impact in the general expenses was some projects, because we have a phase that was heavily concentrated in 4Q with some structural projects, even some fiscal projects that we were implementing here in Brazil and paying lots of IT investment.

What we expect for next year is perhaps something in the same level to some improvement and dilution in some fixed costs. As you know, we want to invest more in the leadership capabilities of Natura and this is part of the projects that we are investing. But this is not only in this line, it is across the different departments of Natura. But we expect some fixed cost dilution in this area.

Mr. Santana: Right, thank you.

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

Ms. Andrea Teixeira: Hi, good afternoon everyone. I just want to follow-up with some of the questions that we had on the Portuguese version of the call, basically when you talk about the Capex - and I am sorry to go back to this point - when you are saying that you are going to increase investments in distribution.

Can you elaborate more out of those five regions that you commented before where are your initiatives and what you think would lead to better service? I understand that you are doing this to better service your clients; can you give us some metrics of what you are trying to achieve during this process? I would appreciate, thank you.

Mr. Carlucci: Hi Andrea, this is Alessandro speaking. Regarding Capex, when we talk about logistics we are talking about the distribution side of Natura and those investments that we announced are going to be directed to probably two new distribution centers in Brazil. We do not know yet in which part of the country, but we know that we will need two new.

And IT investments to support a more decentralized logistics net, because as you know we have today already a lot of distribution centers and with these two new ones we will need a more robust IT to support and management of stocks and so on.

And the benefits for our clients are going to be based mostly on the time. We are going to decrease the time that they need to wait for an order, especially our consultants. So this is the gain. This is the gain regarding the quality of service.

Mr. Pedote: And the service level will be perceived much better in the high-seasonality moments like Christmas, because … Mother's Day, because in these moments today we have our total capacity in the distribution part. In this moment sometimes we have our worst service in these moments, because we cannot be so good in the peak moment. Then part of investments is related to have more flexibility and spare capacity for the peaks.

Ms. Teixeira: Ok perfect and lastly on the inventories. I understand that is what both intended when you just mentioned about the service to clients, but do you think like from this amount that you saw in increased inventories you are also probably holding there some increase in demand for 1Q.

Can you elaborate on how much you think this increase in inventories has to do with increased demand and how much comes from the increased level of service to the customers? If you can separate those two …

Mr. Pedote: I do not have exactly the separation, but the main point here is that in the short term, as we faced our worst service level, the easiest and only available thing to do is to increase inventories and we did and we had good benefits from that.

What we are doing now is that from a better planning process, from a new logistics plan that we are going to put in place in the following two, three years, we expect that we can work with less inventories than we have today and improve also the service level even with these comments that we are making here about more investments in logistics.

But the main reason was we really we do not want to … we need to, we decided really not to lose in the service level and stocks is the short-term available tool. But in the medium term we have structural plans to reduce this inventory coverage.

Ms. Teixeira: Ok wonderful, thank you very much.

Mr. Pedote: Thank you Andrea.

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

Ms. Margaret Kalvar: Yes hi, good morning. Two questions, first of all in terms of the sales mix and the increase that you saw, how much of it was volume-related and how much was in enrichment in the mix, as people may be trading up as incomes rise? That is the first question.

Mr. Carlucci: Margaret hi, good morning, this is Alessandro speaking.

Ms. Kalvar: Good morning.

Mr. Carlucci: If I understood well in your question, you are trying to correlate our results with some economic effects in Brazil and to be honest we saw both things happening in the last years: we saw old customers - if I could call like this - increasing the price of their choices looking for better brands, better products; and also we saw new customers buying for the first time in some categories. So both things happened. Even though we grew a little bit more and price than in units last year, this is not relevant. So both effects happen for Natura.

And you need to keep in mind that we are the preferred brand in Brazil, so that means that a new customer, when he decides to buy, sometimes he tries to buy Natura, even if it could be the lowest price-point product of our company. So both things are happening: new customers and also increase in the mix and the price positioning.

Ms. Kalvar: Ok. Are you seeing any shift in the categories that are particularly strong, color cosmetics or fragrances or shampoos, soaps?

Mr. Carlucci: Margaret, regarding the market – and we do not have yet the final numbers of 2009, we have the 10 first months, probably 80% of the year - we can see (and we split the information between cosmetics and fragrances and toiletries) that both markets grew in high levels.

So in the cosmetics and fragrances (that includes color cosmetics, fragrances and skin care) the market grew almost 16% and in the toiletries (when you have soaps, shampoos, deodorants) the market grew almost 17%. But you know, 16 and 17. So all the categories grew this year.

I do not have yet to the numbers of the last two months, but I do not think that we are going to see a huge difference.

Ms. Kalvar: Ok and then on the debt issue that you are working on, will there be a net increase in the amount of your debt or is this simply replacing various issues with ones that have a longer maturity?

Mr. Pedote: It is just replacing short term by long-term. There is no increase in the total level.

Ms. Kalvar: Ok thank you very much.

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. Bob Ford from Bank of America.

Mr. Bob Ford: Good day everybody and congratulations on the quarter. Alessandro, I was … I know you already mentioned that one of your objectives was to accelerate growth in Mexico and I was curious as to the implementation that you might be considering to perhaps accelerate that growth, whether it is a bi-level that is comparable to what you see in Brazil, or is it a derivative of that that could even spur faster growth and result in a more … a lower fixed-cost structure, if you will, as you attempt to try to open your base a little bit more rapidly?

Mr. Carlucci: Hi Bob good morning and what we are working on is … I will say some kind of adaptation of the CNO model that we implemented in Brazil to do it in Latin America and because in Latin America, even though we have already reached 160,000 consultants, we have a fewer number than in Brazil. We can develop a more interesting - if I could call like this - program in the CNO.

And in other words this model can accelerate faster the growth in these operations, also because in Brazil we are the preferred brand, so we do not need to push so much the channel growth. In the Latin American operations our brand is very good evaluated, but it is not as known as it is in Brazil, so we need to have a commercial model a bit stronger that accelerates a little bit more the growth of the channel.

So we are working on this. This is going to be an adaptation, probably with maybe more layers, but to be honest we still are planning and studying; but this is what we are going to implement probably in 2011 in Mexico and if we have good results also in the other countries in Latin America.

Mr. Ford: And Alessandro, as you look at other kind of multilevel networks around the world and you look at how rapidly those have grown, is there … are there any lessons that you think are important to keep in mind in terms of perhaps some of the infrastructure and perhaps in-country production because of the speed of the growth, or concerns with respect to the rate of turnover, or are there some adaptations to the portfolio that you need to make because of the implications of a multilevel model in Mexico?

Mr. Carlucci: Thank you for the question, Bob, because we really do not want to replicate the typical multilevel systems of other companies, because they are not going to work for us.

We want to have some kind of multilevel that is more an adaptation of the CNO than a typical multilevel; but we do not want to have a customer net that usually is the multilevel approach, when you really have customers and you want to reach the customers or you want to have strong distributors. This is not our intention.

We want to keep a relationship closer to our people. We want to have people reselling our product, knowing our brand, knowing the benefits of our products. So we are not going to change from a mono-level to a typical multilevel company because this is not related with our brand and our values.

So what we are going to do, we are trying to do, is to learn with the multilevel systems - and they have good things - but to keep good things about our model, for example, high retention and not low retention; good productivity; so in other words we are going to look for the best of the two worlds.

Mr. Ford: Ok that is great to know and then Alessandro if I might could you comment a little bit about what you are seeing so far in the early part of the year in terms of consumer demand, in terms of competitive dynamics, in terms of your own innovation in the first couple of cycles of the year as well as maybe some of the dynamics in the marketing channels?

Mr. Carlucci: Bob, we are not facing a huge change in the competitive environment and this does not mean that it is easy; it means that it keeps tough. But we are not facing any change and also we are feeling that our market can keep growing and we saw this in the last part of the year as you can see in our results and also in the beginning of 2010.

And if you take into consideration the macroeconomics of Brazil, there is no reason to believe that we are going to have some change and as we mentioned, including not only the forecast for Brazil, but also the improvement of income distribution and the increase in the participation of women in the economy, our industry should keep growing in this year and also in the next years. In other words, we are not facing any difference regarding last year.

Mr. Ford: That is good to know, thank you very much.

Mr. Carlucci: Thank you for your question.

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

Ms. Lore Sierra: Good morning and thank you for taking the question. I just wanted to go back to 4Q results and just ask a little bit about mix in 4Q, because compared to what were the trends in the beginning part of 2009 it looks like you had less growth in units and more growth in price per unit, which a couple of years ago was you were selling more kits and I thought you were trying to control the kits, so can you give us any color on what drove that change in 4Q please?

Mr. Carlucci: Hi Lore, thank you for the question. What happened in the last quarter is that we had a very good Christmas strategy and in this Christmas strategy we offered our kits with a higher price point and this was very well accepted by our customers, because they saw value behind the kits. So this is why you saw more increase in the price than in the volume.

Ms. Sierra: Ok. I remember that that was that was a kind of what happened a couple of years ago when you signaled that you had a harder time getting back to a normalized sales growth after the kit promotion was in effect, right?

Is there any risk of that as you get into 2010, that that will affect your business or is that just a promotion you did in 4Q and it goes away into the beginning part of the year?

Mr. Carlucci: Lore, what happened to be more precise in 2006 was exactly the opposite. In 2006 we offered our products – not kits - with some Christmas package and this effect decreased the average price.

What happened in 2009 was the opposite. We increased the price points of the kits and we developed real kits and not only our regular products with a Christmas package. So it was the opposite. In other words, in 2009 it was not a promotion; it was a better succeeded Christmas strategy as a whole.

Ms. Sierra: Ok thank you for that.

Mr. Carlucci: Thank you so much.

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

Mr. Celso Sanchez: Hi good afternoon. I just want to follow up a little bit on the multilevel discussion outside of Brazil and specifically trying to get a better handle on what that implies for breakeven point.

I know this was discussed in the Portuguese called this morning, but even in Argentina we have obviously (inaudible 41:24) positive those markets at least for the year in Ebitda, but I guess 4Q was a little bit below what we thought.

Should we think about as this multilevel evolves in Mexico in 2011, should we think of that also in the markets under consolidation as well? And should we therefore think about maybe a further stretching of this kind of consistent break even period, or near-breakeven period or maybe even referring to losses in the near term to accelerate rep growth in those markets? Consolidation markets?

Mr. Pedote: Hi Celso. I guess what I would like to comment in 4Q in the countries Argentina, Chile and Peru, we had these negative results mainly based in inventory adjustments. We had a R$ 6 million of provision for our inventories and this was a result of some bad management from the inventory that we had and we were very rigorous at the end of the year to see how was that and this was the main reason for the negative results.

Of course in Argentina we have some exchange rate pressure, because the real has appreciated a lot versus pesos, but we do not see any different trend in the evolution in the profitability of our … of these three countries. It was a one-shot inventory adjustment that we did in 4Q.

In relation to the multilevel I think that I will ask help from Alessandro here.

Mr. Carlucci: Ok Celso good morning, how are you? If I understood your question let us split the answers: the first one is yes, we want to, we are thinking to roll out this new CNO model to the other markets if we see that we can reach good results in Mexico, that is going to be the first country where we are going to implement.

So even though they are different markets, in all those markets we want to grow faster without - and now going to the second part of the question - without changing the breakeven point. This is not going to affect the profitability of the company, but is going to affect positively the growth of the company and this is our main objective. So if we reach good results in Mexico we plan to roll out this model for the other markets and accelerate growth.

Mr. Sanchez: But the thought still is … I think in the past roughly five years is the goal for breakeven to market unless something, an opportunity presents itself or something else comes up.

So obviously you have reached that breakeven point at some consolidating markets and in Mexico I think you are about five years now, but obviously your goals in Mexico have become much more ambitious than they were initially. Do you have a sort of reset horizon for that taking into account this CNO experiment and assuming you do roll it out in 2011 there?

Mr. Carlucci: Celso, what happened in Mexico is that we decided - I do not remember specifically when, but probably two years ago - that we would like to be a more relevant player.

So that is why we are reaching the fifth year without the breakeven, because we decided to keep growing fast and as you know we could be profitable in our Latin American operations today, because they have already relevant scale to be profitable.

But we, in our business approach, in our strategic planning, we want to be relevant, to have a significant platform business in the region, otherwise they are out of strategy, they are not relevant. So that is why we decided to keep investing in Mexico and again, the implementation of this new model is not going to change our plans. We really want to reach profitability in the next years on the other two markets as we reached in the markets in consolidation in Argentina, Chile and Peru.

Mr. Sanchez: Ok and just when you say relevant in a market like Mexico is there a market share number we should think about when you talk about relevant? 10%, 20%? How should one think about that as a target?

Mr. Carlucci: Very good question Celso, but I unfortunately cannot give you the precise number. But I can share with you that we want to be one of the most important players in the market. The right size I do not have it, but we want to be between the three most important players in the market.

Mr. Sanchez: Great, thank you very much.

Mr. Carlucci: Thank you so much for the question.

Operator: Thank you. 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: Thank you so much for your time and it was a pleasure to answer the questions and I would like to invite you for our next conference call in April when we are going to share the results of 1Q10 and I would like to wish you a very good year and a good day for everybody.

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