International Conference Call
Natura
Third Quarter 2015 Earnings Results
October 22nd, 2015

Operator: Good morning ladies and gentlemen and thank you for waiting. At this time we would like to welcome everyone to Natura's 2015 Third Quarter conference call. The presentation that will be used is available at the company's investor relations website. Today with us we have: Mr. Roberto Lima, CEO, José Roberto Lettiere, CFO, and Fabio Cefaly, Investor Relations Manager.

This event is being recorded and all participants will be in 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.

We have simultaneous translation to English and questions may be asked normally by participants connect abroad.

Should any participant need assistance during this call, please press *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 and there will be a replay facility for this call on the website after the event.

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.

Now, I will turn the conference over to Mr. Roberto Lima, CEO. Mr. Lima, you may begin the conference.

Mr. Lima: Good morning everyone, I would like to thank you and give a welcome to our third quarter 2015 results conference

Our total gross revenues increased 10% in the quarter and 12% September year-to-date with strong contrast between the results in Brazil and international operations.

In Brazil, in face of a very challenging economic environment, a drop in consumption, FX devaluation and substantial increase in the tax burden, we've intensified our efforts to boost our sales, simplify our structure and increase our operating efficiency.

Our consultants channel increased 2.3% year-over-year, or in absolute figures, approximately 34,000 new consultants joined Natura.

The continuous effort to reduce costs and expenses and a significant improvement in our working capital management and the increase of the Ebitda in international operations positively contributed to generate 319 million of a free cash flow compared to 14 million year-over-year.

In September year-to-date free cash flow generation was R$648 million compared to cash burn of 33 million last year.

This improvement enables us to make the investments necessary maintaining financial health of the business and the leverage within expected levels of 1.1 net debt over Ebitda.

Next, Lettiere will give you more information about the figures and from non-cash effects that impacted the net income in this period.

Now I'd like to highlight some of the initiatives recently implemented that together will bring us closer to our consultants and our customers giving everyone more ways to increase efficiency and results.

The new credit policy launched in March has already shown a productivity improvement for the new consultants; the ones that have been with us for less than 3 months.

Through a partnership with PagSeguro and Claro we have launched the *Você Conecta* Program with promising results since its launch, over 80,000 sim cards, approximately 100,000 downloads of the app to make the orders, and approximately 40,000 credit and debit cards readers were implemented during this period.

In the Natura network, which was launched in the country in December last year, sales continue to grow and we've closed the month of September with 54,000 digital Natura consultants compared to 48,000 in June.

In terms of innovation – and additionally to the launch of Natura *Homem, Kaik, Urbano* and *Todo Dia* – we've launched a new facial care line with positive results so far and should increase our competitiveness in this product category.

In September we began the pilot project to sell the personal hygiene and body care products from the *Sou* line with 29 stores in the *Drogasil*… via *Drogasil* drugstore chain in the cities of Campinas and Vinhedo with very positive results.

Now looking into international operations together they became relevant in the consolidated figures representing 32% of sales and 17% of Ebitda.

In LATAM we've maintained the accelerated growth closing the quarter with almost 500,000 consultants, 21% more items sales and gross revenues 31% higher than last year when measured in local currency.

Aesop has maintained strong increase of sales, 67% in Australian dollars closing the quarter with 120 stores in 18 countries representing an increase of 26 stores year-over-year.

Those were the points that I wanted to highlight. Now I'd like to pass to Lettiere to comment on the main figures for the quarter and the year and afterwards we will be available for Q&A.

Mr. Lettiere: Good morning. Good morning everyone. Now I'm going to talk about the financial indicators.

I would like to focus these comments on some specific blocks. For the first part am going to talk about the top line, the consolidated net revenues, I'm going to talk about the net revenues in Latin America, in Aesop and afterwards I'm going to talk about the Ebitda margin and Ebitda net income and the necessary investments, which were made during the quarter, and lastly I'm going… some comments about cash… operating cash generation, and also the net financial position.

So as you can see this on slide number 3, which is the first slide on consolidated net revenues, here we have in red we have Brazil, in orange LATAM, and then a highlight to the Aesop operations.

The growth in the quarter was 6.9% with strong share of the international operations where the highlight goes to 32% of the net revenues were actually generated by our international operations.

Now, moving on to slide number 4, we have a highlight for our Brazilian operations. So you can see that in the quarter, based on a more challenging market, we had a drop in our net revenues in 9.6%.
We highlight below some indicators where showing that the number of consultants basis, in thousands, had an increase of 2.6 % growth , quarter over quarter , however, due to reduced purchasing average ticket , there was a reduction in this net revenue and this was mainly ... was the main element in reducing our net revenue in Brazil operation .

Now, on slide 5, a highlight to LATAM with 73.4% growth for the quarter, which was boosted by the exchange rate, which favored this growth, but in local currency you can see that there is a 31% growth in local currency in all countries.

All countries of Latin America still have a strong growth in local currency showing our strength in directly… selling directly in each one of these countries.

In slide number 6, the highlight for the operation of Aesop : A strong growth in the quarter, an operation that has been strongly growing retail channel in every country , today we already operate in 18 countries and have around 120 retail stores in those countries.

Now going on to slide number 7, our focus now is on Ebitda. We had an Ebitda of R$400,000 million consolidated and the Ebitda between Brazil, LATAM and Aesop is essential to say… talk about the impact of the exchange rate and also the tax burden.

With the reduction of these impacts, if we take out these 2 elements from our results, our Ebitda would be in about 440 million with a margin of 20%, it would be adjusted to 23.9.

Now going on to slide 8, about our net income. There was a reduction, an important reduction in this quarter, but it's worth mentioning about 2 important elements: The first one is in regards to Aesop operation that as we know we have 71% shares of Aesop and the 29% that remained have to be registered as financial liabilities, and so because of the resolution of the business that impacts the cash right now.

Of course we have a windows to put and call that must be executed between 2015 and 2016 , or possibly over this period if the situation extend in terms of call and put decision

The decision to call and put have to transit through the result, and this result is strongly affected by the impact also the asset that was valued, is a very good asset, is an acquired operation with excellent results. So on the one hand it transits the result reduces net income, but on the other hand is increasing the equity of the consolidated company.

So that if we isolate this impact, the margin of 6.6 would be approximately 8.3.

Then going on to slide number 8, speaking a little of Capex or the necessary investments, this has been the focus of much analysis, after several years of strong investment in Capex, now we are in a phase of priority investments needed primarily to accelerate growth and productivity. So we can see that the Capex for the third quarter of 15 was basically in line with the third quarter of 2014 and our guidance for 2015 continuous around there in the range of R$ 385 million.

The main investments have been in technology information, business intelligence and investment in the channel that is our main source of revenue for the business.

Now going to slide number 10, about free cash flow, I would like to highlight what Roberto mentioned at the beginning in his remarks, in which cash flow generation has been our main financial indicator, which is an indicator that will enable us to focus and become comfortable in the investment and initiatives for the company to grow.

A strong focus on working capital has been illustrated and demonstrated, both internally and to the market. Our great effort in working capital, our cycle boxed condition - despite the more challenging market, especially in Brazil and strong demand by international markets - we have been able to use this cash conversion cycle, and has been there our main return element for generating cash.

I would like to talk about our net debt that has stayed very stable, in very comfortable levels, also meeting our needs for investments and carrying out our strategic initiatives.

Then, the free cash flow was an indicator for the quarter it also gives us comfort in a moment of the economic crisis and low demand in Brazil, and it still be our main vector in financial management.

Now on slide 18 I would like to end our indicators with the sustainability indicator; it's very important for the company.

I would highlight that the management of water and leaders produced especially with this crisis in Brazil in water offer, we have been able to keep our consumption low and also in eco-efficient packaging; we have been showing strong growth in this indicator so our commitment with the sustainability and also our investments in the Amazon region, which also is an evolution indicator, and our mission on 2020 on the left side here of the chart, you can see the evolution of our indicators for sustainability.

And I would like to leave more time for the questions, so I would like to pass the floor back to Roberto so that you can ask questions. So we are here to answer them; Fábio Cefaly, myself and Roberto, we also have our Director of Sustainability and Márcio Bologna, our Controller, to share with you the answers to any questions that you may have.

Mr. Lima: So now we open for questions.

Q&A Session

Operator: Ladies and gentlemen we will now begin the Q&A session. To ask a question, please, press star 1. To take your question off the list, please, press star 2.

Our first question is from Guilherme Assis, from Brasil Plural.

Mr. Assis: Good morning, thank you for taking my question. Actually I have a couple of questions that I'd like to understand. I think that the first one is about the operations in Brazil.

We've noticed that there is an impact to the figures in the quarter in relation to the tax increase, the FX variation and that affected the gross margin. So in the first quarter, or actually the first half year, you had some price increases and partly to offset that I believe. I'd like to know: From now on what is your strategy? Will the company have a strategy to make up that gross margin with the new price increase?

And also, based on that strategy, I'd like to know about what your opinion is about the complicated macro environment; we see that the retail in consumer data isn't doing so well, and how does that fit with your strategy to make up your gross margin?

So should we expect any improvements and how will that be in relation to price? How will it affect price? That's the first question.

I'd also like to ask my second question, which is also related to the operations in Brazil with the strategy to cut costs. I know that you made some major efforts in the first half and you've eliminated the entire management… manager level not just to cut costs, but also to transform the company and making it faster in decision-making.

So I'd like to know, based on the figures that we saw for the third quarter in SG&A, I can see that there is already a dilution of that. Is there any nonrecurring effect in contract termination? So should we expect even more improvement from now on in G&A so that we know what to expect in terms of Ebitda margin in Brazil? Those are my 2 questions. Thank you.

Mr. Lima: Good morning, thank you Guilherme. The first question about the gross margin, right, so you really weighted the fact about price. I'm going to answer about price.

I'd like to say that we've been making major efforts in costs and expenses, I'm talking about costs of raw material and services that are connected to the industrial side, and we've been talking to our suppliers, we are trying to be as efficient as possible in using all the inputs that we buy trying to replace raw material that could have the same efficiency and same commitment to quality for our products, but could be more affordable in terms of price. So we do that every single day. You mentioned the recent changes in the managers and improving our planning processes and we've also had… still have some paths to follow.

And I can say that hired the Falconi Consulting firm because we think we can go beyond the efficiencies that we already have, so we've hired them to help us on 3 fronts: To find sales efficiencies – and we call that the Sales Excellence Project – to review our G&A, and also to pursuit operating efficiencies, and that has to do with the production processes and distribution.

So the idea is not looking into reducing costs or expenses in the short term, but instead of that we want to improve all our planning and execution processes not only for Brazil, but also for the international operations and prepare ourselves in a moment where we believe that the economy should grow again in the future and we are going to use the assets that the company has purchased in the last years in a very efficient manner.

So we are very excited about that, and we believe that we are on the right path.

So in relation to price, it's… in our marketing strategy it's very important, I can't give you too many details because you could probably imagine that this information is confidential, but I can say that among the actions that we can take in marketing in the company is price promotion.

So we are going to look into that with a lot of care because we can't move prices up and down; we have to consider promotions for our products in certain categories and some products that could have lower prices and that could enable us to improve the net margin that we ended up losing because of the foreign exchange and the tax burden, as you mentioned.

I think I answered your questions.

Mr. Assis: Yes, I think so Roberto. Just trying to understand a bit more in terms of the price, I do understand that it is sensitive information because of the competition, but you already had a price increase this year and you mentioned that the way to deal with this now in this next quarter and the end of the year would be promotions.

So would you discard any price increases as you had in the first half of the year? Or do you think that you may have something?

Mr. Lima: Guilherme, I'm sorry, I can't say much more than I already said, but our planning cycle is very long, we're already considering next year so we won't discard any measures that we would have to take for the help of our business, but I can't say what we will do, what type of increase or category or period.

Like I said, this is something that is always looking in… we are always looking into that and we will take decisions at the right time. I can't say more than that.

Mr. Assis: No, that's great, thank you. And one last question, quick question. The 36 million of sale of assets, could you explain what that is? You sold equipment to *Profarma*, is that it? Did it fall into this quarter? What is in that? And is there anything that we should expect, anything new that we should expect from now on?

Mr. Lima: Actually, we were looking at company assets that weren't operational and weren't in our project, so we had a good opportunity to sell that before the actual crisis in Brazil. So we had some reasonable amounts for it based on what we had, and we thought it was a good time to realize our cash.

Do my colleagues have anything to add?

Mr. Lettiere: No, it was land that wasn't being used. It's about streamlining, streamlining and generating cash and reducing capital employed.

Mr. Assis: Okay great, thank you.

Mr. Lima: Thank you Guilherme.

Operator: Our next question is from Thiago Macruz, Itaú BBA.

Mr. Macruz: Good morning. We saw significant gain at working capital this quarter, especially in suppliers. Could you give us a little bit more detail of what have been done objectively to improve working capital? And also can we assume that this is a new level of conversion in the flow?

If I could ask a second question: Have you focused efforts in strengthening the productivity of your consultants? Have you been discussing because of the macro environment to increase recruitment maybe to offset the drop at sales? How do you see this balance? Those were the 2 questions I had.

Mr. Lima: Thank you. Well, in regards to productivity of our consultants, what we have to admit clearly is that today we share them with other companies and we have to achieve the preference of the consumers more than we happened to recover what we have lost in this period. So a lot of things are being done.

You mentioned recruitment; yes, but also we are working on other recruitment channels with a previous identification of the profits that we want to have with the consultants, the qualification and minimal sales and we are structuring to have a qualified recruitment and we have a large project and a new proposal of value for the consultants; some modules of this program have been implemented already and, as I mentioned in my pre… in the beginning of my remarks, we are having apps so that they can place orders through their phones and also receive payments through credit and debit cards with devices that are placed on their smart phones.

We also bought a package to access voice and data, packages with some phone carriers at low costs for the consultants.

So we are already employing little by little each one of these measures of a greater project that we want to put in place with the consultants, and this way we expect to improve our… their productivity, but what we actually want is that they have their clients to prefer Natura.

In regards to working capital, it is our priority; we have several projects for the future to be able to meet our clients with more channels, especially more service rendering channels and we also want to focus strongly on the company's financial health management, so our relationship with suppliers we have the necessary inventory to have good quality to render services.

And also an effective credit management so that we can build the future and at the same time have a company that is financially healthy.

I'd like to pass the floor to Lettiere; he might be able to give you more details about this improvement of the working capital.

Mr. Lettiere: The process of working capital management has been going through several reviews and improvements of processes. These processes I would highlight, for example, in inventory management, it's essential to have a full programming of the demand and this has been made by using SAP.

We just implemented in Mexico last month and it was the last country that we implemented SAP. We call it “Wave I” from Natura, so with the investment and the management software and more transparency in our control and this planning of demand we have been able to improve the management of our inventory.

In purchases and procurements we have also been coordinating in a central manner and been working in management in Brazil, and obviously with synergies with the operations in Latin America. So the strategic partnerships with our suppliers then we have been getting great results.

And in Accounts Receivables we are focusing in our management and credit so that our days outstanding have been staying at very reasonable levels, especially in those moments with high volatility that we are going through.

So strong credit management, more intelligence information and levels of control of Accounts Receivable in a segmented way for our companies we have been able to manage these indicators very well.

Your question about the future, I think that our goal is to continue productivity in working capital, which is the main source of operating cash flow together with sales.

We have a size of working capital that is compatible with our cash flow generation and the processes are better, are developing and we have space for improvement, but also when we get Brazil in a better moment and go back to growing I think we will be in an even better position to manage this working capital.

So it's a process that is day-by-day; continuous improvement, especially using better analysis and information with the software, like the implementation of SAP in the region.

Mr. Macruz: Thank you very much. If I can just ask something to Roberto: You mentioned that Natura works to recover the preference of the channels; do you have any internal data that shows that it's the channel that has been losing preference for Natura and not the end consumer?

Mr. Lima: We have all the internal data of consultants, consumers, they are well known. In general, we still have a very strong presentation in several categories and some segments. In certain social economic classes and geographic regions we might have some difficulties.

So today those are the regions and segments in which we have priority to act and in overall channels and communications and proximity with the clients and especially the management of our relationship with the consultants.

Obviously, we have all the data and they are used for the management, we have been focusing a lot on that and we have to speed up the implementation of the measures that we already mentioned, and with a company this size we have to be able to move the processes in different ways in some of those steps.

Mr. Macruz: Thank you very much.

Mr. Lima: Thank you.

Operator: Our next question is from Franco Abelardo, from Morgan Stanley.

Mr. Abelardo: Good morning Roberto, Lettiere, Fabio. Thank you for taking my question. My first question is about improvements in cash flow generation. You had a great improvement in working capital with the suppliers, but you also had an increase of taxes to be paid.

I want to know if this higher tax burden is already provisioned. Is it being actually paid or if there is any expectation of gain in the judicial process with the government? That's my first question.

The second question is about your credit portfolio. We saw an increase in the delay, but it did improve from the previous quarter. I want to know if you see any signs of worsening of credit and that's why you have been implementing these policies, and if this is a concern, if you are thinking about doing something about that?

I didn't understand in your presentation when you mentioned the adjusted Ebitda margin, if it's adjusted to the increase of taxes or what was it for? I couldn't understand it in your presentation. Thank you very much.

Mr. Lettiere: First, about the tax on industrialized products, we have that injunction, so we are provisioned, we are not disbursing these payments; we have a very strong case, so it's a legal issue and we are doing the follow-up.

So we are provisioning the results, and the results that we are disclosing have that provision in regards to the taxes.

You asked about the credit. What we have been applying is a credit policy towards the segments that we have established for the consultants, so we have a differentiation for each group of consultant, and this has been very important not only when we grant credit and leverage sales, but also when we collect, because a good credit policy with more indicators and more information and more details in monitoring means you have better collection.

What have been happening in the market in general is that the market is harder; the money in the pocket of the consumers is scarce. So in our case specifically we have been noticing that our portfolio aging when you compare to September 2015 reduced 7%.

So our aging in general reduced; one because of the volume of the business, and the other part is because of this new credit policy and collection policy.

What we have been noticing is that those that have matured in 30 days also have reduced. In the very short term we have been reducing the aging.

Our greatest focus has been in 60 and 90 days maturity, so consultants that are just beginning – that have the base of 30% - with the credit policy se were able to bring in more consultants, and so in a very conservative manner we are provisioning an additional part of these projections that are going into the base.

But overall, if we look at the losses, our losses and default when compared to January 2015 reduced 0.7 pps, and compared year-over-year we reduced 2 percentage points.

So if we put that into the earnings we were able to – with this new credit policy – increase our gross revenues in this period R$140 million provisionally 19 million and a net result in our Ebitda of 20 million.

So we are focusing strongly on this new dynamics that the market has been showing; it's a recessive market, with less credit condition, so we are doing more analysis and using more criteria.

We don't see that as a problem yet, but obviously we are very attentive to that. So in general that's about credit.

You also asked about what I mentioned in the beginning about the adjusted Ebitda. So what I meant was that, in a consolidated manner, is that the tax burden with the foreign exchange effect had very important impact to our Ebitda margin.

So our Ebitda margin that was disclosed, a margin of 20% in a consolidated manner, and when I take out the net effect of the foreign exchange rate and the tax burden compared to… compare it year-over-year our Ebitda margin would be 23.9%. So that is the dimension of the impact that we had with the exchange rate and the tax burden.

Mr. Abelardo: And without the impacts are you also taking into account the price increases to offset it? Is that a net effect of the price increase? Only when you effectively absorb in the margin?

Mr. Lettiere: Yes, it's pure. It's the pure effect of the exchange rate and the tax burden, almost 4 percentage points.

Operator: Our next question comes from Fabio Monteiro, BTG Pactual.

Mr. Monteiro: Good morning everyone. I'd like to learn more about the new channels. So you mentioned the pilot project in the *Raia* and *Drogasil* drugstores in Campinas. So I know it's just a little while, but I'd like to hear your first impressions about that channel.

And also I'd like you to talk about the store projects, so what has advanced, what have you been thinking about that in kiosks and other channels as well? If you can give me an overview about the new channels – except the web because it's already more advanced so to speak. Thank you.

Mr. Lima: Thank you for your question. In relation to our *Sou* product line and the drugstores in Campinas, Valinhos and Vinhedo, that was already something that we wanted for a while now having these products in the retail channel, and the first results are very promising; it shows you the strength of our brand and the quality of our products, but I think it's too early to have final conclusions. But the first figures are very encouraging.

After this experience we were able to identify in our portfolio that these… the products that could go through the same experience, be it in the pharma channel or any other customized channel. So we are going to have an experimentation strategy instead of having a large project that would take a long time to be implemented.

So that's the first experience.

In relation to developing own stores, we are becoming more and more convinced that that channel could be… could cause synergies with our direct sales.

Our consultants believe that one of the demands that consumers have is having an opportunity to try our products in a place where she can actually see the products and choose her perfume, her moisturizer and her products and she can have regular purchase through the consulting channel, be it digital or be it in-person.

So we are working on this project very closely with our consultants so that it wouldn't channel of the main channel.

And we also have the Natura network launched in December last year; it's going through constant improvements by identifying things in the platform and the consumers experience, and today we see that we have conversion levels that are very high rates, above the market average, and we have to generate flow, and generating flow will also require a communication strategy and a closer presence to our end-users.

We’ve grown in our digital consultants and in parallel to the Natura's network we believe that we can develop new alternatives by using cell phones mainly, the mobiles and smartphones or not.

So that's what we are looking into the future, but we are very excited with the projects that we have, and once again all of them are seen in a very integrated manner and we believe that it has a lot of synergy with the correct channel.

Mr. Monteiro: Okay, thank you. Just a follow-up question on that, especially about the stores: You mentioned that the idea would not be… you don't want to cannibalize the current channel, so I'd like to understand if you're going to have an equation with the consultants so that she can have some gain with the own stores or if she… the gain would be the fact that that store is actually a show room so to speak, or a place where they can try the products and then consumers would see the benefits, but they would buy from the consultants, either via web or catalog?

So my question is: Is there a financial equation for the consultant as Natura network has where she gets the commission? It's a bit lower, but there is the commission on the online as well?

Mr. Lima: First of all, these stores, the store project is not a show room; they will be stores and they have to work economically speaking, and the synergy with the consultants is providing services; we want the services to be tried in the stores and the consumer can feel free to go back to the store and buy or they can recommend a consultant where they can order, be it on online consultant or a real consultant.

So we believe that there could be a lot of synergy there as long as we want that. And the points or the compensation we believe we can identify each consumer individually, map them and monitor the relationship he has with the company, be it whatever point of contact they have, we are going to have all that information, but we don't necessarily foresee a compensation for the consultant.

There could be incentives for the consumer to continue to buy from the consultants as they bought until now.

But I'd like to remind you that Brazil is hug; we are in practicably in 1600 municipalities, we have... the performance is different in direct sales depending on city configurations. We know that in the countryside our performance is different, so we would do things very carefully to fill in blanks and to respond to any problems that we may have today with our consumers.

Mr. Monteiro: Oh, great. And just to conclude, I am sorry to ask again, but do you have any goals of potential numbers of stores, even though it could be in a long term?

Mr. Lima: Yes, obviously we do have that, but we are not informing that, not disclosing that figure yet.

We are going to go through testing phase, as we are already testing some products in drugstore chains, so we are going to try to get the concepts right and decide exactly what type of experience we want the consumer to have in the store, and our systems to identify our consumers have to be ready as well, but obviously we do have a horizon of where we want to get and the geography to see where we have opportunities to be successful with this type of service for our customers.

Mr. Monteiro: Thank you.

Mr. Lima: Thank you.

Operator: Our next question is from Alex Robarts, from Citibank.

Mr. Robarts: Hello, good morning. I would like to understand a little bit more about the international business, especially the 2.7% margin.

If I am understanding that properly, the strongest margin in this quarter, so much better than our… than we forecasted. And I understand that there is a matter of the exchange rate and Aesop.

I'd like you to comment a little bit more about the structural business in LATAM since the channel is growing 20%. So can we think that the margin of the international business can be much closer than the Brazilian margin now?

If you can help us to understand the trend for the next quarters and what are the highlights, structural highlights that we can expect; scale, more investments? That's my first question, thank you.

Mr. Lettiere: In regards to the margin, especially LATAM, you can notice that we had a very important increase, especially the Ebitda margin for LATAM in the group.

This is aligned to the company's strategy for the international business, so the direct sales channel has been growing, our activity in all the countries has been growing, the Natura brand is becoming more and more consumed in all the countries and we are getting our return on investments that we made and when we look at the scale we will obviously have this margin gain, and that's exactly what we are doing right now; we are breaking through, the fixed cost of growth have already been paid.

So from now on we go into a phase of margin gains, so obviously this margin gain has to come together with the top line growth, which has been our main driver.

And also, as you mentioned, we have several corporate projects of synergies in all the areas; in activation, in supply chain, in finance, human resources. All these processes are being integrated and we work together so that is generating the synergy for growth and improvement of margin in Latin America.

So it's a strategic movement that has been planned for some time now.

Mr. Robarts: Can we think that we are reaching a level that it is a doubled digit Ebitda margin in the international part of the business? And is it something that we can wait… expect for the next quarters, a doubled digit or we can think about something else?

Mr. Lettiere: Today, looking individually, and country by country and individually, but we have already reached double digit in several countries that we operate. The point is that for the management in Latin America we have to consider many costs and expenses that are related to that.

And from now on, as we are losing scale, we will see stabilization of margins. That's a regular process.

Mr. Robarts: The second question, going back to Brazil, I know that it's a bit difficult now to measure that, measure your market share and personal hygiene, cosmetics and so on, but can you talk about behavior, Natura's behavior in terms of market share for these 3 segments?

So if you could, could you comment on the trends of your market share in Brazil?

Mr. Lima: Alex, I'm not sure if I understood your question, but if you mean our market share per category or per major group of products, actually we have a very high market share different than other countries in direct sales.

The direct sales still have an important role in the CFT market and we have to improve the efficiency of the product, we have the quality of our products and the efficiency and our concern of being effective is every day, but we still have to admit that it is a very concentrated market, other players are making major investments as well.

So our challenge is to maintain and recover part of the market that we may have lost, but that's not something that is easily done; it will require a lot of efficiency in all areas of the company; from product to marketing strategy and innovation.

But we are extremely confident that the strength of the Natura brand, which was built exactly on the pillars of efficiency of distribution, correct prices and quality of product, we believe that we can recover that in some categories.

Mr. Robarts: Okay, understood. Thank you.

Operator: Our next question is from Irma Sgarz, from Goldman Sachs.

Ms. Sgarz: Hello, good morning. I have a question about Natura network and the traditional channel. In the consultants' base in Brazil in total increased 20,000 year-over-year and 8,000 since the end of 2014 and you launched the Natura network in December, and now we have 54,000 digital consultants.

Based on the figures that I see, it seems to me that all the growth that you are recurring in the consultants channel came from the digital channel, and the traditional channel may have shrunk. I'd like to confirm that information; is that correct?

And what do you feel is happening in the traditional channel if in fact… in relation to the productivity of the active consultants? And another thing is: If I am a traditional consultant and then I can enroll as a digital consultant, would that be 2 separate consultants or do you check that with their taxpayer number to have the double… to avoid the double counting, for instance?

Mr. Lima: Actually, your first question is about the growth of the channel, and then a question that if the growth is coming from the digital consultant: No, it's from both; the traditional consultants and the digital. But I'd like to remind you that from the digital consultants – that is 54,000 – 50% of them are also the in-person consultants.

So to answer your last question, they are counted in both bases; they are separately counted, they are counted in both.

In terms of productivity, I am not sure that I understood, but I think we've already talked about that in the prior periods that we have a very efficient process in getting their preference, not only in the motivation events and acknowledgment events, but also giving them tools that could give them more efficiency in their operations.

We've already mentioned the apps for smart phones and the possibility of using the debit and credit cards machines, mobile, telephoning plans where with R$15 per month and they can have access to that type of app, and so there are many initiatives involved so that we can have… increase the strength of this connection with our consultants and in that way they can also improve their income.

Ms. Sgarz: Thank you.

Operator: Next question is from Gustavo Oliveira, from UBS.

Mr. Oliveira: Good morning everyone. I'd like to go back to the gross margin and try to understand the effect that you believe is actually coming from the foreign exchange devaluation.

So you used a lot about the inventories that you had, so inventory levels are lower than in the past. When you rebuy new inventory I believe that the inventory costs will be higher than what was sold now.

So I believe that the gross margin pressure should increase in the 4th quarter and the first half of the year until you have a regular price increase that you always have a the first quarter.

So could you explain that dynamic better and the inventory replenishing that… and the gross margin for the next quarters?

Mr. Lettiere: The impact of the gross margin… let's break that up. So the first part is about cost. I think it's important to include the cost component. The cost pressure with inflation and the dollar devaluation in the second quarter – that has the time to turn to then impact our third quarter – we had an exchange rate variation of 38% that impacted the third quarter.

So in foreign exchange we have a sourcing area, a strategic sourcing area that works in partnerships with our suppliers that have a raw material that is in US dollar or indexed to the dollar, and we've had excellent negotiations with our suppliers given this long-term partnership and the potential that the company has.

So we highly mitigated the US dollar impact. That's why we didn't see such a strong impact as it would have been if we just (1:01:50 inaudible). So there is a huge effort in negotiation and productivity.

So the exchange rate that impacts raw material and packaging in that case in our internal calculations we had a decrease of approximately 50% of the exchange rate impact to the margins, and our cost of goods sold is 50% impacted by the exchange rate.

So in volume we've mentioned that with the lower demand in Brazil we have a drop in units, so it impacts 20% of the costs of goods sold. So there is a base of the fixed cost that stabilized and that also mitigated the impact of margin of the productivity in fixed costs.

And then there is the tax burden, which directly affected our gross margin so the increase in the tax burden of 3.4 pps year-over-year that directly impacted our gross margin in 1.6 percentage points. There was a price increase in 12 months back, we capture that, that was approximately 6% and that also helped to offset the impact that we saw.

The market is demanding more promotions, so that has also affected things, especially compared to last year, which also reduces our margin, and all of that generally speaking tells us the story about our gross margin in Brazil in the 3Q.

Looking forward we could expect the same dynamics. However, with more efficiency that we are looking into, as Roberto has already mentioned, in promotional efforts in addition to the pressure on costs, and controlling costs, and negotiating with suppliers, and the productivity of the fixed costs, so we also have the challenge to streamline the promotional effects.

Mr. Oliveira: Okay, let me see if I understood, Lettiere. When you reduce… so the 2.7% reduction you had to the gross margin in the 3Q 1.6% is approximately what you estimate as a tax burden. And the rest should be all the fixed costs, is that it? Is that what you mean?

So at least 1.6% in the 4th quarter because of the tax burden, and the tax burden there's nothing you can do about that, but the rest you can manage it better? Is that it?

Mr. Lettiere: That is our objective; that is our goal. That's what we're doing, and there is the mix effect that can also improve our margin.

I'd like to remember you that this is high season now, 4Q, our mix is richer; product mix is richer, so we expect an improvement on that as well because of the product mix.

So those are the main variables that impact the gross margin.

Mr. Oliveira: Okay, that's very clear. Last question: About the pilot test in Campinas store in *Raia* and *Drogasil*, do you have anything that you could talk about now?

Mr. Lima: It's too early for us to give you information on that. As I mentioned in the opening remarks, the initial results are very positive, not only in customer acceptance, turnover, prices and the quality, which is present in all Natura products, so we can see that this is working.

But it's too early to see any indications of the next steps. But as a test it's going well.

Mr. Oliveira: Okay, thank you.

Mr. Lima: Thank you.

Operator: Our next question is from Javier Escalante, from Consumer Edge Research.

Mr. Escalante: Hi, good morning everyone. I would like to go back to Brazil because I was surprised to see that the recruitment of consultants is not accelerating with the sharp increase in unemployment in Brazil in the past months.

Shouldn't Natura benefit from higher unemployment in Brazil as direct selling essentially sells jobs as much as it sells product?

And basically if you are trying to benefit… the second part of the question is: If you are trying to benefit from higher unemployment you need to change the earnings opportunity for the reps or is it that your investment is already to diversifying to online retail stores and even distributing in drugstores is already undermining the attractiveness of being a Natura consultant? Thank you.

Mr. Lima: In relation to the unemployment increase we believe that it's still recent; we believe it could have an increase in the availability and we are very aware of that.

And in relation to the growth in the channel we've been doing this in a very scientific manner in identifying the regions where we have a need of more consultants and reducing the number of consultants in regions where we believe that there's too many consultants in that area and we want to avoid cannibalism and avoid their low productivity and therefore if they have low productivity they have a low income.

And we are trying to recruit in addition to the main channel with our own consultants and the other consultants that manage them and try to service channels in areas where we weren't accessing and trying to get some better specialist in certain product categories.

So today, yes, we are concerned in growing the channel, but it's not the same concern in guidance that we had when the market was growing at extremely high rates, where any additional consultant enabled us to service a growing demand.

Today we have to be more selective, we have to be more focused; we are using more business intelligence tools to see where we should grow, not only geographically, but also with the segments.

Mr. Escalante: Thank you.

Operator: Next question is from Luiz Cesta, from Votorantim.

Mr. Cesta: Good morning, thank you for taking my question. Well, I'd like to go back to the long-term growth topic. Your initiatives are very clear on resuming growth in the country, but I'd like you to talk about the opportunities, the potential that you have in international growth and not exactly in the locations where you are already present, in the countries where you are already present.

I don't know how you structure that internally, but do you think that there is an opportunity to structure and entry into new countries where Natura is not present? Not considering Aesop, I'm talking about the actual Natura brand.

And what's the likelihood of seeing Natura entering new countries in the short term, short and medium-term, in the next year, 2 years? Is that a growth… is there an area for growth where you believe can be a reality or wouldn't that be a focus for the company in the short and middle term?

Mr. Lima: It is. Our company is focused, we have several fronts today in strengthening our direct sales channel to keep our high growth rates in Latin America, it's also a strong international position be it in direct sales or other channels.

If you consider short term in 1 or 2 years the likelihood is very high of seeing Natura going into other countries or in countries that we already have with different proposals.

We just launched our online operation in Chile, it's a test still, let's see how that works, and probably in other places also we will have the Natura brand present.

We have been seeing that the products have enough quality to reach this international market, the brand has a very acknowledged value proposal, it's known internationally by its commitment with sustainability issues in general, we just were granted an award by the United Nations in their environmental program, so those are values that we have in Natura and we have to make them a reality.

There's no reason not to have the ambition to be a very international large Brazilian company in the consumer market.

Mr. Cesta: Thank you very much.

Mr. Lima: Thank you.

Operator: Our next question is from Giovana Oliveira, from Credit Suisse Bank.

Ms. Oliveira: Good afternoon. My question is about the Capex for the year. At the beginning of your call you mentioned that you still have the guidance of 135 million of Capex for 2015, and to the moment you have 163 million, so you have to invest about 130 million in this 4th quarter.

Is this guidance is still realistic? And what are you waiting to employ this Capex by the end of the year?

Mr. Lima: Our guidance of 235 must be reached; the number that you referred to is on investments in 2015 that can be compared to 385.

What we did do until September is R$240 million, so we have 145 to reach our goal. We have projects for that, but we are not going to do it just because it's planned; we are going to do it because it is something competitive and has to be done for the company.

Ms. Oliveira: Thank you very much.

Operator: Our next question is from Robert Ford, from Merrill Lynch.

Mr. Ford: Good morning and thank you for taking my question. How do you explain the swaps, the notional cost and the settlement, please?

Mr. Lima: If I understood your question well, it's about the swap operations, is that it? And protection…

Mr. Ford: The cost, rollover, etc. I can't… I want to model the swap operation.

Mr. Lima: In terms of policy I'm going to pass the floor to Lettiere afterwards to give you more details, but we covered all our financial liabilities in foreign currency through swap operations to be able to convert them in Brazilian Real, especially the debt instrument.

In regards to the specific operations, each one of them is analyzed due to maturing dates and if we can anticipate the payment. So I will pass the floor to Lettiere and he can talk about the swap operations better.

Mr. Lettiere: It's what Roberto already said, we have a policy for investments and financing in which our entire position for debt is in strong currency, which is hedged, so we have a coverage for this debt.

And in terms of the average cost of the debt we have the CDI as a reference and we have a mix between what is debt in a local currency and strong currency, but as an indicator we have an average debt cost in regards to CDI in 98%.

So that's basically the indicator that we use for cost of our debt.

Mr. Ford: Thank you very much. You generated 180 million of cash for the suppliers, but I didn't understand in your answer; how did you do that and how sustainable is it?

Mr. Lettiere: In regards to what? Sorry, I didn't understand the question.

Mr. Ford: The cash flow generation for the suppliers specifically. 280 million that were generated in the 3Q; how did you do that in a sustainable manner?

Mr. Lettiere: It it's very sustainable because we have several suppliers that are very important, obviously all of them are important, but we have a portfolio of suppliers that is very broad and with the representativity of Natura we have been able to negotiate the long-term with partnerships to get the economic sustainability for suppliers and also for Natura so that both cash flows – ours and the suppliers' – benefit from that.

We also have instruments that we use to help to capture the work capital for our partner, so we have a negotiation process with our supply chain and commercial partners to use this working capital. So we do a lot of working capital through trade finance.

Mr. Ford: Okay, thank you very much.

Operator: We close our Q&A session. Now I would like to pass to Mr. Roberto Lima for his final remarks.

Mr. Lima: Thank you all for your presence in our call. We are very aware of the work we have to do from now on and we strongly believe on the power of Natura, our structure and our capacity of our team.

We know that we have a very challenging moment and we want an operation that is more agile and be able to significantly improve our free cash flow management so that will make us more competitive and take-up the spaces that we have in the Brazilian market and also in those market in Latin America and other countries where we might go into in a near future.

I trust strongly that the initiatives that are being implemented will help to improve our performance in direct sales, and at the same time the new alternatives for growth in other channels are being created and tested aiming at more productivity, and what we want to do now in a quicker manner is to be faster in them.

In international operations we are very confident in the growth and the Ebitda, as you saw this presentation, and this inspires us to look at other opportunities outside of Brazil, outside those countries that we already are.

It's clear, and I think I said this, today that our priority is to develop as quick as possible the projects that will take us in a stronger action in the markets in which we already are with the main goal of getting a better presence, a better service and better satisfaction to our consumers and to our consultants.

At the same time we are focusing in the increase growth of our operations and we have been able to improve cash generation through our actions, also we are hiring Falconi Consultants so that we can improve efficiency continuously in our organization so that while we developed the processes and projects to grow we can also have a company that is financially healthy with a strong cash flow generation.

Again, I would like to thank the presence of all of you and I hope to see you again in February in the call for the 4th quarter of 2015. If we don't talk before that I would like to wish you all happy holidays and a better end of the year for Brazil and a good afternoon to all. Thank you very much.

Operator: This conference call is closed. We would like to thank you for listening and have a nice day.