

**Local Conference Call
NATURA INT`L
3Q06 Earnings Presentation
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(9:55 to 28.31)

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. If at any time you would like to remove yourself from the questioning queue, press star two.

Excuse me. Our first question comes from Ms. Daniela Bretthauer from Banco Santander.

Ms. Daniela Bretthauer: Hi, good morning and congratulations on a very strong quarter. I have a question on the sustainability of your margins. You obviously had a record-high gross margin in the quarter, which led to also record-high Ebitda margin, but what can you tell us in terms of gross margins estimates or guidance going forward? Is it possible to enjoy such a strong combination again on the cost front? And then how much do you plan to spend on your internationalization process so that, to be able to post a very good Ebitda margin?

Mr. José David Uba: Daniela, this is David speaking. Let's start with the gross margin. We do not have, at this moment, any reason to believe that our gross margin should go down in the near future. We think that we are now operating at a feasible margin, as far as we can see in the future. Of course we were, in some sense, helped by the fact that our raw materials had a very small adjustment for inflation this year but we believe that in the next years we can compensate that for a larger leverage if our sales go on increasing as they did in the last years. Now for Ebitda margin we will see some pressures on administrative and sales expenses in the next years, couple of years, as a result of our acceleration of international expansion. As you know, a new subsidiary in a new country operates below break-even point. We have a lot of efforts being put in building our brand in that country, in expanding our distribution network; therefore, as we decide to accelerate the international expansion we will see some pressures mainly on sales expenses and a little bit on administrative expenses as well. For next year, at this moment we expect something from 1 to 2 percentage points in our operating expenses as a result of this international expansion and... for 2007. We still are refining our planning for 2007, but that is the interval we expect for an increase in our expenses for next year and that should be a direct impact on the Ebitda margin, of course.

Ms. Bretthauer: Thank you David, very clear. And in terms of productivity of your sales force, you also had very good productivity both in Brazil and abroad. Do you

expect to sustain such good productivity levels going forward, or was it a little bit better than expected? Any color on that?

Mr. Alessandro Carlucci: Daniela, it is Alessandro speaking. I don't believe that we have any reason to project some change in the Brazilian productivity for the future and when we saw the international operations probably we could expect, in a medium term, a growth in the productivity because the thing that is more related with the productivity, gains in productivity, is the time that the Natura consultant is doing the activity of Natura consultant. So we believe that we can grow the productivity in the international operations in a medium term, but in Brazil we don't have any reasons to believe that it should change the productivity.

Ms. Bretthauer: Thank you and congratulations again on the results.

Mr. Carlucci: Thank you.

Operator: Ladies and gentlemen as a reminder, If you would like to pose a question, please press star (*), one (1). Our next question comes from Akani Manidi from Prudential.

Ms. Akani Manidi: Good morning. I am very new to this story, so I hope this question isn't too basic, but I was hoping you would clarify for me what the goal of your international growth is? Did you say that you want 20% of sales to be in the international market over the next 10 years or was the goal to have a share of 20% in the international market in which you compete?

Mr. Carlucci: Akani, thank you for the question. Probably we should say in better words that what we would like to have in 10 years, 20% of *our* sales coming from the international operation and not having 20% of market share in those operations. So it means that in 10 years the Brazilian operation should represent 80% and the international operation should represent almost 20%.

Ms. Manidi: That is helpful and secondly could you comment on the competitive environment activity in Brazil right now?

Mr. Carlucci: Well, we are living now in Brazil, in the last probably 3, 4 years, a very high-competitive market in our industry and I don't think that we are living this year a huge change in this environment, even though all the competitors are fighting to gain market share; and of course because we are in a market that is growing, the competition is not so aggressive, because we have the opportunity to fight, but the market is growing around 15% in the last 3, 4 years so we are living in a tough environment, but not with aggressive, real aggressive competition.

Ms. Manidi: Thank you very much.

Mr. Carlucci: You are welcome.

Operator: Our next question comes from Celso Sanchez of Citigroup. Please go ahead.

Mr. Celso Sanchez: Hi, good morning. First of all, thank you very much for the better understanding of your international expansions, it sounds very promising, but in terms of detail, is there anything you can help us understand with respect to the importance of the *orientadora* role and/or the *Casa Natura* role in your continued expansion outside of Brazil, or is that something that is very market-specific so far in Mexico and Brazil?

Mr. Carlucci: Celso, thank you for your question. It is very important to share that every day we are trying to innovate our commercial model and the *Casa Natura*, or *Natura Place*, is a way to innovate our relationship with our consultants and we have, as you know, a *Casa Natura* in Mexico and we started the first one in Brazil last week and we believe that we have a strong marketing tool - if I could call it like this - in our hands to enhance the relationship with our consultants. Of course that this is the first in Brazil; we are learning, we are happy with the beginning of the *Casa Natura* and the reception of our consultants but we need to learn a little bit more in the next months. But we really believe that we can use this place to really offer a brand opportunity, a brand experience to our consultants and to their customers because it is a place where they can be in contact with our portfolio, to receive a massage and other things. So we believe that this is a strong tool for Brazil and for the international expansion. Talking about the *Natura* consultant, the *orientadora*, this is a project and still a project in Brazil to enhance the relationship and to accelerate the growth of the number of consultants, but we are testing and we are still analyzing and when, if we implement the CNO - as we are calling here - it should be with more risk management, because it is a major change in our relationship with our sales force, so we are going to do it gradually but we did not decide yet to implement the CNO; we are still learning with the project that we are realizing in a small area in Brazil, and the *Casa Natura* we really believe that it is a very good marketing tool and we would like to implement this marketing tool probably in the international operations and expand here in Brazil.

Mr. Sanchez: To be clear; *Casa Natura* sounds like it is more transferable across borders as a concept, but you are not necessarily convinced that the *orientadora* is?

Mr. Carlucci: Yes, yes, and only because the CNO, the *orientadora*, is a major change, so we must be sure that we have reached the best results. In the *Casa Natura* it is another marketing tool; *Casa Natura* is not going to change so much the relation with our consultants, it is only going to enhance, because it is a place where the consultant can be in contact with *Natura*, so I believe that *Casa Natura* we are going to implement in the next years.

Mr. Sanchez: If I could just follow up on the international business, obviously 20% is a big-picture number, specific I am sure on the countries from which you expect the bulk of that to come, but if we think about international profitability, I think one

of the concerns I have heard many times is that structurally it must be dramatically less profitable than Brazil. Do you share that view, or do you see any reason why the international business, apart from Brazil, in 10 years' time or a longer term structurally could not have profitability that is not that far below or perhaps even at the level of Brazil?

Mr. Uba: Celso, as you know it takes about five years in order to get the break-even point in a new operation in a new country, because you take our sales force for instance, it operates below those volumes that we see here in Brazil. Let's take a sales supervisor for instance. In Brazil each one of those supervisors has more than, in average, 500 CNs – consultants - being under their supervision; in a new country we have 5,000, so that has a tremendous impact in the final productivity as the time goes on, we expect the final productivity to be closer to that we have here in Brazil. Let's take gross margin for instance. Gross margin is not very different in the new countries from the one we have here in Brazil and that is a very good sign that in the long term we should be able to achieve higher productivity in these new countries. But it's still too early for guaranteeing what level of final productivity, of final margin, we will have in these new countries but we are very confident, given that the gross margin is in the same level we have here in Brazil, that the perspectives are very good.

Mr. Sanchez: Sorry, just one last question. That is encouraging to hear, I think many people might think of it as more likely that the advertising expenditure required in other markets might be dramatically higher. Is that something that also you are confident, like not necessarily will be the case or does that remain to be seen? Marketing.

Mr. Uba: Advertisement? Yes, marketing costs yes. Advertisement is something different, because the direct sales model the way you have to build your brand is different from a more traditional retail distribution model. We build on margin, a lot of the margin building; the brand building is through our consultants, our sales force. But on marketing efforts, a broader concept of marketing you are right, you have to invest more in the first years and that also has an impact in the productivity. This is a slow building business model, it takes, since it is people intensive, it takes some years until you have a solid business, but once you have it, it is really, really solid. It has a different dynamics and that is why it takes so long in order to reach the break-even point and to reach the same productivity we have here in Brazil, which is a 35 year-old company. We had time in order to increase productivity of our sales force and to build our brand.

Mr. Carlucci: And Celso, just to add something about what we are calling the seed strategy, that means that we are going to seed small operations with low cost, low investment, in markets that we believe that we have potential and we are going to see how they manage the business, we are going to see the primary indicators of the health of those small units before increasing the investments to manage the risks and to capture the opportunities, to understand in which one of those small operations we can be succeeded and this is important to share with you the

strategy that we intend to apply in the international expansion. It is not a big-bang expansion investing directly huge amounts of money in markets.

Mr. Sanchez: Mexico is effectively a seed strategy, correct?

Mr. Uba: Pardon?

Mr. Sanchez: I was just clarifying, so Mexico was an example of the strategy?

Mr. Carlucci: Yes, yes. But you know that in Mexico we did not have the first step. I believe that the seed strategy should start with smaller operations than we started in Mexico. In Mexico we started in a more enthusiastic way, because - we were not wrong, I believe - we thought that Mexico was a very good market for Natura and for the direct selling system, so we started more accelerated in Mexico. I think that in the seed strategy we are going to be smaller in the beginning on those markets, but you are almost right. More or less like we started in Mexico.

Mr. Sanchez: Thank you very much.

Mr. Carlucci: You are welcome.

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

Mr. Carlucci: I would like to thank you all for your time and wish a nice Christmas time for everybody and for Natura a very nice time to sell our products, because people here like to have Natura products for the Christmas time. So our next meeting is going to be in the beginning of 2007, in February, and it is going to be a pleasure to have you at that time.

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