

International Conference Call
Natura
4th Quarter 2008 Earnings Results
February 20, 2009

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2008 fourth 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 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 do not take into consideration the changes implemented by Law 11,638 and are in accordance to the law 6,404.

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 4th quarter and full year 2008 results conference call. Throughout 2008 we talked a lot about our action plan and said that the first results would be noticed in the second half of the year.

We are here now to ratify our comments on our business growth recovery and also to restate the performance of the sector we operate in, about which we are very confident. Therefore, in the fourth quarter of 2008 Natura posted impressive results that reflect the effectiveness of the action plan we announced early last year and includes additional marketing and investment totaling R\$ 400 million in the three year period 2008 - 2010.

Consolidated net revenue rose nearly 18% from 2007 to R\$ 3.6 billion. Net income increased by 17% to R\$ 542 million, while Ebitda rose 22% to 860 million versus the prior year with a margin of 23.8% exceeding the guidance of at least 23% disclosed yearly in 2008 and which remains for 2009 and 2010.

Our commitment to sustainable development has also generated substantial results. The sale of products related to the "Crer para Ver" Program rose 50%, representing a net result of R\$ 4 million, which will be invested in public education in Brazil.

Focused on implementing more efficient processes, Natura has advanced in its goal to reduce its greenhouse gas emissions by 33% within five years. In 2008 we reduced emissions by 3%, representing around 9% in the last two years.

As we mentioned earlier, our action plan began to show its first results in the second half of 2008, when net revenue in Brazil increased 21% versus 11% in the first half of the same year. The rationale behind the plan was on one hand to improve and increase the volume of market investments to accelerate the sales funded by productivity gains; on the other hand, the plan also intends to strengthen our culture, our commitment to sustainable development and to promote an evolution in our corporate model.

Next I would like to comment on the most important aspects that supported our plan. Firstly the implementation of the CNO Project, reaching 6,000 CNOs at the end of 2008, corresponding to 65% of the total and should be concluded during the first half of 2009 with around 9,000 CNOs. This project has already contributed to the growth of 15% in the Brazilian channel.

Regarding portfolio, we reduced the number of items from 930 to 739, focusing our efforts on the most relevant ones.

Our innovation index increased from 57% in 2007 to 68% in December 2008. Additional marketing expenses came to R\$ 88 million in 2008 funded by productivity gains which totaled R\$ 94 million in the year.

We also started to implement throughout 2008 a corporate model based on process management serving business and regional units. This new model promotes a closer relationship between our management and our consultants and consumers, decentralized decision process and increased company efficiency with fewer levels of hierarchy.

The business units are responsible for product development as well as for the management and results of brands and categories, interacting with regional units that are responsible for the relationship with consultants, Sales Management and local results.

We also began to implement a structured process to strengthen our corporate culture, restating the company's beliefs for we believe this is our core competitive advantage and the foundation of our business.

In this respect, the development of active leaderships and a management model that is in line with our beliefs are essential to our evolution.

Last but not least we would also like to highlight our initiatives to improve the quality of relationship aiming to provide transparency through our governance system and room for Natura's stakeholders to actively follow our management.

With regards to our international businesses we are still growing above 50% in local currency, with market share gains positioning Natura as one of the major direct sales companies in the markets where we operate.

On our operations under consolidation: Argentina, Chile and Peru net revenue grew 40% year on year in local currency, while Ebitda remained virtually at break-even. The sales channel is still growing consistently with expansion of 30% in the year, totaling 90,000 consultants.

Operations under implementation – Mexico, Colombia and Venezuela - which are still undergoing investments in channel building posted a net revenue increase of 113% and closed the year with 28,000 consultants.

We remain enthusiastic about our growth opportunities in the region given the sound acceptance of our value proposition and the adherence to the direct sales model.

We believe our international expansion as a globally known brand is still a very important growth driver.

We would like to reiterate that we are very confident and enthusiastic despite the crisis scenario. The journey we started in 2008 has already proven itself to be the right way and we will continue to proceed on the same path. The good performance of our plan to regain growth and the evolution of our management model are our main objectives. Reaching these goals we will be prepared for a new expansion cycle as an increasingly innovative and productive company that is adjusted to the challenges of its time.

Aiming an international financial crisis which, in one way or another, will impact several sectors of the economy, we have reason to be confident given our solid fundamentals, as follows: Brazil, our main market, will be less affected by the crisis; our focus is on the personal hygiene, fragrances and cosmetic markets, which has historically remained defensive during economic cycles; our business model is based on direct sales, not relying on credit; we are the market leader, counting on and admired brand and consumer preference; in 2008 we increased

our share for 42% to 47% in consumer preference, while the second place decreased its share from 18% to 16%.

And to finalize, we are a company with low debt and growing capacity to generate cash, allowing for continuous business expansion. We identify an opportunity for companies such as ours with a sustainable development proposition where social and environmental challenges are transformed into innovation and used to create value to all stakeholders.

We continue to execute our action plan with a management that is prepared and motivated to overcome the challenges ahead.

In closing I would like to say that we are very confident and enthusiastic about our company. We are prepared for the new area ahead and expect to perform competitively in our industry.

Now we can turn 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, please press star (*) two (2).

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

Mr. Reinaldo Santana: Hi Alessandro, Roberto, Helmut. I have two questions, the first one if you can comment on the outlook on raw materials considering weaker local currency and the second question had to do with SKUs rationalization and further productivity gains that you expect for 2009. You reported 94 million for 2008, I am wondering could quantify or give us an idea of 2009 and also regarding marketing expenses. Thank you.

Mr. Roberto Pedote: Just one second please. Hi Reinaldo, this is Roberto. First, in our cost composition we have approximately 14% that is related to the USA, to American currency. We have some impact of that in our Q4 margin, as you saw, but in Q4 part of that was compensated by our hedging operations and ... just one second ... and looking for 2009 we do not expect a big impact due to the commodity prices decline. Then we are with confidence in the margin in the future.

Mr. Carlucci: Hi Reinaldo, this is Alessandro speaking. Regarding the SKUs we believe that we still have some room to decrease the number of SKUs. Of course, the first decrease in 2008 is going to be higher than in 2009 because we decreased around 200 SKUs and we probably could expect around 700 at the end of this year and as we mentioned before, we really expect to fund all the raise in investment of marketing by productivity gains and unfortunately we are not sharing

the information of how big is going to be this increase in 2008 and consequently the same productivity gain that is going to fund this increase.

But I can give you the information that we are going to spend more in marketing in 2009 than in 2008, so the productivity gains are going to follow the same path. So you can do your count taking the R\$ 400 million in the three years and then you can put in your simulation what you think is going to be the productivity gain and the additional investment in marketing in 2009, imagine that it is going to be bigger than in 2008.

Mr. Santana: Great, very useful. Congratulations.

Mr. Carlucci: Ok, thank you so much.

Operator: Our next question comes from Ms. Margarete Kalvar with Harding Loevner.

Ms. Margarete Kalvar: Yes hi, good morning. I wonder if you could give me a little bit more detail on the CNO Program, the changes in the structure of the consultant business and a little more detail on how it has been improving productivity and how you would expect it to continue to and also any comments on the current consumer environment, if it is affecting you with the higher unemployment just reported today in Brazil? Thanks.

Mr. Carlucci: Hi Margarete.

Ms. Kalvar: Hi.

Mr. Carlucci: How are you? This is Alessandro speaking.

Ms. Kalvar: Fine, thanks.

Mr. Carlucci: Regarding the CNO Project, we are very satisfied with the first step of the implementation. As you know, we have CNO in 65% of all the Brazil and they helped a lot in the growth of the channels, especially in the second part of the year.

Of course that this is a new project, so we are learning every day. We are every day understanding better the expectations, the demands of this new role, the CNO, and we still have 35% of the implementation that must be done, that is going to be done in the first part of the year. But we are very happy about the program.

Ms. Kalvar: Is this a traditional two-tier direct sales force now or is it a kind of a hybrid between no tiers and two tiers?

Mr. Carlucci: It is a kind of hybrid system. I think that if you would like to understand with more details, Helmut and Rafael can give you all the information

about the Program because it is a public one, so we can give you all information so you can understand what are the main goals, what are the main indicators that they have. So it will be very good to share with you more detailed information.

Ms. Kalvar: Ok, we can do that offline then.

Mr. Carlucci: Ok and regarding the productivity question related with the Program I think it is very important to say again that is we expect three major things with this Project and in a sequence during time: the first one is the acceleration of the growth in the number of consultants. This is the first one that is already happening.

The second one is the increase of the frequency of the orders from the same consultant, so they are going to be more frequent during the year and the third in a medium time is productivity gains and so it is the last one, especially because in the beginning, because we are going to have a lot of new consultants, the average productivity tends to decrease because of a mixed effect. So productivity gains should be expected, but in a medium term, not in the short time.

And you also asked me about the environment and yes, today we received information about the unemployment rate in Brazil and of course, the crisis is impacting our country also, even though we believe that Brazil is going to be less affected relatively to the rest of the world.

But in our case, because we are in the direct selling, and as you know being a Natura consultant is an opportunity to generate gains and some profit, we believe that this could impact positively our business and not negatively and especially because our industry, the cosmetics, fragrance and toiletries in Brazil usually the growth is at least independent of the growth of the economy. So it is a very powerful industry, so we do not think that we are going to be impacted by the unemployment, or maybe we can be impacted positively.

Ms. Kalvar: Ok, thanks very much.

Mr. Carlucci: Thank you.

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

Our next question comes from Ms. Martha Reyes with F&C.

Ms. Martha Reyes: Hi, good morning everyone. I just wanted to see if you could talk a little bit more about the price repositioning, you mentioned that as having an impact on gross margins in the fourth quarter. Is that something we should continue to see into 2009? I do not know if given the present economic situation you will be continuing with these prices in some of your lines? Could you address that please?

Mr. Carlucci: Hi Martha, this is Alessandro speaking. We are not planning to do any price reduction during 2009 and what happened in 2008 was motivated to change discount actions in some products to translate those discounts into the price.

In other words, guarantee to the consumer that they will always pay the right price of our products and so they do not need to wait for a promotion to buy. And we did this in some categories like soaps, like deodorants, like shampoo, categories of everyday use where the promotional effort is not so good as in other categories like makeup or fragrances, when people buy impulsively.

So in those categories we decided that we would like to have the best price and not to have discount effects every three or four months. That is what we did last year and in 2009 we do not expect to have any price reduction as we had in 2008.

Ms. Reyes: Ok and just a follow-up question on the international operation. Have you changed your expectations for break even in Mexico, Colombia and Venezuela? Is that something that you (inaudible 25:04) break even in three to five years or has that changed at all?

Mr. Carlucci: Hi Martha. No, did not change our expectation about the break-even point and we believe that in those three operations we are going to reach the break-even in 2011. So it is the same expectation that we had before.

Ms. Reyes: Ok, thank you.

Mr. Carlucci: Thank you so much.

Operator: Ladies and gentlemen as a reminder, to pose a question please press star (*) one (1). Again, to pose a question please press star (*) one (1). This concludes today's question and answer session. I would like to invite Mr. Carlucci to proceed with his closing statements. Please go ahead, sir.

Mr. Carlucci: Once again I would like to thank you all for participating in this conference call and I look forward to our next meeting in April to discuss the results of the first quarter. Have a good day and have a nice weekend.

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