

International Conference Call
Natura
1st Quarter 2011 Earnings Release
April 29, 2011

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2011 1st Quarter Conference Call. Today with us we have Alessandro Carlucci, the CEO; Roberto Pedote, the CFO and Helmut Bossert, the Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Natura's remarks are completed there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press star zero (*0) to reach the operator.

We have simultaneous webcast that may be accessed through Natura's IR website at www.natura.net/investor. The slide presentation may be downloaded from this website. There will be a replay facility for this call on the website.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Natura's Management and on information currently available to the Company. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Natura and could cause results to differ materially from those expressed in such forward-looking statements.

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 and welcome to our conference call. Once again we have the pleasure of sharing our results with you, this time for 1Q11. Before we begin I would like to give you last year's market share data, which was recently disclosed: our market share in our core market grew 110 bps in 2010 to 24% according to SIPATESP/ABIHPEC data.

The cosmetics, fragrances and personal care market expanded 13.5% nominally in 2010. According to Euromonitor Natura expended its leadership in the total market including categories, in which we do not operate, with 50 bps increase in Brazil to a market share of 14.4%, well above the second-ranked company. We also gained market share in each of our Latin American operations.

Another important piece of information I would like to share with you is that direct-sales increased its market share across Latin America showing the acceptance of this business model has only increased.

Moving on to 1Q results, consolidated revenue was up 13% and for the Brazilian operation 12%. The growth of revenue in Brazil was below levels seen in recent quarters due to a punctual change in the logical of our promotional planning in the period. We planned the period prioritizing the possibility of an increase in the industry's tax burden that was originally included in provisional measure 497.

Because of this we anticipated the annual price increase for the end of January, earlier than what we had usually done. With this, consultants did not have much time to take advantage of the opportunity to purchase items in the old price. They had to do this shortly after Christmas, during summer vacation, when the activity is very low. Because of that our sale was not as efficient as usual for the period.

As you know that the tax increase did not happen, and by the time we acknowledged this in the end of last November, we had time to implement the right price increase around 5%. But we did not have the flexibility to postpone the moment of this price increase to the usual time by the end of the quarter.

Regarding the market we continue to see growth with very tight competition; but we did not see nothing remarkable in this period. What we have are some signs - though they are still inconclusive - that this year the market growth can be slightly below last year. Even though we are confident that the CF&T market will continue to grow at a good pace and above GDP.

The company's fundamentals are very solid. Our consultant base grew 17% in Brazil in the quarter, showing its robustness. At the end of March we reached a total of 1 million consultants in Brazil and practically 200,000 in the international operations.

Innovation remained at high level around 63%. In this quarter we launched 16 new products.

The brand increased its preference in Brazil achieving 49% among all consumers.

The international operations keep growing fast with positive results in operations in consolidation and revenue from operations in implementation posted strong growth of 56% in local currency.

In our Mexican operation we started the new commercial model that we call "the sustainable relations network", which gives our consultants the opportunity for a career.

Regarding our strategy we are confident to keep expanding our market share in Brazil and transforming our international operation into an important and profitable

business platform. We continue to invest in expanding our capacity improving our IT systems, leadership development, and focusing on innovation on products and in the commercial model to assure solid base for sustainable growth in the coming years. We are confident in the implementation and the execution of our strategy.

Now I will give it to Roberto so he can detail our financial figures. Roberto if you would...

Mr. Roberto Pedote: Thank you Alessandro, good morning everyone. Just repeating, consolidated net revenue increased 13% in 1Q and approximately 12% in Brazil and 37% in the international operations in local currency.

Ebitda was 264 million with a margin of 23%. Excluding the nonrecurring PIS/Cofins effect we had an Ebitda margin around 22%. I think it is usual in our business dynamics to have a margin below the annual average in 1Q because of the reduced revenue base.

We remain very disciplined in our execution of projects for productivity gains in several processes, which allows us to finance additional investment in areas that will serve as a foundation for future. It should be noted that we continue to invest in marketing, R&D and commercial innovation, like Alessandro mentioned, so that we can continue to strengthen our brand as well as preparing us for the coming years.

I wanted to remind you that we had a very good gross margin in the quarter, 100 bps above last year. We are confident that the price increase in 1Q is adequate considering our competitiveness in the market and the inflationary pressures that we expect for the year.

I also wanted to highlight the evolution of our business in Latin America outside Brazil. In operations in consolidation pro-forma Ebitda was positive and up R\$ 5 million over the same period of the previous year. In operations in implementation revenue grew consistently.

Another thing I wanted to talk about is the net cash flow. Because the revenue was a little below our expectations it is natural that inventories were above projections. We continue with our plan to reduce inventory coverage and that is what we will do throughout this year. Part of this increase was offset by increased supply efficiency as we were able to increase our payment terms with suppliers.

We also had opportunity to improve our working capital and reduce our recoverable tax balance, which we expect to happen over the year. We are maintaining our Capex up R\$ 300 million for the year supporting our investments in the logistics, IT and industrial capacity.

To wrap up I would like to highlight that at our annual general meeting on April 8 shareholders approved payment of dividends for 2010. In August last year we already paid R\$ 0.65/share and in the April we completed the distribution for the

year with an additional R\$ 0.99/share amounting a total of R\$ 1.65 for the 2010 the fiscal year.

This is what I wanted to discuss. Thank you very much and now let us move on to questions and answers.

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 key (*1) on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue press star two (*2).

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

Mr. Reinaldo Santana: Yes good morning everybody. I have two questions, the first one could you tell us what was the magnitude of the price increase at the end of January? And did the whole industry also adjusted prices earlier this year?

And also do you believe that this will be enough to mitigate any possible pressures in commodity prices and what is your outlook on commodity prices for the second half of the year?

Mr. Carlucci: Hi Reinaldo, good morning, this is Alessandro speaking. We rose our price in around 5% and this is the right increase to stabilize the gross margin of our company, in other words with this increase we are going to have the same profitability facing the inflation in Brazil and so it is the right size of raise.

We do not have yet the data of the market, but we saw most of our competitors also raising prices, but probably we need some more months and the official data from the market to be sure to give this information. But as a whole we saw many competitors raising prices during this period.

And as I mentioned regarding the commodities, even though we are receiving pressure from some of our suppliers we are also, on the other hand, having gains in the new negotiations with suppliers. So we do not feel any change in our gross margin due to this price increase that we had in the beginning of the year.

Mr. Pedote: At this moment we expect that this 5% increase is enough for the whole year. We had some advantage of the real appreciation also that is offsetting part of the commodities pressure.

Mr. Santana: Great and then also if I may you mentioned in the press release low turnover ratios for Natura. Can you remind us of this level and what was with this ratio one or two years ago?

Mr. Carlucci: Reinaldo, two years ago (rough numbers) the turnover rate was between 35% and 40% and now it is more on 30%, around 30%. So we saw a decrease in the last year, what it is very good for us because it is totally aligned with our strategy to retain our consultants and to allow them to know better Natura, our products, our quality, our concepts, and so they can offer a good service to the customer.

Mr. Santana: Great, thank you very much.

Mr. Carlucci: Thank you.

Operator: Excuse me. Our next question comes from Mr. Robert Ford with Bank of America.

Mr. Robert Ford: Good day everybody and thanks for taking the call. Alessandro, I was curious: if you go back and you look at your 1Q sales last year how much of the sales came in that period before the price increase compared to this year? Just to understand the magnitude of the impact.

Mr. Carlucci: Bob, unfortunately we do not share this kind of information; but I can help you saying that compared with last quarter, the same quarter of last year, we did this year the price increase one month before and this month this year, 2011, was January, and January in Brazil is probably the weakest month for all the customer market, the consumer market, because it is after Christmas and in the beginning of summer vacation.

So what happened is that specifically this time was the time that the consultants they need to put the order to have yet the old price, and last year they had two months to do this. So we do not give you the specific answer that you would like to have, but it was relevant. So for us it explained most of the lower growth compared with last year.

Even though, Bob, I would like to add what I said in the beginning, that even though we do not have the data, the official data, we have some first time that maybe we are going to see our market growing in good rate, but maybe slowly than last year.

Mr. Ford: If I understood - I am sorry to interrupt you - if I understood your comments in the Portuguese call correctly as well, you think that you may have actually increased your market share in 1Q as well; is that fair?

Mr. Carlucci: Yes, we believe, and again because we do not have yet the data I will give you the better information in the next months. But our first numbers showed us that we probably gained market share in this 1Q. We believe that the market will grow less than us; but again, this is not official. We still do not have all the data; but this is our perception.

Mr. Ford: And it is fair to say that it is remarkable because of the timing of the price increase; but additionally I think it is important because there was some really aggressive competition, if I am not mistaken in February, when you put through that earlier price increase, one of your bigger competitors took the advantage of making a tactical across-the-board margin price cut in the entire catalog from almost February, is that fair?

Mr. Carlucci: Well, we saw some of our competitors doing more aggressive promotional campaigns, so you are right. But if you look at the market as a whole including all different kinds of competitors in the other channels, what we saw was a little bit different, that most of companies they already raised prices.

Because in some way everybody like us were prepared for the implementation of the 497 that at the end did not happen. But everybody was ready, because as you know if we had that implementation it would impact a lot our results and so we would need to raise more our prices.

Fortunately this did not happen; but I think everybody was ready to do the price increase in the beginning of the year. But you are right to say that some of them they did the opposite: they increased discounts and this is what we saw in this 1Q.

Mr. Ford: Ok and I just had a couple of other questions if I may, and one was with respect to the gross margin. You mentioned that you are improving your sourcing a little bit and I was wondering how far you are in that process. You mentioned the strength in the real; but I perceived that this is much more a kind of a sophisticated review in terms of developing alternative suppliers across your entire range of inputs, and I was wondering if you may have some additional opportunities to maybe further offset some of the price inflation you have seen domestically.

And then the second question I had was with respect to the expense ratio and when you look at that 300 bps increase in terms of sales, I know there are a number of projects that are under way to make you drive the business increasing your idea a little bit, that sort of thing; but how much of that expense pressures are associated with maybe below-plan revenue numbers?

Mr. Pedote: Hi Bob. Regarding or buying effort - what we call here a revision of our strategic sourcing - we are in a process that we have identified several opportunities and to capture these opportunities you have different times, because they are not available immediately all of them.

Then I believe that we will capture these in the next 12 to 16 months and it is a gradual movement. This is why we believe that the 5% increase that we did in the year looking for the pressure that we have from inflation and commodities; looking for the real appreciation and looking for our internal initiatives, we believe that this price increase can give us in a very healthy situation of gross margin looking for the next quarters.

In sales expenses I think that we have two effects: the first is that we are trying to invest in a more even way during all the quarters. It was very usual that 1Q was very weak and we believe that even thinking about our brand it is better to have more spread the investment.

There was a small part of this, of course, that as we had below expectation sales we did not change our investment and there are some pressures in the margin in 1Q. But in our view we can manage this in a very proper way in a larger period in the year. It is completely manageable the situation.

Mr. Ford: So then it is fair to say that some of these will reverse in subsequent periods at the revenue comes back and then we will see maybe a reduction in future periods compared to... as you balance out the spend over the course of the years; is that correct?

Mr. Pedote: As percentage of sales it will depend, because you always have three areas in the sales expenses: we have our marketing expenses that is very focused on what he competitors are doing and we have more flexibility here, but we are always trying to be very competitive; and on the other hand we have logistics costs; and to have the sales force cost.

The other two they will benefit more from more sales and they will dilute much more if you have higher sales; but the first one will depend and in the total you need to see what is going to happen quarter after quarter. But we are confident that we can manage these sales expenses and the other lines that we have in a good balance.

Mr. Ford: That is great, thank you very much.

Mr. Pedote: Thank you Bob.

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

Ms. Margaret Kalvar: Good morning, a couple of questions. First of all I am still a little bit confused on the pricing dynamics. As I understand it the problem was with your sales to the consultants, which were lower because they did not have enough time to pre-order before the price increase.

If you could just rephrase that or give me a little bit more understanding about what actually happened. I mean, are there sales to the end consumers? Were they still running? Do you have any data on the exact run rate that they were seeing? Because if they were able to stock up then one would assume that actually their run rates were higher and that their inventory was getting depleted, and I guess what I am reading too is might you see a pop-up and to bounce back higher than expected next quarter?

And then I also wanted to discuss the competitive environment particularly in the shampoo and the more mass, less cosmetics, fragrance, toiletry... but more the toiletry's angle; are you seeing... have your competition from M&Cs, particularly with the growth more in retail?

Mr. Carlucci: Hi Margaret, you are totally right. What happened is they did not have so much time to put the order with the older price - one month less in this year in a very low active period, because it is immediately after Christmas and during the summer vacation.

And unfortunately I need to say to you that we lost sales because we are the company and in an industry that a part of our sales is because we push, in other words we motivate them to buy because of promotions, because of launchings, and this case because we are raising prices.

And then because they had the products they sell to the customers, because most of our products are bought by impulse, so unfortunately we do not believe that we are going to capture again this amount of sales that we lost in the beginning of the year.

So there is no stock, they usually do not carry stock, its direct selling, different from the retail. But even though your reflection is theoretically right, but in our business model it does not... unfortunately it does not happen - even though we are going to sell, recover this part. But this is not going to happen.

Regarding the retail we do not have yet data from last year... from this quarter as I mentioned. What we have is that last year the retail lost share in Brazil in our industry and direct selling, as I mentioned, gained share. So retail really is not having a very good moment in Brazil, even though they are growing. My point is only regarding relatively how is retail growing. But we cannot forget that even losing share they are growing, because the CF&T grew last year 13.5%. But this 1Q we do not have yet enough information to give you better data.

Ms. Kalvar: Ok. So now have the consultants... is there ordering back up to levels that are... seasonally could be expected?

Mr. Carlucci: Yes. Now that effect of the anticipation of the price increase is in the past, so we are not having this. What we have is some signs, yet not conclusive, that maybe we are going to see in 1Q - and maybe in the year; it is too soon to be sure, but maybe in the year - a market growing a little bit less than last year.

Because I do not know if you heard, but the Government is doing a lot of efforts to decrease a little bit consumption because of the inflation, there is a slow reduction of the GDP in Brazil projected for the year - nothing that is going to impact structurally our industry. I am sure that we are going to see good rates of growth above GDP; but probably - again, too soon - but probably or maybe slower than last year.

Ms. Kalvar: Ok and finally the other thing I want to ask was whether... you talked about white space and where you can continue to grow in Brazil; could you give us a few concrete examples and how much more you think you can do in terms of broadening the overall product offering?

Mr. Carlucci: I can give you some directions in a qualitative way. We have white spaces mostly because in the categories that we are already operating we do not have a variety of price offers to guarantee that we can occupy all the spaces where we want to position our brand.

And we are going to exclude the bottom of the price because we are not going to be able to compete in the lowest price of the market and guarantee the quality; and also we are going to avoid the top, the luxury price positioning, because we are not... as a brand positioning we are not a luxury brand.

So excluding these, the top and the bottom, we believe that we can offer under the Natura brand products in the prestige and in some categories in some of them we have only one offer; in some of them have two; and in a few of them would have offers in the three layers of price - in a very simple segmentation of the market only to explain you in a few moments.

And because of this our plan for the next two to three years - so it is not going to happen in a quarter, it is going to happen during two or three years - we feel that we have the opportunity to occupy those white spaces and increase our market share - and mainly because we are the preferred brand, as you can see, and also because of the capillarity of our channel we can capture faster than the retail, the franchise or all the other channels, a new the demand coming from Brazil, coming from the regions, from new classes.

Because we do not depend on shopping malls, stores. I only depend on the person calling me and saying I would like to be a Natura consultant, and so we can capture very fast and without marginal costs. So that is why we believe that we can keep gaining market share in Brazil.

Ms. Kalvar: Ok thank you very much.

Mr. Carlucci: Thank you for your question.

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

Ms. Lore Serra: Good morning, thanks for taking the question. I want to ask a couple, so let me try to ask one at a time: if the weakness in the sales was primarily because of the price, the change in the price dynamics, which would have been more centered in terms of, I guess, the first part of 1Q, can you give us a

sense of how sales trends have been in maybe March and April, where presumably it is not affected by that one-time factor? Is that possible?

Mr. Carlucci: Lore, unfortunately I cannot give you a better information regarding the sales on the short-term. But what I can give you is our sense that we are really secure that this effect impacted in a reasonable way our sales. So this is the only thing that I can share with you, sorry.

Ms. Serra: Let me ask a question: if you go back to the that bad history in 2006 when you had some issues, I remember that maybe that upfront maybe there was not a full recognition that there were issues.

So if you compare and contrast this little blip versus that period, I remember in 2006 we started to see some discounting and slow growth and it was rocky for a few quarters, but at the end of 2006 it was clear that they were more profound issues. What is your level of confidence that you are not where you were five years ago, that this is a very different situation?

Mr. Carlucci: Well, I feel that we are in a very... in a totally different situation. First of all because you can take a look at some important indicators of the company: the channel is growing; we are decreasing turnover; the level of bad debt is very low; the brand is gaining preference - so a lot of things indicating that we are in a very different moment.

Also we have a company very well structured with good leaders; processes implemented; we have a very good strategy; we have some space to raise market investment if we need because we are working in productivity gains. So I think we are in a totally different situation, Lore. I think that we could not compare at all what happened in 2006 and what is happening now.

And even though I do not have - and this is in a very transparent way the reality - I do not have the numbers, we strongly believe that we gained market share this quarter, so different from that time.

Ms. Serra: Ok but it is good to hear those comments. I just wanted to understand a couple of more things and I apologize for the number of questions; but when you talk about this feeling that maybe the market is growing slower I suppose that is based on what you are feeling competitively about how 1Q played out, and I understand that there is a lot of mixed signals in the economy.

But as it relates to your business employment is still strong, real wage is still strong. If the Government is trying to target anything it is credit formation and not the kind of business you are in.

So when you are talking about this potential for this lower growth this year is that just a cautiousness based on what you are seeing in 1Q or is there something that

you are seeing that is making you uncomfortable that this... the industry is going to have a bit of a more difficult year this year?

Mr. Carlucci: Well, first of all I will be able to answer your question in a better way some months ahead with real information regarding the market. But our perception is based on the fact... on some facts: first of all - without giving the numbers because, again, they are not official - we already received part of information of our market. Not all the information, but we can see already some segments, some channels and so I am building the total growth of the market and that is why we feel that probably it is going to grow a little bit lower than last year.

And also we started to look to other companies in the consumer goods, and even though they are growing they are growing less than last year and they are saying more or less for us: "look, growing, good, but we started a little bit slow than last year".

And above all these things are all the initiatives at the Government to constrain consumption and reduce credit and this could put some pressure in the customer and maybe they can decide "let us spend, let us buy a little bit less than we intend to do" - but this is a theoretical... is a theory; we need to see the facts and follow the data.

That is the reason why we believe that maybe - again, this is a hypothesis - we feel that maybe the market is going to grow a little bit less; it is not something structural, it is not going to change our expectations regarding the next year; but maybe this year we are going to see a slower growth.

Ms. Serra: Great. I am sorry once again, a couple more questions: consultants reached 1 million consultants in Brazil, which is kind of a milestone and obviously the CNO program has been enormously successful. I guess one of the questions as you now have the CNO by 18 months or so - I am forgetting – and you have a fairly tight labor market in Brazil, how do you think about the challenges of continuing to grow the consultant base?

I know obviously it will not grow at some of the rates we have seen in the past two years; but are you seeing any dynamics in terms of trying to find or CNOs finding a new dynamics finding consultants given the improved market in Brazil?

Mr. Carlucci: Thank you, very good question. First of all let me share with you the information that in the last years we saw what we call the part-time of our consultants - part-time means consultants that dedicate only a part of their time being Natura consultants, they have a regular job - this part of our channel is raising the last year.

So that means that we are able to have people coming for business that have already a job and they use the Natura consultants to increase their revenues. So I

do not feel that because we can have less employment this could affect our growth.

Regarding the CNO what we saw - and this was expected - is that in the beginning of the implementation, and as you know it was gradually implemented in Brazil, we saw in the beginning a fast growth. In the first 3 to 6 months of implementation in each region we saw a fast growth because the CNO invited her friends and so in the first months they grow rapidly.

But after six months they start to become more professional in a regular way and they need to really look forward new consultants. And after this period, and this period ended in the beginning of 2010, we started to see a more regular growth and in a stable moment that is around 17% - and last quarter we saw in Brazil 60.7%.

So without giving you the guidance that will give you exactly the same rate, we believe that around this we can still have good years ahead using the same model that, of course, is being adjusted. For example, this quarter we adjusted a little bit the model to allow us to keep growing in the next years.

So in other words we feel that we have a good model to keep growing in very good rates our channel. Not the same rates in the beginning of the implementation, but around the rates that we are seeing today.

Mr. Serra: Great and last question: in the past you talked about an Ebitda margin goal of a minimum of 23% and I guess it will be helpful to get an update on that given how it is difficult quarter to quarter to kind of forecast your numbers. Is that still a kind of floor, 23%, where you would be targeting this year?

Mr. Carlucci: Lore, we decided not to give any more the guidance because at that time, in the beginning of 2008, we thought that it would be important to give some guarantee to the market that we had a plan that we knew what we should do at that time.

After three years with good Ebitda margin and increasing Ebitda margin we decided not to update, because we believe that it is better to have a relationship with you without giving guidance. So for this year we do not have any guidance regarding Ebitda.

But what we want to keep the Ebitda margin around the same levels that we had in the past, and as you know our strategy is keeping the Ebitda at the same level - around the same level - and if I have any opportunity to invest money to grow faster we would like to invest to grow.

And mainly because we have good reasons to believe that the Brazilian market is going to keep growing and we believe that Natura is the best company to keep this

growth because we are in a model that can capture very fast a new customer without marginal costs and also because we are the preferred brand.

So this is the time for us to keep growing market share - but keeping also good profitability. So in other words without giving you a precise Ebitda we do not want to change the levels that we reached recently.

Ms. Serra: Great, thank you very much for taking all my questions.

Mr. Carlucci: Thank you for asking. It important to you to understand very clearly what we are doing and our strategy.

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

Mr. Celso Sanchez: Hi, just to follow up one of the questions from earlier, one of many. The issues from the past I think we all recognize the consultant growth number alone shows how much stronger the company is now than then, there are improvements, but I think the numbers... remind me a little bit of the past, were the need to work off the inventories and the potential risk that some of those inventories (inaudible 43:28) to be written down.

And so if you could maybe help us understand or characterize a little bit the nature of those inventories and to what extent we might think of them as perhaps very seasonal and therefore being (inaudible 43:42) down versus standard that should be sold over the course of the year.

The second thing is with respect to innovation index you said it is high, still on the 60s, but it is well below its peak and I do remember you acknowledging yourself when you looked at things you could not prove a couple of years ago the fact that maybe the innovation focus has been distracted a bit and I am wondering a little bit why the numbers seem to have been trending down steadily the last several quarters and particularly given the emphasis in the new role of the innovation area (inaudible 44:17) back in the 4Q last year. So if you could address those please.

Mr. Carlucci: Hi Celso, this is Alessandro speaking. I will start talking about innovation and then Roberto can talk about the inventory. Well, in the innovation Index even though it is a very important index and that is why we are glad to share with you and to give you the information, we do not believe that a small variation indicates a problem; first of all because you can imagine that this index is defined by more than 1,500 SKUs because we are counting all the products that we sold in the last two years, so when you see a variation of two, three points, this is not really relevant.

And just to compare, in the period of 2007 at that time we reached 50% of innovation and now we are in 62%. So we do not see any relevant variation and so we are not worried about this.

And also you need to look for this index and also compare it with other one... other ones like the brand preference, like the channel growth. So it must be analyzed integrated with other indicators, other important indicators for our company.

So in other words we do not feel that we are having our we are going to have a problem here, and maybe you are going to see a little decline or a little raise; but around 60% we are comfortable. We do not feel that we have any problem and to be honest this is a very high rate of innovation when you compare other competitors in the industry.

So do not worry about this; we are investing in innovation, as you mentioned, and of course part of these investments are in the medium and long-terms because we invest also in the basic research. So nothing wrong here in our opinion.

And I will pass to Roberto to talk about the inventory.

Mr. Pedote: Hi Celso. As you mentioned the high inventories are a consequence of being prepared to sell... we were expecting more sales than happened and then in the end we finished with more inventory. In the medium term as I mentioned since last year, we are improving a lot our logistics model and improving what we call SNOP (Sales and Operation Plan), that has as an objective to improve the service level and in the same time to reduce stock overage and we are quite confident that we are going in this direction during this year.

There are some increase in the needs of our very good management of obsolete (or losses as we call here) because when we have more inventory we need to have a good attention to avoid that we lose and we need to do some write off of products, and this process also includes a lot of effort and we are improving this process also. It can give us a little bit more of a challenge to improve this process, but we do not believe that what happened in terms of inventories in this quarter is significant. We think that it is completely manageable.

Mr. Sanchez: So just to repeat the question: can you clarify or offer some color what you characterized the majority of the inventory increase were items that you sell everyday or recycle or to what extent... I am thinking of course back to the issues in the past what extent (inaudible 48:28)?

Mr. Pedote: It is a mixture of them, but we always put plans. Even if it is a product, for example, that we do not sell every time and we have an additional inventory like we review our plans and we try to include them in future plans. This is the normal process that we always do in a monthly basis and then I think, again, it is a mixture of them but we are in the beginning of the year and we can manage this.

Mr. Sanchez: Ok thank you.

Operator: Excuse me. Our next question comes from Ms. Raquel Rodriguez with Goldman Sachs.

Ms. Irma Sgarz: This is Irma Sgarz from Goldman Sachs. Just one more follow-up question on the CNO structure. Alessandro, you were commenting earlier that you made some small adjustments, some small tricks in the model in 1Q. I am just wondering what you are referring to specifically: it is that the tests you have been running in terms of the size of minimum order or is that something else? I am sorry if you have commented about that before.

And then maybe another second related question is in terms of the... I think if I understood you correctly when talking about expanding out the setting expenses more evenly across the year.

So I was just wondering when this process would have started an obviously to the extent you are increasing in some quarters a little bit more in the margins and in another quarter a little maybe it would weigh a little bit less in the margin. I was just wondering when this process started and how much we have already seen in past quarters and in the current quarter. Thank you.

Mr. Carlucci: Raquel... Irma, sorry, Irma. Regarding the CNO that I mentioned that we did some adjustments this is something that is quite regular to happen because when you are managing a commercial model you need always to adjust the targets, the rules when you break a sector or group, so it is something common.

And it was exactly what happened in this quarter. We decided to increase the bonus for our CNOs when they decide to open a new group and this was mainly because of a good reason: because they grew faster than expected since the beginning of the project and so they reached the top of their group faster than we thought.

So it was a small adjustments that I believe we are going to see more of this kind of thing in the future. But during this quarter we did not changed structurally the level and the size of the minimum order, so this did not happen.

And regarding your second question would you mind to repeat because we could not listen well please.

Ms. Sgarz: Yes sure. In terms of the selling expenses if I understand correctly you are spreading those out across the year, across the quarters in a little bit more even way and I was wondering when that process was started to understand basically how much of that was already potentially visible in previous quarters or is that something that you only started with the beginning of 2011? Thank you.

Mr. Carlucci: Hi Irma. What happened is that in a part of the sales expenses, and as Roberto mentioned before, sales expenses are a mixture of marketing expenses, logistics expenses and sales force expenses. What he mentioned is that

in the marketing expenses - especially in the advertising - we decided this year to start the year investing a little bit more, because for us advertising is something more related with the brand than with sales and so we realized that it would be important to, even in January, February, to keep investing to build the brand. So in this part of the sales expenses we are going to see a more spread investment during the year.

Regarding the other two parts we are going to see more correlation with sales because they... in some way they are more correlated with sales.

Ms. Sgarz: Ok great, understood; but does that means that going into other quarters where you typically already spend a larger share of the marketing, of the annual marketing budget, in those quarters we may see a little bit of a reduction or is marketing overall going up?

Mr. Pedote: Irma, overall as we always mention we are prepared to invest more in marketing. We are always prepared thinking that we are going to have more competitiveness and we do not want to lose our share of spending in relation to our major competitors.

But of course this is something that we are always looking what is happening and we have space to react more or less quarter by quarter, and then I cannot give to you which quarter will be less or higher; but if you just assume that whatever we are going to invest this year we will invest more in 1Q than we used to do in last years. This is what I mentioned.

Ms. XXX: Great, thank you.

Mr. Pedote: Thank you Irma.

Operator: Excuse me. Our next question comes from Mr. XXX Chavez with Artha Capital.

Mr. XXX Chavez: Hi, my question has been answered, thank you.

Operator: Our next question comes from Mr. XXX with Bernstein.

Mr. XXX: Hi, thanks for taking the question. If you can help me think through... what we have been hearing a lot from the European companies and the US companies who... given their home terrains have very slow growth they are looking more aggressively elsewhere.

And one of the places we care a lot, and is the same of you, we heard that they see Brazil and your categories in particular as white spaces for them and they push aggressively currently and in the future to get into that market, your market.

I wonder if you had any observations on two points: one is the most recent aggressiveness so to speak, most recent launches by some of these companies? Do you have any perspective on how those have gone, how have you reacted to them? How successful have they been in a kind of short-term look?

And then the number two is more longer-term: how do you perhaps adjust your strategy or adjust your financial goals, whether margins or advertising expenses, etc., with a view towards a longer-term perhaps increased competitiveness that will come from these non-Brazilian companies trying to get into their white space which they see as you? So hopefully that is clear and thanks for any clarity.

Mr. Carlucci: I think that is clear, thank you for your question, and if it is not please ask me again. So in the short-term even though you are totally right and not only from Europe and the US, from all over the world we have the feeling that our market is being more and more competitive every day.

But nothing happened in the short-term, nothing really relevant happened in the short-term. So I think that there is a higher competition gradually happening and we believe that we are prepared, and now and talk a little bit about the long-term, how we are preparing ourselves.

The first thing is we are investing more, as I mentioned in the beginning, in innovation, not only in products but more and more in the commercial innovation. We really believe that we can offer a better consumer experience for our customers and allow our sales force with better tools to offer this kind of service to the customer using digital media and other tools, but also, as I mentioned, in producing relevant innovation in product and concepts.

And about this we are prepared to raise investments in marketing, as we mentioned before, because we are working hard to have productivity gains in different processes of the company to allow us to raise the investments in marketing if it is needed. If it is not needed we can invest in projects or we can increase profitability. If we feel that competition in the short term is changing fast we can increase faster also in the short term.

So in other words we feel we are very well prepared to face this tougher competition and an important information to share with you: last year the retail lost share in Brazil. So even though there are a lot of competitors investing here in Brazil - most of them are in the retail - this channel in Brazil lost share.

So that means that we, in a modest way, we are doing our job well, we are a good competitor for them and we would like in a very humble way to be more prepared for these tougher competition that we are having those days and in the future years.

Mr. XXX: That is very helpful. Just to go back over the short term to get a little bit more color on it: have you seen the competitors, Procter & Gamble, L'Oreal, not

spend and that is why you did not see any relevant impacts or not spend enough, or is it that they do not understand the attributes of the local consumer or they just spent and it was not successful? How would you characterize that in the short term? What have you seen so far?

Mr. Carlucci: They are investing more. What we can see is that they increased their investments, and probably this is one of the reasons to support the CF&T growth. What I do not see is a relevant change in the rules of the competition and so nobody increased US\$ 100 billion in advertising, for example; no one decreased dramatically prices; no one started with a whole new brand of products dedicated to Brazil.

So even though I saw competition increasing there, increasing investments, but I do not see a structural change in the level of competition. That is what I mean seeing in the short term. But I recognize and we have the data that they are investing more.

But on the other hand we are keeping our share of investments in advertising for example. In this 1Q we had the same share of investment that we had we last year. So we are following this increase.

Mr. XXX: Thank you very much.

Mr. Carlucci: Thank you for your question.

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

Mr. Carlucci: Thank you all for participating in our conference call. Once again thank you for all the questions and I hope to see you at our next meeting in July when we will discuss our 2Q results. Have a nice day.

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