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Q & A SESSION (14.50' on)

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 on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press the key.
Our first question comes from Benjamin Abramov with Lusight Research.

Mr. Benjamin Abramov: Hello guys, two questions: one is, can you please shed some light on the Christmas selling season? What do you anticipate this year? And do you guys plan any price increases for the near future? Thank you.

Mr. Alessandro Carlucci: Hi Benjamin, how are you? It's Alessandro Carlucci speaking. Talking about our Christmas promotion period, we don't have any reason to believe that we are going to have some of surprise about this period. We are prepared to offer nice value proposition to our customers, so we are expecting a good Christmas time, not so different from what we are having in the last years. So we believe that we are well prepared to this last part of the year. And talking about prices, we are not going to change our prices still; next year we have a policy to change prices only once a year and the most part of time this happens in the second quarter of the year, so for 2005 we don't have any plans to change our prices.

Mr. Abramov: Thank you very much, actually, one more question; what is happening in Mexico and all the Europe operations?

Mr. Carlucci: As you know, we started our operation in Mexico in August, 1st August in the direct selling business; the growth is low because it is an organic growth and because of that we are small, but we are happy with the acceptance of our proposition; we are happy with the relationship with the first Natura consultants. So even though we are in the second month and we are really, really small in Mexico we are happy with our beginning. We have reasons to believe that we can build a very nice business in Mexico.

Mr. Abramov: In regards to Europe, where can you place your brand, in relation to other brands in the market? Where would you place it, in terms of propositions?

Mr. Carlucci: Our position, our brand position is between the luxury brands and the upper mass brands. We are in the middle, we believe that we can offer quality at the same level of the luxury brand but with 30/35%, depends on the categories, below those luxury brands. So we are in the middle of the luxury and the upper mass segment. This is our position.

Mr. Abramov: Thank you very much.

Mr. Carlucci: Welcome.

Operator: The next question comes from Robert Ford with Merrill Lynch.

Mr. Robert Ford: Hey, good morning everybody. David I think you answered this in the Portuguese call, but unfortunately there were about four companies that were reporting while we were listening to that call, so we were a little bit distracted. With respect to the restatements or one-time events both last quarters some of the expenses, which included some IPO expenses as well as some reversals this quarter, do you have a sense of what the underlying operating improvement was year-on-year? I think you suggested that the Ebitda number would have been about 24% this quarter without those numbers, but year-on-year what would the operating income growth number have been when you take out all the one-time charges from last year, in the one-time reversals for this year?

Mr. José David Uba: Hi Bob, this is David speaking. When you compare last year and this year – I'm talking now about the accumulated results for the nine first months of the year – when we check out the non-recurrent amounts of both years we would see an increase of our total expenses, of something around one percentage point, and that's because of our large investment in the international expansion and also the increase of our expenses in R&G, which is in line with our strategy, as you know. But again, taking only this year figures if we check out all the non-recurrent amounts for 2005, we would see an Ebitda margin of something around 24%. You are right on your estimate; that's the number we have here, which is, I'd say, a stabilized present structure for Ebitda margin; would be around 24%. And this number would be probably 1/1.2 percentage points above of what we would have in 2003… 2004 if you had also checked out all the numbers of current amounts in that year. So that is the situation we have now. Go ahead.

Mr. Ford: Ok, and then just to understand, I mean, you're going to continue to reinvest in new markets and I'm just wondering is; do you see more reinvestments in the business in terms of your upper leverage to grow in new market places, to grow innovation, particularly as you consider new product categories that ducktail well with your existing positioning in terms of wellness in Brazil?

Mr. Uba: Just a second, please Robert. Robert, concerning the launching of new categories in Brazil, what we do is continuously we are always researching new categories that are in line in the well-being well concept, but we do not have any plans for launching new categories in the short term. We are just researching new opportunities, new possibilities, but we do not have any plans for launching anything in the short term.

Mr. Ford: That's fine David, and that really wasn't my question; my question was more… you know, when I look at your cost structure, right? I am a big believer in the virtual cycle that you create by innovation and how innovation is a competitive advantage, particularly when it comes to the direct selling market, and I'm just wondering as you look at the business going forward, the combination of international expansion, what's going to be the impact on your margins going forwards, from the combination of international expansion as well as the step up investment in innovation, will it… do you envision may be a constant 24% Ebitda margin going forward or do you continue to see, perhaps, a slightly greater investment in the business, which might mean we might see some of that margin come in a little bit but still continue to be very robust.

Mr. Uba: Ok, now I understood perfectly your question. Very good question! We do not intend to let this international expansion to have a strong impact in our Ebitda margin and we are still refining our plans, but I would say to you that the impact shouldn't be much larger than this one we are seeing right now. Of course, as we increase the participation of our international operation in the total operation of the company, it would bring some risk to the results but I believe that we will be able to keep them under control and we shouldn't see any impact larger than this one that we are seeing this year. Because even if we increase our international expansion air force in the coming years there is also the increase we should have in the Brazilian market, on one side; on the other side we still believe we have some opportunity for increasing productivity in our larger operation here in Brazil. So to summarize what I am saying is that for the coming year we are not intending to increase the impact on the Ebitda that we are seeing right now. We should keep our investment in innovation around 3% of net sales, may be a little bit higher than that but not very much, and we also have a very strict objective of keeping the international expansion expenses under control as a…with a CAT as a percentage of the total Ebitda of the company.

Mr. Ford: Thank you very much, one last question, if I may and that is with respect to the pilot you have ongoing that attempts to make some enhancements to your single level model, I was wondering how do you provision for that additional expense in terms of leadership incentive in the model: do you take a slightly large or smaller margin? Do you start with slightly higher points? I am just curious in terms of how do you create that additional economic incentive in terms of rewarding people for bringing in new consultants to the business with the new leadership program that you're piloting?

Mr. Uba: Bob, as you know, we have a pilot for studying this new model of distribution, as we have other models in the company. We are always trying new processes and exploring opportunities of increasing productivity of our company. For this particular one, the bi-level model for distribution network, we're still studying the pilot and we do not intend to roll it out if it does not prove to have a good return for the company. We only would adopt higher expense model if it brought more sales, for instance, in order that one thing would compensate the other. But right now we are still in the process of analyzing the impact of this pilot; we are analyzing this data as I was saying, with careful attention because we know that to change our model, if we are going to change it, we must be sure of the long-term impact of this decision. It is still too early for exploring our strategy, for rolling it out because we have not decided to roll it out yet, so that's the point where we are right now.

Mr. Ford: I completely understand it, I'm just kind of curious, I guess, on the economic incentives for the leader of their pyramid; would those come from the existing margins in downstream or would those come from, you know, kind of upstream source? That's what I'm trying to grab, and you might have more than one tested market place where you look at two different ways of doing it. I'm just kind of curious as to how that works out.

Mr. Uba: Well, there is even one possibility if you take two mature units of distribution; one with the mono level, another one with the bi-level, we might even have the bi-level model with a lower expense because even if you increase your incentives or the commission you pay for the second level sales supervisors, we also have a decrease in some operating expenses because our sales supervisors, our present sales supervisors, will be able to take care of a much larger number of consultants then they would be able, they are able today. So we are still comparing the cost structure of those two models in order to see exactly what is going to be the cost impact on one hand, and what's going to be the sales impact, on the other hand. But I can't answer you a question right now, where the compensations is coming from. We might have a decrease in expenses in this new model, depending how we organize it.

Mr. Ford: Fantastic. You actually did answer my question. Thank you very much, David.

Mr. Uba: Thank you, Bob.

Operator: The next question comes from Lorie Serra from Morgan Stanley.

Ms. Lorie Serra: Good morning. I also wanted to talk about the rep base and I guess my question is: we've seen your growth in the number of reps accelerate to about 20% from… well that is a robust growth rate of 15% and I wonder if you could talk about the, you know, sort of, if that's the rate of growth, do you think it's sustainable? If you could talk a little bit where you're getting or sourcing the additional reps and, you know, the trade of the productivity of the new reps versus the old reps. Thanks.

Mr. Carlucci: Hi Lorie, this is Alessandro speaking. I will try to answer your question. Talking about the growth of the number of reps, we have now 22% of growth, compared to the last year, but if you take 2 or 3 years, we are growing in the number of reps, in almost 15/16% so this is not so different from the previous year; and we believe that we can sustain this growth because we are not seeing any change, important change in the productivity or the retention rates of the new reps, so we believe that we can keep those reps and they are going to be reduced for the next years. So we are happy with this number, we are not worried about it. And talking about the productivity, of course that the new reps, if I understood well your question, the new reps, they have a lower productivity comparing from the older ones because they don't have relationships with the clients as the mature, if I could call, the mature Natura consultant reps. So they have a lower productivity but we know that during the time, they increase their productivity because they could establish stronger relationship with the customers, they know better our products. So this is only a mix of the new and the old but if we split the new Natura consultant from the average, we can see that the productivity of the older is growing. So we are happy with this growth of the number of Natura consultants.

Ms. Serra: So you don't see any signs of any risks of saturation as you're growing your rep base by such a high amount? I guess, as you're growing – that's the first sub-question. The second one is that you're growing your rep base in such a rapid pace; do you think it's a reasonable assumption to think that you can keep productivity on average in line with inflation? Because I guess, you know, as you're penetrating more people than the existing reps have to keep increasing in productivity, as you're building these newer reps who are less productive, as you say?

Mr. Carlucci: Hi Lorie, it's Alessandro again. Talking about the saturation, we believe that we are still far from a point of saturation; first, because we have competitors here in Brazil that they have almost the double of what we have of reps, so we believe that there is space to grow. And if we take a look at our market share, we still believe that we can grow in some categories where we have a lower market share compared with others, that we have a higher market share. So we believe that we are still far from a saturation point. We are not too worried about that. Talking about productivity it is difficult to give you guidance because the productivity is a mix of new and old reps like I said minutes ago, and depends on the results of our investment in innovation, new products and marketing, so it's difficult to give you guidance, but we don't believe that we should see a strong difference in the next year, comparing with what we are living this year. So we don't believe that we could see a difference in the growth of productivity in the next years.

Ms. Serra: Ok, and one last question, a follow up on the comments on Mexico. You mentioned that you're seeing good acceptance initially of your propositions; can you give us a little bit of a flavor of how you're sort of introducing the Natura concept to Mexico?

Mr. Carlucci: I would like to know if you would like to understand better the marketing tools that we are using or the history that we are selling – just to be sure that I understood your question.

Ms. Serra: I guess it's probably more in terms of the marketing tools, but I guess I'm trying to understand how, when you're entering Mexico you've obviously got some lessons from the other markets you've been in; how you're trying to get the Mexican consumers up to speed on the sort of the value proposition that you offer with Natura products. Obviously higher price point but higher quality/value.

Mr. Carlucci: Of course that we are trying to put in Mexico all the learning that we accumulated in Argentina, Chile and Peru operations, and of course, in Brazil, even though in Brazil we have a very well known brand and so we put all our best knowledge in the entrance of the Mexico operation. Basically we are talking about the value proposition of Natura that is based on the well-being well and based on the developing of products with ingredients from the bio diversity of Brazil; the concepts, the new concept that we have on the cosmetic industry, like for example, the relationship with the mother and baby and the way that we understand the beauty that is really different from the average of our industry because we believe that each one of us has the possibility to be happy, to be a beautiful person, independently of the age that you have, the size that you are, or the color of your skin. So we are talking about our beliefs and not so much different from Brazil. And of course that we have some marketing tools that we don't have in Brazil, so we are investing more in samples because our brand is not known, so we believe that samples and small products are more important in Mexico than in Brazil. We are investing in spaces; we call Natura space where we receive the Natura consultant because it's important to have a specific place where we stand this relationship with them, we train them, and there are some few new initiatives in the marketing tools. The history that we are telling to the Mexican customers is basically the Natura value proposition.

Ms. Serra: Perfect. Thank you.

Mr. Carlucci: You're welcome.

Operator: Our last question comes from Ms. Daniela Bretthauer, with Banco Santander.

Ms. Daniela Bretthauer: Hi, good afternoon. I just want to clarify some of the things that were discussed during the Portuguese conference call, that are still somewhat not clear to me. The first one was when you explained the gross margin, the fact that even though the stronger Real had a positive impact on your cost but the fact that the gross margin didn't expand further, you mentioned something of a 40 basis points impact related to the sales mix of the quarter; can you expand further on that, meaning, is it the fact that your price points were lower that affected your sales mix or is the sales mix with more products that are of lower value added than what you had? So if you could just expand further on the sales mix issue? I would appreciate it.

Mr. Uba: Daniela, first of all there is no correlation between price and margin in our portfolio. We have categories with lower price points and larger margins and also the opposite, of course. So the fact that we lost 40 basis points because of mix, it's not because we are showing in the report a lower average price, it's your second option, actually; we sold more of some categories, some items with lower margin. As I mentioned before, we have 600 SKU's use in our portfolio and not all of them have the same margin. So it depends how these categories sell in each quarter because of our promotional efforts in that particular quarter, some of those categories can sell more than others. There is also the natural seasonal effect on those categories. So all this combined in this 3rd quarter implied in a loss of 40 basis points, but it was not a consequence of a strategy of the company or anything else, it was just an effect of a natural fluctuation of sales by category.

Ms. Bretthauer: Ok, that's exactly what I was trying to clarify, that I was still confused from the Portuguese explanation. So that's not a trend, meaning, that we should see from the company going forward, it was just something that happened for this quarter.

Mr. Uba: That's right. We don't see any trend of, let's say, a new category mix that should move to a lower margin at this point. We understand that what happened in this 3rd quarter, was just by chance.

Ms. Bretthauer: Ok, thank you very much.

Mr. Uba: Thank you.

Operator: Excuse me. This concludes today's question and answer session. I would like to invite Mr. Bossert to proceed with his closing statements. Please go ahead, sir.

Mr. Helmut Bossert: Thank you for attending our conference call today and everybody feel free to contact our investor relation team at any time here in Brazil. Thank you.

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