

*(Convenience Translation into English from
the Original Previously Issued in Portuguese)*

Natura Cosméticos S.A.

*Financial Statements for the Years
Ended December 31, 2004 and 2003 and
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Natura Cosméticos S.A.
São Paulo - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Natura Cosméticos S.A. and subsidiaries as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Natura Cosméticos S.A. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, the changes in shareholders' equity, and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.
4. The supplementary information contained in Attachments I and II, referring to the statements of cash flows and value added, respectively, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information was audited by us in accordance with the auditing procedures mentioned in paragraph 2 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 4, 2005

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Edimar Facco
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$)

ASSETS	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Company		Consolidated	
	2004	2003	2004	2003		2004	2003	2004	2003
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and banks	26,656	30,801	29,592	34,072	Loans and financing	11,879	72,240	62,407	75,102
Temporary cash investments	158,631	26,482	202,020	102,039	Domestic suppliers	6,755	4,578	76,971	55,384
Trade accounts receivable	236,453	172,123	250,066	180,118	Foreign suppliers	-	-	4,172	2,139
Inventories	1,634	354	121,961	79,254	Suppliers - related parties	102,151	18,948	-	5,304
Recoverable taxes	3,009	715	18,158	8,525	Salaries, profit sharing and related charges	28,272	21,765	65,265	41,563
Advances to employees	4,084	3,558	6,949	4,938	Taxes payable	52,776	51,850	62,382	64,297
Related parties	833	25,837	-	1,275	Debentures	-	102,170	-	102,170
Deferred income and social contribution taxes	12,198	11,035	21,630	22,096	Related parties	94	939	-	964
Other receivables	358	2,180	6,063	5,214	Dividends	113,644	20,000	113,644	20,000
Total current assets	<u>443,856</u>	<u>273,085</u>	<u>656,439</u>	<u>437,531</u>	Interest on capital	13,623	8,541	13,623	8,541
					Other payables	35,356	20,054	42,331	24,243
LONG-TERM ASSETS					Reserve for losses on swap contracts	4,544	9,012	6,138	9,012
Related parties	-	3,382	-	3,382	Total current liabilities	<u>369,094</u>	<u>330,097</u>	<u>446,933</u>	<u>408,719</u>
Advance for future capital increase	770	9,503	-	-					
Receivables from shareholder	172	-	172	-	LONG-TERM LIABILITIES				
Tax incentives	1,122	635	1,162	641	Loans and financing	19,549	31,052	71,982	32,986
Deferred income and social contribution taxes	12,624	7,978	21,301	9,447	Debentures	-	130,656	-	130,656
Recoverable taxes	876	-	3,848	-	Reserve for contingencies	39,769	24,870	59,559	28,381
Escrow deposits	20,370	7,548	24,256	14,595	Provision for losses on subsidiaries	64	6,282	-	-
Other receivables	-	-	1,716	1,715	Other payables	841	-	1,885	1,809
Total long-term assets	<u>35,934</u>	<u>29,046</u>	<u>52,455</u>	<u>29,780</u>	Total long-term liabilities	<u>60,223</u>	<u>192,860</u>	<u>133,426</u>	<u>193,832</u>

(Continues)

(Convenience Translation into English from the Original Previously Issued in Portuguese)

NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$)

(Continued)

ASSETS	<u>Company</u>		<u>Consolidated</u>		LIABILITIES AND SHAREHOLDERS' EQUITY	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>		<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
PERMANENT ASSETS					MINORITY INTEREST	-	-	7	(30)
Investments	373,748	332,698	8,707	2,809	SHAREHOLDERS' EQUITY				
Property, plant and equipment	<u>13,231</u>	<u>10,744</u>	<u>298,822</u>	<u>253,739</u>	Capital	230,762	56,387	230,762	56,387
Total permanent assets	386,979	343,442	307,529	256,548	Capital reserves	112,016	9,998	112,016	9,998
					Profit reserves	<u>94,674</u>	<u>56,231</u>	<u>93,279</u>	<u>54,953</u>
					Total shareholders' equity	437,452	122,616	436,057	121,338
TOTAL ASSETS	<u>866,769</u>	<u>645,573</u>	<u>1,016,423</u>	<u>723,859</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>866,769</u>	<u>645,573</u>	<u>1,016,423</u>	<u>723,859</u>

The accompanying notes and attachments are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

NATURA COSMÉTICOS S.A.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$, except for earnings per share)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Gross sales to domestic market	2,457,891	1,840,014	2,472,046	1,860,287
Gross sales to foreign market	-	-	66,782	47,876
Other sales	5	72	829	1,957
	<u>2,457,896</u>	<u>1,840,086</u>	<u>2,539,657</u>	<u>1,910,120</u>
Taxes on sales, returns and rebates	(576,564)	(439,013)	(769,993)	(581,210)
	<u>1,881,332</u>	<u>1,401,073</u>	<u>1,769,664</u>	<u>1,328,910</u>
NET OPERATING REVENUES	1,881,332	1,401,073	1,769,664	1,328,910
Cost of sales	(776,170)	(634,815)	(575,260)	(458,405)
	<u>1,105,162</u>	<u>766,258</u>	<u>1,194,404</u>	<u>870,505</u>
GROSS PROFIT	<u>1,105,162</u>	<u>766,258</u>	<u>1,194,404</u>	<u>870,505</u>
OPERATING (EXPENSES) INCOME				
Selling	(458,913)	(374,060)	(535,909)	(403,018)
General and administrative	(248,006)	(147,360)	(216,900)	(180,545)
Management and employee profit sharing	(13,418)	(10,810)	(34,990)	(20,466)
Management compensation	(6,977)	(4,595)	(8,422)	(5,934)
Equity in subsidiaries	2,788	18,571	-	-
	<u>380,636</u>	<u>248,004</u>	<u>398,183</u>	<u>260,542</u>
INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS	380,636	248,004	398,183	260,542
Financial expenses	(18,301)	(61,478)	(38,156)	(64,439)
Financial income	21,125	25,834	35,414	34,339
	<u>383,460</u>	<u>212,360</u>	<u>395,441</u>	<u>230,442</u>
INCOME FROM OPERATIONS	383,460	212,360	395,441	230,442
Nonoperating income (expenses), net	1,098	669	(868)	1,455
	<u>384,558</u>	<u>213,029</u>	<u>394,573</u>	<u>231,897</u>
INCOME BEFORE DEBENTURES PARTICIPATION AND TAXES	384,558	213,029	394,573	231,897
Debentures participation	(7,178)	(127,709)	(7,178)	(127,709)
	<u>377,380</u>	<u>85,320</u>	<u>387,395</u>	<u>104,188</u>
INCOME BEFORE TAXES ON INCOME	377,380	85,320	387,395	104,188
Income and social contribution taxes	(76,969)	(20,158)	(87,102)	(40,364)
	<u>300,411</u>	<u>65,162</u>	<u>300,293</u>	<u>63,824</u>
NET INCOME BEFORE MINORITY INTEREST	300,411	65,162	300,293	63,824
Minority interest	-	-	1	60
	<u>300,411</u>	<u>65,162</u>	<u>300,294</u>	<u>63,884</u>
NET INCOME	<u>300,411</u>	<u>65,162</u>	<u>300,294</u>	<u>63,884</u>
EARNINGS PER SHARE - R\$	<u>3.516</u>	<u>1,812.321</u>		

The accompanying notes and attachments are an integral part of these financial statements

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NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais - R\$)

Company	Capital reserves			Profit reserves		Retained earnings	Total	
	Capital	Treasury shares	Share premium	Investment grants	Legal			Retention
BALANCES AS OF DECEMBER 31, 2002	56,387	-	-	9,998	7,429	17,357	-	91,171
Supplementary dividends for 2002								
Dividends paid	-	-	-	-	-	(3,668)	-	(3,668)
Net income	-	-	-	-	-	-	65,162	65,162
Allocation of net income:								
Legal reserve	-	-	-	-	3,258	-	(3,258)	-
Reserve for profit retention	-	-	-	-	-	31,855	(31,855)	-
Interest on capital	-	-	-	-	-	-	(10,049)	(10,049)
Dividends	-	-	-	-	-	-	(20,000)	(20,000)
BALANCES AS OF DECEMBER 31, 2003	56,387	-	-	9,998	10,687	45,544	-	122,616
Capital increases through:								
Capitalization of debentures	138,569	-	100,000	-	-	-	-	238,569
Merger of Natura Empreendimentos S.A.	1,415	-	-	-	-	-	-	1,415
Capitalization of BNDES loan (Debentures)	34,391	-	-	-	-	-	-	34,391
Purchase of shares	-	(1,415)	-	-	-	-	-	(1,415)
Sale of treasury shares through exercise of stock options	-	309	5,177	-	-	-	-	5,486
Receivables from shareholder	-	(3,029)	-	-	-	-	-	(3,029)
Profit on sale of shares	-	480	496	-	-	-	-	976
Recognition of net liabilities on merger of Natura Empreendimentos S.A.	-	-	-	-	-	(23,367)	-	(23,367)
Recognition of net liabilities on merger of Natura Participações S.A.	-	-	-	-	-	(29,235)	6,986	(22,249)
Absorption of reserve	-	-	-	-	(7,058)	7,058	-	-
Net income	-	-	-	-	-	-	300,411	300,411
Allocation of net income:								
Legal reserve	-	-	-	-	15,021	-	(15,021)	-
Reserve for profit retention	-	-	-	-	-	76,024	(76,024)	-
Dividends	-	-	-	-	-	-	(186,910)	(186,910)
Interest on capital	-	-	-	-	-	-	(29,442)	(29,442)
BALANCES AS OF DECEMBER 31, 2004	230,762	(3,655)	105,673	9,998	18,650	76,024	-	437,452

The accompanying notes and attachments are an integral part of these financial statements.

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NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In thousands of Brazilian reais - R\$)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
SOURCES OF FUNDS				
From operations:				
Net income	300,411	65,162	300,294	63,884
Items not affecting working capital:				
Depreciation and amortization	3,809	3,887	34,340	33,673
Monetary and exchange variations on long-term items, net	(6,772)	(6,544)	(1,307)	(10,136)
Increase in provision for contingencies	17,796	14,050	33,052	16,551
Increase in other provisions	1,168	919	1,420	906
Deferred income and social contribution taxes	(4,233)	(1,138)	(9,196)	5,017
Equity in subsidiaries	(2,788)	(18,571)	-	-
Disposal of permanent assets	1,333	669	1,828	1,596
Minority interest	-	-	(1)	(60)
	<u>310,724</u>	<u>58,434</u>	<u>360,430</u>	<u>111,431</u>
From shareholders:				
Capitalization of debentures	107,913	-	107,913	-
Capital increase through subscription of shares	34,391	-	34,391	-
Sale of treasury shares	630	-	630	-
Dividends received	-	25,722	-	-
From third parties:				
Transfer from long-term to current assets	-	-	20,122	1,222
Increase in long-term liabilities	-	17,054	-	17,025
Minority interest	-	-	37	(28)
Total sources	<u>453,658</u>	<u>101,210</u>	<u>523,523</u>	<u>129,650</u>
USES OF FUNDS				
Additions to property, plant and equipment	7,629	5,414	76,886	23,891
Increase in investments	34,975	12,966	6,179	-
Increase in long-term assets	9,070	17,913	15,289	5,910
Decrease in long-term liabilities	18,656	-	-	-
Transfer from long-term to current liabilities	11,809	73,750	24,740	75,686
Dividends proposed and paid	186,910	23,668	186,910	23,668
Interest on capital	<u>29,442</u>	<u>10,049</u>	<u>29,442</u>	<u>10,049</u>
Total uses	<u>298,491</u>	<u>143,760</u>	<u>339,446</u>	<u>139,204</u>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets				
	23,393	-	3,383	-
INCREASE (DECREASE) IN WORKING CAPITAL	<u>131,774</u>	<u>(42,550)</u>	<u>180,694</u>	<u>(9,554)</u>
REPRESENTED BY				
Increase in current assets	170,771	37,169	218,908	91,895
Increase in current liabilities	38,997	79,719	38,214	101,449
INCREASE (DECREASE) IN WORKING CAPITAL	<u>131,774</u>	<u>(42,550)</u>	<u>180,694</u>	<u>(9,554)</u>

The accompanying notes and attachments are an integral part of these financial statements.

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NATURA COSMÉTICOS S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts in thousands of Brazilian reais - R\$, unless otherwise indicated)

1. OPERATIONS

Natura Cosméticos and its subsidiaries (the “Company”) are engaged in the development, production, distribution and sale, substantially through direct sales by Natura beauty consultants, of cosmetics, fragrances, hygiene and health products. The Company also holds equity interests in other companies in Brazil and abroad.

The Extraordinary Shareholders’ Meeting held on March 5, 2004 approved the merger of the net assets of Natura Empreendimentos S.A. and Natura Participações S.A. into the Company. The merger was recorded based on an accounting valuation supported by a valuation report issued by independent experts. Natura Participações S.A. owned 100% of the capital stock of Natura Empreendimentos S.A., which in turn, owned 100% of the capital stock of the Company. These mergers did not modify the activities described in the paragraph above.

The shareholders’ equity of Natura Empreendimentos S.A. and Natura Participações S.A. as of January 31, 2004, the accounting date of the mergers, were R\$104,951 and R\$75,716, respectively. After eliminations of intercompany receivables and payables and the investment balances, as required by Brazilian accounting practices, the Company recorded net liabilities of Natura Empreendimentos S.A. and Natura Participações S.A. amounting to R\$23,367 and R\$29,235, respectively.

The amounts of the net assets are as follows:

NATURA EMPREENDIMENTOS S.A.

<u>ASSETS</u>		<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash and banks	24,105	Loans and financing	17,566
Recoverable taxes	645	Taxes payable	660
Other receivables	<u>33,338</u>	Dividends	61,215
Total current assets	<u>58,088</u>	Other payables	<u>3,747</u>
		Total current liabilities	<u>83,188</u>
LONG-TERM ASSETS		LONG-TERM LIABILITIES	
Related parties	<u>10,544</u>	Loans and financing	17,004
Total long-term assets	<u>10,544</u>	Other payables	<u>11</u>
PERMANENT ASSETS		Total long-term liabilities	<u>17,015</u>
Investments	<u>136,522</u>	SHAREHOLDERS' EQUITY	
Total permanent assets	136,522	Capital	86,950
		Capital reserves	5,347
		Profit reserves	<u>12,654</u>
		Total shareholders' equity	104,951
TOTAL ASSETS	<u>205,154</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>205,154</u>

NATURA PARTICIPAÇÕES S.A.

<u>ASSETS</u>		<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash and banks	307	Other payables	<u>86,001</u>
Recoverable taxes	129	Total current liabilities	<u>86,001</u>
Related parties	<u>61,215</u>	LONG-TERM LIABILITIES	
Total current assets	<u>61,651</u>	Related parties	<u>10,391</u>
LONG-TERM ASSETS		Total long-term liabilities	<u>10,391</u>
Receivables from sale of shares	<u>5,506</u>	SHAREHOLDERS' EQUITY	
Total long-term assets	<u>5,506</u>	Capital	1,107,776
PERMANENT ASSETS		Capital reserves	5,450
Investments	104,951	Profit reserves	5,550
Goodwill on investments	1,208,041	Accumulated deficit	<u>(1,043,060)</u>
(-) Provision for maintenance of dividend payment capacity	<u>(1,208,041)</u>	Total shareholders' equity	75,716
Total permanent assets	104,951		
TOTAL ASSETS	<u>172,108</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>172,108</u>

2. PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM).

Until December 31, 1995, the Brazilian corporate law established a simplified methodology for the recording of inflation effects determined to that date. This methodology, named Monetary Restatement of the Balance Sheet, consisted of the restatement of permanent assets (investments, property, plant and equipment, and deferred charges) and shareholders' equity accounts at the indexes disclosed by the Federal Government. The net effect of the monetary restatement was accounted for in the statement of income in a specific account under the heading Monetary Restatement of the Balance Sheet. This monetary restatement was prohibited by Law No. 9249, of December 26, 1995, effective January 1, 1996.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Results of operations

Determined on the accrual basis of accounting.

b) Temporary cash investments

Consists of highly liquid temporary investments with maturities of less than three months, stated at cost plus income earned to the balance sheet dates.

c) Allowance for doubtful accounts

Recognized based on an analysis of risks on realization of receivables, in an amount considered sufficient to cover possible losses.

d) Inventories

Stated at the average cost of acquisition or production, adjusted to market value and for possible losses, when applicable.

e) Investments

Investments in subsidiaries are accounted for under the equity method, plus goodwill on acquisition of investments, as shown in Note 11.

f) Property, plant and equipment

Recorded at acquisition cost, monetarily restated to December 31, 1995, plus interest capitalized during the construction period. Depreciation is calculated under the straight-line method, based on the estimated economic useful lives of the assets, at the rates shown in Note 12.

g) Deferred charges

Represented by goodwill arising from the merger of shares of Natura Empreendimentos S.A., into Natura Participações S.A., less the provision for adjustment to market value, as described in Note 13.

h) Current and long-term liabilities

Stated at known or estimated amounts, plus, if applicable, interest and monetary and exchange variations incurred to the balance sheet dates.

i) Income and social contribution taxes

The provision for income tax was recorded at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution tax was calculated at the rate of 9% of taxable income. Deferred income and social contribution taxes recorded in current and long-term assets result from expenses recorded in income, although temporarily nondeductible for tax purposes. Additionally, deferred income and social contribution taxes were recorded on tax loss carryforwards.

Pursuant to CVM Resolution No. 273/98 and CVM Instruction No. 371/02, deferred taxes are recorded at their probable realizable values, as detailed in Note 9.

j) Loans and financing

Adjusted based on exchange and monetary variations and interest incurred to the balance sheet dates, as provided for by contract and mentioned in Note 14.

k) Reserve for contingencies

Adjusted to the balance sheet dates based on the probable loss amount, according to the nature of each contingency and supported by the opinion of the Company's legal counsel. The fundamentals and the nature of reserves are described in Note 16.

l) Hedge transactions

The nominal values of hedge transactions are not recorded in the balance sheet. Unrealized gains or losses on these transactions are recorded on the accrual basis of accounting, as mentioned in Note 22.b).

m) Financial income and expenses

Represented by interest and monetary and exchange variations on temporary cash investments, loans and financing.

n) Interest on capital

For corporate purposes, interest on capital is accounted for as allocation of income in shareholders' equity. For tax purposes, interest on capital is treated as financial expense, reducing the income and social contribution tax basis for the year.

o) Earnings per share

Calculated based on the number of shares at the balance sheet dates.

p) Supplementary information

In order to permit additional analysis, the Company presents as supplementary information the consolidated statements of cash flows and value added.

q) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses for the reporting periods. Since management's judgment involves estimates of the probability of future events, actual results may differ from the estimates.

4. CONSOLIDATION CRITERIA

The consolidated financial statements as of December 31, 2004 and 2003 have been prepared in accordance with the consolidation principles established by Brazilian accounting practices and regulatory instructions established by the CVM, and include the financial statements of the Company and its direct and indirect subsidiaries, as follows:

	<u>Ownership</u>	
	<u>interest - %</u>	
	<u>2004</u>	<u>2003</u>
Direct:		
Indústria e Comércio de Cosméticos Natura Ltda.	99.76	99.76
Natura Cosméticos S.A. - Chile	99.96	99.96
Natura Cosméticos S.A. - Peru	99.85	99.85
Natura Cosméticos S.A. - Argentina	99.99	99.99
Natura Brasil Cosmética Ltda. - Portugal	99.99	99.99
Commodities Trading S.A. - Uruguay	100.00	100.00
Nova Flora Participações Ltda.	100.00	99.43
Natura Inovação e Tecnologia de Produtos Ltda.	100.00	-
Natura Europa SAS	100.00	-
Indirect:		
Natura Logística e Serviços Ltda.	99.99	99.99
Flora Medicinal J. Monteiro da Silva Ltda.	100.00	100.00
Ybios S.A.	31.93	-

The consolidated financial statements have been prepared based on the financial statements as of the same date and consistent with the accounting practices described in Note 3. Investments in subsidiaries were proportionally eliminated against shareholders' equity and net income of the respective subsidiaries. Intercompany balances and transactions and unrealized profits were also eliminated. The minority interest in the Company's subsidiaries was shown separately. The financial statements of foreign subsidiaries were translated into Brazilian reais at the exchange rates in effect on the date of the related financial statements.

After the merger of Natura Empreendimentos S.A. in March 2004, as described in Note 1, the Company became the parent company of Natura Inovação e Tecnologia de Produtos Ltda., which was previously wholly owned by Natura Empreendimentos S.A..

In 2004, the Company acquired ownership interest in the companies Ybios S.A. and Natura Europa SAS, established in the same year.

The Company's shareholders' equity and net income as of December 31, 2004 and 2003 differ by R\$1,395 and R\$1,278, and R\$117 and R\$1,278, respectively, from the amounts stated in the consolidated financial statements, due to the elimination of the subsidiaries' unrealized profits.

Reconciliation between individual (Company) and consolidated net income and shareholders' equity:

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Company	300,411	65,162	437,452	122,616
Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries	<u>(117)</u>	<u>(1,278)</u>	<u>(1,395)</u>	<u>(1,278)</u>
Consolidated	<u>300,294</u>	<u>63,884</u>	<u>436,057</u>	<u>121,338</u>

The operations of the direct and indirect subsidiaries are as follows:

- Indústria e Comércio de Cosméticos Natura Ltda. - Engaged in the production and sale of Natura products to Natura Cosméticos S.A. - Brazil, Chile, Peru and Argentina, whose amounts are mentioned in Note 10.
- Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Brasil Cosmética Ltda. - Portugal, Commodities Trading S.A. - Uruguay - Their activities are an extension of the activities conducted by the parent company Natura Cosméticos S.A. - Brazil.
- Nova Flora Participações Ltda. - Holds equity interest in the subsidiary Flora Medicinal J. Monteiro da Silva Ltda.
- Natura Inovação e Tecnologia de Produtos Ltda. - Engaged in product research and development.
- Natura Europa SAS - Engaged in the purchase, sale, import, export and distribution of cosmetics, fragrances in general, and hygiene and health products.
- Natura Logística e Serviços Ltda. - Engaged in the provision of administrative and logistics services.
- Flora Medicinal J. Monteiro da Silva Ltda. - Engaged in the production and sale of phytotherapeutic products of its own brand.

- Ybios S.A. - Engaged in research, management and development of projects, products and services in the biotechnology area, and may also enter into agreements and/or partnerships with universities, foundations, companies, cooperatives, associations, and other public and private entities; provision of services in the biotechnology area; and holding of equity interest in other companies.

5. TEMPORARY CASH INVESTMENTS

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Bank certificates of deposit (CDBs)	128,841	26,482	165,583	57,527
Investment funds	<u>29,790</u>	<u>-</u>	<u>36,437</u>	<u>44,512</u>
	<u>158,631</u>	<u>26,482</u>	<u>202,020</u>	<u>102,039</u>

As of December 31, 2004, bank certificates of deposit (CDBs) are remunerated at rates ranging from 100% to 101.8% of the CDI (interbank deposit rate) (100% to 101.5% in 2003). Investment funds are remunerated at rates ranging from 99.5% to 105.5% of the CDI (100% to 106% in 2003).

6. TRADE ACCOUNTS RECEIVABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Trade accounts receivable	250,246	187,670	265,048	197,845
Allowance for doubtful accounts	(13,793)	(15,203)	(14,982)	(17,383)
Allowance for return of goods	-	(344)	-	(344)
	<u>236,453</u>	<u>172,123</u>	<u>250,066</u>	<u>180,118</u>

7. INVENTORIES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Finished products	1,604	354	57,105	35,163
Raw materials and packaging	2	-	62,327	42,486
Work in process	-	-	7,617	5,931
Promotional material	28	-	9,308	2,239
Imports in transit	-	-	-	824
Reserve for losses	-	-	(14,396)	(7,389)
	<u>1,634</u>	<u>354</u>	<u>121,961</u>	<u>79,254</u>

8. RECOVERABLE TAXES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
IRPJ (corporate income tax)	2,701	-	8,984	2,688
Social contribution tax	-	-	1,420	583
ICMS (state VAT)	1,184	715	6,129	1,827
IPI (federal VAT)	-	-	-	1,063
PIS/COFINS/CSLL - withheld at source	-	-	1,896	-
Other	-	-	<u>3,577</u>	<u>2,364</u>
	<u>3,885</u>	<u>715</u>	<u>22,006</u>	<u>8,525</u>
Long-term	876	-	3,848	-
Current	<u>3,009</u>	<u>715</u>	<u>18,158</u>	<u>8,525</u>

9. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Deferred

Deferred income and social contribution taxes recorded in the financial statements result from temporary differences (Company) and temporary differences and tax loss carryforwards (subsidiaries). These credits are recorded in current and long-term assets, in view of their expected realization based on projections of taxable income, considering the limit of 30% for annual offset of tax loss carryforwards against taxable income, pursuant to applicable legislation. The amounts are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current:				
Tax loss carryforwards	-	-	691	6,468
Temporary differences:				
Reserve for inventory losses	-	-	4,895	2,512
Allowance for doubtful accounts	4,829	5,169	4,829	5,169
Reserve for losses on swap contracts	1,545	3,064	2,087	3,064
Other	<u>5,824</u>	<u>2,802</u>	<u>9,128</u>	<u>4,883</u>
Deferred income and social contribution taxes	<u>12,198</u>	<u>11,035</u>	<u>21,630</u>	<u>22,096</u>
Long-term:				
Tax loss carryforwards	-	-	2,032	-
Temporary differences:				
Reserve for contingencies	12,058	7,368	18,399	8,562
Other	<u>566</u>	<u>610</u>	<u>870</u>	<u>885</u>
Deferred income and social contribution taxes	<u>12,624</u>	<u>7,978</u>	<u>21,301</u>	<u>9,447</u>

As required by CVM Resolution No. 273/98 and CVM Instruction No. 371/02, management, based on projections of results, estimates that the recorded tax credits will be fully realized within five years. The amounts recorded in long-term assets will be realized as follows:

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
2005	-	5,514
2006	1,644	1,102
2007	3,207	1,143
2008	9,796	1,688
2009	<u>6,654</u>	<u>-</u>
	<u>21,301</u>	<u>9,447</u>

b) Current expense

Reconciliation of income and social contribution taxes:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Income before taxes on income	377,380	85,320	387,395	104,188
Income and social contribution taxes at the rate of 34%	(128,309)	(29,009)	(131,714)	(35,424)
Equity in subsidiaries	948	6,314	-	-
Losses generated by subsidiaries	-	-	(6,317)	(7,430)
Deferral of exchange variation	-	(1,290)	-	(1,290)
Interest on capital	10,011	3,417	10,011	3,417
Reversal of provision for maintenance of dividend payment capacity	41,611	-	41,611	-
Other	<u>(1,230)</u>	<u>410</u>	<u>(693)</u>	<u>363</u>
Income and social contribution taxes	<u>(76,969)</u>	<u>(20,158)</u>	<u>(87,102)</u>	<u>(40,364)</u>
Current income and social contribution taxes	(81,497)	(28,494)	(96,736)	(43,892)
Deferred income and social contribution taxes	<u>4,528</u>	<u>8,336</u>	<u>9,634</u>	<u>3,528</u>
	<u>(76,969)</u>	<u>(20,158)</u>	<u>(87,102)</u>	<u>(40,364)</u>

10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current assets:				
Accounts receivable:				
Indústria e Comércio de Cosméticos Natura Ltda. (a)	-	49	-	-
Natura Logística e Serviços Ltda. (a)	-	58	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (a)	-	8	-	1,234
Nova Flora Participações Ltda. (b)	833	-	-	-
Natura Participações S.A. (c)	-	-	-	14
Natura Empreendimentos S.A. (c)	-	-	-	27
Dividends receivable:				
Indústria e Comércio de Cosméticos Natura Ltda.	-	<u>25,722</u>	-	-
	<u>833</u>	<u>25,837</u>	-	<u>1,275</u>
Long-term assets:				
Loans:				
Natura Participações S.A. (d)	-	<u>3,382</u>	-	<u>3,382</u>
Advance for future capital increase:				
Nova Flora Participações Ltda. (e)	<u>770</u>	<u>9,503</u>	-	-
Receivables from sale of shares (f)	<u>172</u>	-	<u>172</u>	-
Current liabilities:				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. (g)	85,874	10,379	-	-
Natura Logística e Serviços Ltda. (h)	8,028	3,265	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (i)	<u>8,249</u>	<u>5,304</u>	-	<u>5,304</u>
	<u>102,151</u>	<u>18,948</u>	-	<u>5,304</u>
Loans:				
Natura Empreendimentos S.A. (d)	-	<u>791</u>	-	<u>816</u>
Accounts payable				
Natura Inovação e Tecnologia de Produtos Ltda.	94	-	-	-
Natura Participações S.A. (j)	-	148	-	148
	<u>94</u>	<u>939</u>	-	<u>964</u>
Dividends payable:				
Natura Empreendimentos S.A.	-	20,000	-	20,000
Shareholders	<u>113,644</u>	-	<u>113,644</u>	-
	<u>113,644</u>	<u>20,000</u>	<u>113,644</u>	<u>20,000</u>
Interest on capital payable:				
Natura Empreendimentos S.A.	-	8,541	-	8,541
Shareholders	<u>13,623</u>	-	<u>13,623</u>	-
	<u>13,623</u>	<u>8,541</u>	<u>13,623</u>	<u>8,541</u>

Transactions with related parties are summarized as follows:

	Product sales		Product purchases	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Natura Cosméticos S.A.	-	-	924,649	765,789
Indústria e Comércio de Cosméticos Natura Ltda.	949,674	783,541	-	-
Natura Cosméticos S.A. - Argentina	-	-	13,353	9,292
Natura Cosméticos S.A. - Peru	-	-	6,800	4,899
Natura Cosméticos S.A. - Chile	-	-	4,374	2,803
Natura Europa SAS	-	-	317	-
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	164	390
Flora Medicinal J. Monteiro da Silva Ltda.	-	-	17	368
	<u>949,674</u>	<u>783,541</u>	<u>949,674</u>	<u>783,541</u>
	Service sales		Service purchases	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Guarantees commission: (j)				
Natura Empreendimentos S.A.	-	1,904	-	-
Natura Cosméticos S.A.	-	-	-	1,692
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	-	201
Natura Logística e Serviços Ltda.	-	-	-	11
	<u>-</u>	<u>1,904</u>	<u>-</u>	<u>1,904</u>
Administrative structure: (k)				
Natura Logística e Serviços Ltda.	118,749	87,043	-	-
Natura Cosméticos S.A.	-	-	84,297	60,793
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	24,355	17,671
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	10,097	8,549
Flora Medicinal J. Monteiro da Silva Ltda.	-	-	-	30
	<u>118,749</u>	<u>87,043</u>	<u>118,749</u>	<u>87,043</u>
Product research and development: (l)				
Natura Inovação e Tecnologia de Produtos Ltda.	71,914	52,247	-	-
Natura Cosméticos S.A.	-	-	71,865	52,247
Ybios S.A.	-	-	49	-
	<u>71,914</u>	<u>52,247</u>	<u>71,914</u>	<u>52,247</u>
Lease of properties and common charges: (m)				
Indústria e Comércio de Cosméticos Natura Ltda.	8,627	5,031	116	-
Natura Cosméticos S.A.	136	-	1,049	-
Natura Logística e Serviços Ltda.	-	-	5,804	3,238
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	1,753	1,301
Natura Empreendimentos S.A.	-	-	27	323
Natura Participações S.A.	-	-	14	169
	<u>8,763</u>	<u>5,031</u>	<u>8,763</u>	<u>5,031</u>
Total service sales/purchases	<u>199,426</u>	<u>146,225</u>	<u>199,426</u>	<u>146,225</u>

- (a) Receivables from sales of Natura products to employees.
- (b) Amount receivable due to the capital reduction made on January 30, 2004, approved by the shareholders' meeting held on the same date.
- (c) Receivables from leases of properties as described in item (m).
- (d) Loan from Natura Cosméticos S.A.
- (e) Cash contributions to Nova Flora Participações Ltda. mainly for maintenance of working capital.
- (f) On September 29, 2000, April 30, 2002, December 30, 2002 and January 5, 2004, Natura Empreendimentos S.A. and Natura Participações S.A. issued restricted shares to two of its principal Directors in exchange for financings totaling R\$6,174, which accrue interest at a 3% per year and mature between April 30, 2009 and September 30, 2010. In the corporate restructuring completed in March 2004, these shares were exchanged for common shares issued by Natura Cosméticos S.A. These financings, which amounted to R\$4,823 as of December 31, 2004 (R\$5,492 in 2003.), are paid by dividends and interest on capital on the restricted shares.
- (g) Payables for the purchase of products. Prices and terms are within normal market conditions.
- (h) Payables for services described in item (k).
- (i) Payables for services described in item (l).
- (j) Guarantees of Natura Empreendimentos S.A. and Natura Participações S.A., merged into the Company, as mentioned in Note 1.
- (k) Logistics and general administrative services.
- (l) Product and market research and development.
- (m) Rental of the industrial complex located in Cajamar and several units that compose Natura's facilities.

The main intercompany balances as of December 31, 2004 and 2003, as well as the intercompany transactions that affected the results for the years refer to transactions between the Company and its subsidiaries, which were substantially carried out under usual market conditions for each type of transaction.

11. INVESTMENTS

Investments are comprised of:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Investments in subsidiaries	373,748	332,698	-	-
Goodwill on acquisition of investment - Nova Flora				
(i)	-	-	8,015	8,015
Amortization of goodwill	-	-	(5,487)	(5,206)
Intangible recorded on acquisition of commercial				
location - Natura Europa (ii)	-	-	6,179	-
	<u>373,748</u>	<u>332,698</u>	<u>8,707</u>	<u>2,809</u>

- (i) The goodwill on the acquisition made by the subsidiary Nova Flora Participações Ltda. is being amortized on a straight-line basis over ten years and is supported by an appraisal report issued by independent appraisers, based on the expectation of future profitability as of December 31, 2003, which was reviewed and updated by the Company's management.
- (ii) Represents an intangible recorded by the Company relating to the purchase of a commercial location where Natura Europa SAS will operate.

Natura Cosméticos S.A.

Investments in direct subsidiaries are as follows:

	Indústria e Comércio de Cosméticos Ltda.	Natura Cosméticos S.A. - Chile	Natura Cosméticos S.A. - Peru	Natura Cosméticos S.A. - Argentina	Natura Brasil Cosmética Ltda. - Portugal	Commodities Trading S.A. - Uruguai	Nova Flora Participações Ltda.	Natura Inovação e Tec. de Prod. Ltda.	Natura Europa SAS	Total
Shares of subsidiaries	328,992	43,780	22,016	65,285	18	297	2,413	5,008	14,115	
Number of shares (common shares) held	328,202	43,762	21,983	65,278	18	297	2,413	5,008	14,115	
Ownership interest - %	99.76%	99.96%	99.85%	99.99%	99.99%	100%	100%	100%	100%	
Capital	328,992	43,780	22,016	65,285	18	297	2,413	5,008	14,115	
Shareholders' equity of subsidiaries	349,223	346	2,940	2,966	(64)	20	1,028	8,214	9,854	374,527
Share in shareholders' equity	348,385	346	2,936	2,965	(64)	20	1,028	8,214	9,854	373,684
Net income (loss) of subsidiaries	19,859	(4,171)	(431)	(6,333)	(74)	(2)	(1,360)	9	(4,664)	2,833
Book value of Company investment:										
Balances as of December 31, 2003	328,574	639	1,921	1,531	11	22	-	-	-	332,698
Increase in investments	-	3,876	1,445	7,766	-	-	9,503	-	14,518	37,108
Increase in investment due to the merger of Natura Empreendimentos S.A.	-	-	-	-	-	-	-	8,205	-	8,205
Equity in subsidiaries	19,811	(4,169)	(430)	(6,332)	(75)	(2)	(1,360)	9	(4,664)	2,788
Dilution of sharequotas of Natura Cosméticos S.A.	-	-	-	-	-	-	(833)	-	-	(833)
Recognition (reversal) of provision for losses	-	-	-	-	64	-	(6,282)	-	-	(6,218)
Balances as of December 31, 2004	<u>348,385</u>	<u>346</u>	<u>2,936</u>	<u>2,965</u>	<u>-</u>	<u>20</u>	<u>1,028</u>	<u>8,214</u>	<u>9,854</u>	<u>373,748</u>
Provision for losses in long-term liabilities:										
Balances as of December 31, 2003	-	-	-	-	-	-	(6,282)	-	-	(6,282)
Reversal of provision	-	-	-	-	-	-	6,282	-	-	6,282
Recognition of provision	-	-	-	-	(64)	-	-	-	-	(64)
Balances as of December 31, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(64)</u>

The provision for losses on investments, recognized due to the shareholders' deficit of the subsidiary Nova Flora Participações Ltda., was reversed on January 31, 2004, as a result of the capitalization of this company.

12. PROPERTY, PLANT AND EQUIPMENT

Is comprised of:

	Annual depreciation rate - %	Company					
		2004			2003		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Machinery and equipment	10	960	610	350	888	700	188
Vehicles	20	13,071	4,788	8,283	9,143	3,577	5,566
Furniture and fixtures	10	3,929	3,031	898	3,844	2,726	1,118
IT equipment	20	6,868	5,624	1,244	6,497	5,006	1,491
Software licenses	20	3,079	1,226	1,853	2,578	704	1,874
Leasehold improvements	12	756	157	599	553	128	425
Advances to suppliers	-	-	-	-	78	-	78
Other	-	6	2	4	6	2	4
		<u>28,669</u>	<u>15,438</u>	<u>13,231</u>	<u>23,587</u>	<u>12,843</u>	<u>10,744</u>

	Annual depreciation rate - %	Consolidated					
		2004			2003		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Buildings	4	126,990	19,166	107,824	126,925	14,165	112,760
Installations	10	64,486	24,757	39,729	62,809	18,872	43,937
Machinery and equipment	10	76,549	32,305	44,244	66,137	25,622	40,515
Vehicles	20	19,953	7,816	12,137	14,859	5,772	9,087
Molds	33	26,879	20,703	6,176	21,084	12,876	8,208
Furniture and fixtures	10	12,809	6,825	5,984	11,114	5,812	5,302
IT equipment	20	31,910	19,094	12,816	25,765	16,159	9,606
Software licenses	20	12,477	5,379	7,098	8,981	2,881	6,100
Leasehold improvements	12	774	175	599	571	147	424
Land	-	15,910	-	15,910	15,910	-	15,910
Advances to suppliers	-	19,742	-	19,742	1,534	-	1,534
Construction in progress	-	21,478	-	21,478	-	-	-
Other	-	9,856	4,771	5,085	5,147	4,791	356
		<u>439,813</u>	<u>140,991</u>	<u>298,822</u>	<u>360,836</u>	<u>107,097</u>	<u>253,739</u>

13. DEFERRED CHARGES

As mentioned in Note 1, on March 5, 2004, Natura Participações S.A. and its wholly owned subsidiary, Natura Empreendimentos S.A., were merged into the Company. Natura Participações S.A. had recorded goodwill on the investment in Natura Empreendimentos S.A. amounting to R\$1,028,041 and a corresponding provision for maintenance of dividend payment capacity. This goodwill arose from the merger of the shares of Natura Empreendimentos S.A. into Natura Participações S.A. on December 27, 2000. This restructuring was approved by the Extraordinary Shareholders' Meeting held on that date, and the amounts are supported by a valuation report issued by independent experts.

The amounts are as follows:

	<u>Company</u>	
	<u>2004</u>	<u>2003</u>
Goodwill on investments	905,655	-
Provision for maintenance of dividend payment capacity	<u>(905,655)</u>	<u>-</u>
	<u> -</u>	<u> -</u>

The provision for maintenance of dividend payment capacity will result in the recognition of the goodwill amortization tax benefits for all of the Company's shareholders. The goodwill amount is being amortized over a seven-year period.

Natura Cosméticos S.A.

14. LOANS AND FINANCING

Type	Company		Consolidated		Maturity	Charges	Guarantees
	2004	2003	2004	2003			
Floating Rate Notes	-	58,989	-	58,989	March 2004	7.6% + exchange variation (dollar)	Promissory notes and guarantee of Natura Empreendimentos S.A. and Natura Participações S.A.
FINEP (Financing Agency for Studies and Projects)	-	-	36,545	-	December 2008	Interest of 3.0% per year + TJLP (long-term interest rate)	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
BNDES (Brazilian Bank for Economic and Social Development)	31,131	42,294	31,131	42,294	August to October 2007	73% (71% in 2003) - interest of 4.0% per year + TJLP 27% (29% in 2003) - interest of 4.0% per year + UMBNDES (**)	Mortgage and bank guarantee
Loans (onlending - IFC [International Finance Corporation])	-	-	26,654	-	December 2011	Semi-annual LIBOR + 6.1% per year + exchange variation (dollar)	Promissory notes and guarantee of Natura Cosméticos S.A.
Resolution No. 2.770 and overdraft account	-	-	27,828	-	March 2005	Interest of 105% of CDI (interbank deposit rate)	Promissory notes and guarantee of Natura Cosméticos S.A.
Loans - Argentina	-	-	6,706	-	December 2005	Interest of 9.5% per year + exchange variation (pesos)	Guarantee of Natura Cosméticos S.A.
BNDES-FINAME (Government Agency for Machinery and Equipment Financing)	-	-	3,768	2,786	April 2005 and June 2009	Interest of 5.2% per year + TJLP	Chattel mortgage and guarantee of Natura Empreendimentos S.A. and Natura Cosméticos S.A.
BNDES-Poc (*)	297	2,009	297	2,009	February 2005	Interest of 4.5 % per year + TJLP	Guarantee of Natura Cosméticos S.A.
BNDES	-	-	-	1,269	March 2004	Interest of 3.5% per year + TJLP	Chattel mortgage and guarantee of Natura Empreendimentos S.A. and Natura Cosméticos S.A.
Loans - France	-	-	1,088	-	March 2005	Euro Libor + 2.0% per year + exchange variation (euro)	Guarantee of Natura Cosméticos S.A.
Loans - Chile	-	-	372	-	January 2005	Interest of 4.6% per year + exchange variation (pesos)	Guarantee of Natura Cosméticos S.A.
ACE (advance on export contracts)	-	-	-	741	December 2004	Interest of 2.8% per year + exchange variation (dollar)	Promissory notes and guarantee of Natura Empreendimentos S.A.
Total	<u>31,428</u>	<u>103,292</u>	<u>134,389</u>	<u>108,088</u>			
Current	11,879	72,240	62,407	75,102			
Long term	<u>19,549</u>	<u>31,052</u>	<u>71,982</u>	<u>32,986</u>			

(*)Poc - Proposal of Credit Operation

(**)UMBNDES - BNDES monetary unit

Maturities of long-term debt are as follows:

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
2005	-	12,352
2006	25,359	11,572
2007	21,714	9,018
2008	13,470	44
2009	3,847	-
2010	3,790	-
2011	<u>3,802</u>	<u>-</u>
	<u>71,982</u>	<u>32,986</u>

Financing in local currency from the BNDES is guaranteed mainly by the Cajamar unit.

Loans related to floating rate notes were represented by short-term credit lines, primarily for maintenance of working capital, and were settled in March 2004.

15. TAXES PAYABLE

Taxes payable are represented by:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
ICMS (state VAT)	48,640	30,922	48,650	34,008
IPI (federal VAT)	-	-	431	-
COFINS (tax on revenue)	382	284	4,424	6,159
PIS (tax on revenue)	84	88	960	1,386
Income tax	-	687	159	876
Social contribution tax	-	222	-	327
Withholding income tax	2,873	19,647	4,084	20,319
PIS/COFINS/CSLL (Law No. 10,633/03)	770	-	1,095	-
Other	<u>27</u>	<u>-</u>	<u>2,579</u>	<u>1,222</u>
	<u>52,776</u>	<u>51,850</u>	<u>62,382</u>	<u>64,297</u>

In 2003, the balances recorded under the heading “Withholding income tax” referred mainly to withholding income tax on debentures.

16. RESERVE FOR CONTINGENCIES

The Company and its subsidiaries are parties to tax, labor and civil lawsuits and to tax proceedings at the administrative level. Based on the opinion of its external legal counsel, management believes that the reserve for contingencies is sufficient to cover probable losses from unfavorable judgments.

The balances of contingencies are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Tax	36,970	22,206	53,190	23,866
Labor	2,198	2,411	3,244	2,935
Civil	601	253	3,125	1,580
	<u>39,769</u>	<u>24,870</u>	<u>59,559</u>	<u>28,381</u>

Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (a)	8,057	5,223	8,057	5,223
Monetary restatement of federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (b)	4,694	4,753	4,814	4,874
Tax assessment - INSS (social security contribution) (c)	4,371	3,836	4,371	3,836
IPI (federal VAT) - Tax collection lawsuit (d)	3,353	2,954	3,353	2,954
PIS (tax on revenue) - Semiannual - Decree-laws No. 2445/88 and 2449/88 (e)	11,039	-	12,370	-
IPI - zero rate (f)	-	-	13,604	-
Attorneys' fees and other	5,456	5,440	6,621	6,979
	<u>36,970</u>	<u>22,206</u>	<u>53,190</u>	<u>23,866</u>

- (a) Refers to social contribution tax that was addressed by a mandate that questions the constitutionality of Law No. 9316/96, which prohibited the deduction of CSLL from its own tax basis and the IRPJ (corporate income tax) basis. A portion of this contingency, in the amount of R\$ 3,245, is still deposited in escrow at December 31, 2004.
- (b) Refers to the monetary restatement of federal taxes (IRPJ/CSLL/ILL) related to 1991 based on the UFIR, discussed in a mandate. An escrow deposit has been made for the amount involved in this contingency.
- (c) Refers to the social security contribution (INSS) required by tax assessments issued by the National Institute of Social Security as a result of an inspection. The Company, as a taxpayer having joint liability for tax payment, is required to pay INSS on services provided by third parties. The amounts are discussed in court through a tax debt annulment action and are deposited in escrow.
- (d) Refers to a tax collection lawsuit seeking to collect the IPI related to July 1989, when wholesale establishments began to be considered equivalent to industrial establishments under Law No. 7798/89. The amounts involved in this tax collection lawsuit are guaranteed through the blocking of an affiliated company's bank account.

- (e) Refers to the offset of PIS paid as per decree-laws Nos. 2445/88 and 2449/88, in the period from 1988 to 1995, against federal taxes due in 2003 and 2004.
- (f) Refers to IPI tax credits on raw materials and packing materials purchased at a zero tax rate. The Company filed for a mandate and was granted an injunction for the right to the credit.

Labor contingencies

As of December 31, 2004, the Company and its subsidiaries are parties to 163 labor lawsuits filed by former employees and third parties (168 in 2003), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability.

Civil contingencies

As of December 31, 2004, the Company and its subsidiaries are parties to 571 lawsuits (263 in 2003) at the civil court, special civil court and Procon (Consumer Protection Agency), filed by beauty consultants, consumers and former employees, mostly related to indemnity claims.

Escrow deposits

Escrow deposits, which represent the Company's restricted assets, refer to amounts deposited in court until litigation is resolved. The balance of these deposits as of December 31, 2004 was R\$ 24,256 (R\$ 14,595 in 2003) - Consolidated, and is classified under the heading Escrow Deposits in long-term assets.

Possible losses

The Company and its subsidiaries are parties to tax, civil and labor lawsuits, for which the risk of loss is considered possible by management and its legal counsel. These lawsuits, for which the Company did not record any reserve, are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Tax:</u>				
IPI credit on purchases of fixed assets (a)	-	-	9,245	4,702
INSS debt annulment action (b)	4,199	3,686	4,199	3,686
Tax assessment - transfer pricing on loan agreements (c)	1,707	-	1,707	-
ICMS tax collection lawsuit - Pernambuco State (d)	-	1,043	-	1,043
Tax assessment - PIS debt (e)	-	2,042	-	2,042
Other	<u>2,388</u>	<u>2,288</u>	<u>2,860</u>	<u>2,664</u>
	8,294	9,059	18,011	14,137
Civil	6,109	5,462	7,799	9,438
Labor	<u>7,933</u>	<u>2,216</u>	<u>19,094</u>	<u>3,296</u>
Total	<u>22.336</u>	<u>16.737</u>	<u>44.904</u>	<u>26.871</u>

- (a) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through mandates, the right to the IPI credit on purchases of fixed assets and consumption materials.

- (b) Lawsuit filed by the Company seeking the annulment of the tax demanded by the INSS through a tax assessment notice issued for purposes of collecting the social security contribution on the allowance for vehicle maintenance paid to sales promoters.
- (c) Refers to a tax assessment notice whereby the Federal Revenue Service is demanding the payment of IRPJ and CSLL on the difference of interest on loan agreements with foreign related parties. On July 12, 2004, an administrative defense was filed and is still being judged.
- (d) Refers to an ICMS tax collection lawsuit whereby the State Finance Department intended to collect amounts that have already been paid by the Company. After proof of tax payment was presented, the State Finance Department requested, on November 3, 2004, the dismissal of the lawsuit without sentencing the Company to pay court costs and legal fees.
- (e) Tax assessment notice for collection of PIS on differences between the tax bases as per Complementary Law No. 7/70 and Decree-laws No. 2445/88 and No. 2449/88. In view of former decisions by both the Board of Tax Appeals and the Federal Supreme Court, the Company and its legal counsel understand that the risk of loss for 2004 is remote.

17. MANAGEMENT AND EMPLOYEE PROFIT SHARING

The Company and its subsidiaries pay its employees and management a share of their profits, which is tied to operational and other specific targets, and approved at the beginning of each year. As of December 31, 2004, this profit sharing was recorded in the amount of R\$34,990 (R\$20,466 in 2003) under the heading “Salaries, profit sharing and related charges” in Consolidated and “Operating expenses” in the statements of income.

The portion related to management profit sharing is R\$5,758 as of December 31, 2004 (R\$3,776 in 2003).

18. DEBENTURES

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
Current liabilities-		
Debentures	-	<u>102,170</u>
Long-term liabilities-		
Debentures	-	<u>130,656</u>

The Extraordinary Shareholders’ Meeting on April 14, 1998 authorized the issue of 140,000,000 registered, endorsable and nonconvertible debentures in the amount of R\$140,000, with no predetermined maturity date, for the indirect controlling shareholders of the Company. From 1998 to 2003, 130,656,000 debentures were subscribed, totaling R\$130,656.

Authorized debentures entitle their holders to a yield based on the amount of debentures issued of up to 70% of income before provision for income tax as of March 31, June 30, September 30, September 30 and December 31 of each year.

Starting in 2002, the method of calculating debentures is represented by the share of debentures on shareholders' equity and the value of the debentures, applied on the issuer's income before provision for income tax as of June 30, and December 31, of each year.

At the Extraordinary Shareholders' Meeting held on March 2, 2004, after approval by the debenture holders at the Debenture Holders' Meeting held on February 27, 2004, it was decided that 130,656,000 debentures issued by the Company, corresponding to R\$238,569 (R\$130,656 - principal of the debentures, and R\$107,913 - debentures payable, as of January 31, 2004, net of withholding income tax - the effect on net income for the period was R\$7,178), would be capitalized by the Company in the form of a capital increase of R\$138,569, representing 3,299 common shares, and the recognition of a capital reserve amounting to R\$100,000. The effects of this corporate act are discussed in Note 19.b).

19. SHAREHOLDERS' EQUITY

a) Merger of companies

At the Extraordinary Shareholders' Meeting held on March 5, 2004, the Company's shareholders approved the merger of Natura Empreendimentos S.A. and Natura Participações S.A. into the Company based on an accounting valuation supported by a valuation report issued by independent experts.

The net assets merged into the Company were R\$104,951 for Natura Empreendimentos S.A. and R\$75,716 for Natura Participações S.A., based on the book values of these companies.

b) Capital

As of December 31, 2003, the Company's capital was R\$56,387, divided into 25,000 common shares without par value and 10,955 preferred shares without par value.

On March 2, 2004, the shareholders decided at an Extraordinary Shareholders' Meeting to: (i) capitalize the credits arising from the redemption of the subordinated debentures held by them and from the net remuneration on the debentures through January 31, 2004; and (ii) split the shares issued by the Company in the proportion of 2,099 new shares for each existing share. The total amount of the capitalized credits was R\$238,569, and was allocated to a capital reserve in the amount of R\$100,000 and a capital increase in the amount of R\$138,569, representing 3,299 new common shares at an issuance price of R\$72,300 per share. These shares were subsequently split in the proportion of 2,099 new shares for each existing share, resulting in capital of R\$194,956, divided into 59,399,601 common shares and 22,994,545 preferred shares. In the Shareholders' Meeting held on March 5, 2004, the shareholders approved, among other matters:

b.1) Merging Natura Participações S.A. and Natura Empreendimentos S.A., into the Company.

b.2) Canceling the Company shares held by the merged parent companies.

b.3) Amending the bylaws to R\$196,371, represented by 83,266,061 shares.

On May 24, 2004, the Board of Directors' Meeting approved an increase in the Company's capital within the limit of authorized capital, due to the exercise of the right to convert the debentures issued by the Company and fully subscribed by BNDES Participações S.A. into common shares of the Company, as allowed by the Private Indenture of Issuance of Registered Debentures Convertible into Common Shares, dated February 23, 2001.

Consequently, 2,172,550 registered common shares without par value, totaling R\$34,391, were subscribed, and the Company's capital was changed from R\$196,371, represented by 83,266,061 common shares, to R\$230,762, represented by 85,438,611 common shares.

As of December 31, 2004, the Company's capital is R\$230,762. The subscribed and paid-up capital is represented by 85,438,611 common shares without par value.

c) Receivables from management

In 2004, the amount of R\$3,029 was reclassified from the heading "Receivables from shareholder" to the heading "Capital reserve" until it is paid up. Details are disclosed in Note 10.f.

d) Interest on capital

The Company's management proposed in an executive board meeting the payment of interest on capital pursuant to its bylaws, CVM Resolution No. 207/86 and Law No. 9,249/95. As of December 31, 2004, the gross amount of interest on capital is R\$ 29,442 (R\$10,049 in 2003) and was calculated in accordance with statutory limits, also with respect to the mandatory minimum dividend of 30% (25% in 2003) in accordance with article 203 of Law No. 6404/76 and the Company's bylaws.

Income tax was withheld and paid by the Company.

e) Dividend payment policy

Each year, shareholders are entitled to a minimum dividend equivalent to 30% (25% in 2003) of net income for the year, considering principally the following adjustments:

- The increase in the amounts resulting from the reversal, in the year, of reserves for contingencies, recognized previously.
- The decrease in the amounts intended for the recognition, in the year, of the legal reserve and reserve for contingencies.

The bylaws allow the Company to prepare semi-annual and interim balance sheets, and based on these balance sheets, authorize the payment of dividends upon approval by the Board of Directors.

The Company paid, in August 2004, dividends and interest on capital in the amounts of R\$73,266 and R\$11,403, respectively, for the first half of the year. The remaining balance of dividends and interest on capital, in the amounts of R\$113,644 and R\$13,623, respectively, will be paid in 2005.

Dividends were calculated as follows:

	<u>Company</u>	
	<u>2004</u>	<u>2003</u>
Net income	300,411	65,162
Profit reserve - legal	<u>(15,021)</u>	<u>(3,258)</u>
Calculation basis for minimum dividends	285,390	61,904
Mandatory minimum dividends	30%	25%
Annual minimum dividends	85,617	15,476
Supplementary dividends	-	3,668
Proposed dividends	186,910	20,000
Interest on capital, net of withholding income tax	25,026	8,542
Withholding income tax	<u>4,416</u>	<u>1,507</u>
Total interest on capital and dividends	<u>216,352</u>	<u>33,717</u>
Amount exceeding the mandatory minimum dividend	130,735	18,241
Dividends per share - R\$	2.204	0.658
Interest on capital per share - R\$	0.347	0.279

f) Treasury shares

As of December 31, 2004, common shares in treasury totaled 651,849, at an average cost of R\$1.6970.

g) Share premium

Refers to the goodwill generated on the issuance of 3,299 common shares resulting from the capitalization of debentures in the amount of R\$100,000, as further detailed in item b) above.

h) Reserve for profit retention

As of December 31, 2004 and 2003, this reserve was recorded in accordance with article 196 of Law No. 6,404/76 to be used in future investments, in the amounts of R\$76,024 and R\$31,855, respectively. The reserve recorded in 2003 was used on March 5, 2004 for absorbing excess liabilities arising from the merger of the companies Natura Empreendimentos S.A. and Natura Participações S.A. See details in item b) above.

20. STOCK OPTION PROGRAM

In 1998, the extinguished Natura Empreendimentos S.A. approved an incentive policy for certain directors and managers of the group's companies, through which they would be entitled to purchase shares. Subsequently, this Program was also assumed by the extinguished Natura Participações S.A., and the general bases of the Stock Option Grant Program (the "Program") remained unchanged.

On March 5, 2004, the Shareholders' Meeting of Natura Cosméticos S.A. approved the merger of Natura Empreendimentos S.A. and Natura Participações S.A. into the Company, at which time the Company assumed the Program. On March 25, 2004, the Company completed an initial public offering in Brazil and modified the Program to remove the Company's obligation to re-purchase the shares subject to the plan and change the basis for determination of the stock option strike price.

The Board of Directors meets once a year for the purpose of, within the Program's general bases, establishing the Plan, indicating the directors and managers who will receive the options and the total amount to be paid.

Before the Company completed its initial public offering, the amount established for exercising the options was updated according to inflation levels as measured by the Extended Consumer Price Index (IPC-A), and the Company had the obligation to repurchase the shares. The plans for 2000, 2001, 2002, 2003 and 2004 were approved under these rules.

The plans for 2000 and 2001 have a 3-year time span for exercising the options, that is, the right to exercise options will be based on 1/3 per year. The plans for 2002, 2003 and 2004 have a four-year time span for exercising the options, and the exercise rights are 50% at the end of the third year and 50% at the end of the fourth year.

Subsequent to the Company's initial public offering, the Company's management, in a meeting held on April 26, 2004, changed these Programs to remove the requirement of the Company to re-purchase shares pursuant to the Program, and modified the criteria for determining the purchase or subscription price of the shares, which became the average market price of the Company's common shares at BOVESPA over the last ten sessions. The option strike price is still updated based on the IPC-A inflation index. The deadline for exercising the options received is two years, counted from the date when all the holder's options have matured (became exercisable).

The information related to the stock option plans is summarized as follows:

Number of stock options (in shares):

Balance of options as of February 1, 2004 (after merger of Natura Participações S.A.)	2,476,351
Cancelled options	(75,146)
Exercised options (*)	(985,877)
Distributed options	<u>380,292</u>
Balance of options as of December 31, 2004	<u>1,795,620</u>

(*)Breakdown of exercised options through December 31, 2004.

Options converted into shares and sold	841,064
Options converted into shares and held	<u>144,813</u>
Total options exercised	<u>985,877</u>

Options converted into shares and sold generated a cash disbursement in the amount of R\$ 11,086, resulting from the difference between the amount paid by option holders in the amount of R\$16,574 and the amount of R\$27,660 paid by Natura Cosméticos S.A. in the repurchase.

Balance of call options by plan:

	Number of call options (in shares)	Amount for the year updated according to the IPCA through <u>December 31, 2004</u>
2000	10,348	17.65
2001	84,513	18.51
2002	585,786	25.69
2003	743,439	14.39
2004	<u>371,534</u>	35.41
Total	<u><u>1,795,620</u></u>	

As mentioned above, as from the Company's initial public offering, the Company is no longer required to repurchase the shares subject to the Program, and, since the recording of the provision related to the stock option program as set forth in CVM Official Circular No. 01/2004 is no longer mandatory and is not a practice adopted by publicly-traded companies in Brazil, the amount of R\$9,564 related to this provision was reversed as of June 30, 2004, against the administrative expenses account, in the amount of R\$2,578, and retained earnings, in the amount of R\$6,986. The amount of R\$6,986 recorded in the retained earnings account is due to the fact that the provision was originated in the company Natura Participações S/A and received by Natura Cosméticos S/A as net assets in the merger process of March 2004, as disclosed in Note 1, and therefore had no effect on the income of Natura Cosméticos S/A.

As of December 31, 2004, had the Company's management opted to record the effects of the Program based on the intrinsic value of the options (the difference between market price as of December 31, 2004 and the option value updated according to the IPC-A) recorded over their related vesting period, the pro forma consolidated net income for the year ended December 31, 2004 would have been R\$242,981, as shown below:

	<u>2004</u>
Net income - Company	300,294
Effect of plans considering maturity period	<u>(57,313)</u>
Net income - pro forma	<u><u>242,981</u></u>

The pro forma net income includes all estimated effects for the shareholders arising from the probable exercise of the options.

As of December 31, 2004, the market price of the Company's shares was R\$77.50.

21. PENSION PLAN

On August 1, 2004, the Company implemented a supplementary defined contribution plan for all employees of Natura and its subsidiaries. According to the terms of this plan, the cost is shared between the employer and the employees, so that the Company's share is equivalent to 60% of the employee's contribution according to a contribution scale based on salary ranges from 1.0% to 5.0% of the employee's compensation. The plan is managed by Brasilprev Seguros e Previdência S.A. and the Company's contributions for the year ended December 31, 2004 totaled R\$1,313.

22. FINANCIAL INSTRUMENTS

a) General conditions

The Company and its subsidiaries enter into transactions involving financial instruments, all recorded in balance sheet accounts, to meet their own needs, and reduce exposure to market, currency, and interest rate risks. These risks and the respective financial instruments are managed through the definition of strategies, establishment of control systems, and determination of exchange exposure limits.

Temporary cash investments are mainly made at negotiated rates of return, since the Companies intend to hold these investments to redemption. These investments reflect market conditions at the balance sheet dates.

Loans and financing are recorded at the contractual interest rates of each transaction.

b) Exchange risk

The Company has entered into swap and forward transactions to hedge against exchange variation on its liabilities resulting from financing agreements. According to the Company's policy, swap transactions must be contracted for all debts that may expose the Company to exchange risks. These transactions consist of swaps between two variable rates: foreign currency and CDI (interbank deposit rate).

As of December 31, 2004 and 2003, the Company had swap and forward transactions with financial institutions in the amounts of R\$74,007 and R\$65,558, respectively. These transactions generated losses of R\$6,138 and R\$9,012 respectively, recorded in current liabilities. The exchange exposure is substantially indexed to the U.S. dollar.

The Company and its subsidiaries do not have derivative financial instruments.

c) Interest rate risk

The Company and its subsidiaries are exposed to fluctuations in the long-term interest rate (TJLP) due to the financing agreements entered into with the BNDES.

d) Fair values

As of December 31, 2004 and 2003, the fair values of cash and banks, temporary cash investments, and accounts receivable and payable approximate the amounts recorded in the financial statements due to their short term. The fair values of loans and financing substantially approximate the amounts recorded in the financial statements since these financial instruments have variable interest rates. As of December 31, 2003, the fair values of debentures were equivalent to those recorded in the financial statements, since the Company had the option to pay these debentures at any moment at book value. As mentioned in Note 18, in March 2004, as part of the corporate restructuring, the debentures were transferred to the Company's shareholders' equity.

The book and fair values of swap and forward transactions are as follows:

	Consolidated			
	2004		2003	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Swap and forward transactions	<u>6.138</u>	<u>6.494</u>	<u>9.012</u>	<u>6.783</u>

e) Credit risk

The Company's sales are made to a large number of beauty consultants. The Company manages the credit risk through a strict credit granting process.

23. INSURANCE

The Company and its subsidiaries contract insurance based principally on risk concentration and significance, at amounts considered by management to be sufficient, taking into consideration the nature of its activities and opinion of its insurance advisors. As of December 31, 2004, the insurance coverage was as follows:

<u>Items</u>	<u>Coverage</u>	<u>Insured amount</u>
Industrial complex/inventories	Any material damages to buildings, installations and machinery and equipment	384,862
Vehicles	Fire, theft and collision for 816 vehicles	16,891
Loss of profits	Nonrealization of profits arising from material damages to installations, buildings and production machinery and equipment	558,270

(Convenience Translation into English from the Original Previously Issued in Portuguese)

NATURA COSMÉTICOS S.A.STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In thousands of Brazilian reais - R\$)

	<u>Consolidated</u>	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	300,294	63,884
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,340	33,673
Monetary and exchange variations, net	7,353	(14,076)
Reserve for losses on swap contracts	4,243	36,581
Reserve for contingencies	33,052	16,551
Reserve for obsolete inventories	7,007	588
Other reserves	1,420	2,762
Deferred income and social contribution taxes	(9,634)	(3,528)
Disposal of permanent assets	1,828	1,596
Debentures participation, net of taxes	5,743	102,170
Minority interest	(1)	(60)
	<u>385,645</u>	<u>240,141</u>
(INCREASE) DECREASE IN ASSETS		
Current assets:		
Accounts receivable	(68,455)	(23,042)
Inventories	(49,715)	(5,406)
Other receivables	532	1,304
Long-term assets:		
Escrow deposits	(9,073)	(11,296)
Other receivables	115	3,934
Subtotal	<u>(126,596)</u>	<u>(34,506)</u>
INCREASE (DECREASE) IN LIABILITIES		
Current liabilities:		
Suppliers	19,099	4,417
Payroll and related charges	21,691	8,498
Taxes payable	(20,705)	6,183
Other payables	8,517	(21,769)
Long-term liabilities:		
Other payables	(1,448)	(1,432)
Subtotal	<u>27,154</u>	<u>(4,103)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>286,203</u>	<u>201,532</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(76,886)	(23,891)
Investments	(6,179)	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(83,065)</u>	<u>(23,891)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in current and long-term loans	(9,130)	(82,458)
Payment of dividends	(130,003)	(9,103)
Payment of interest on capital	(11,403)	(3,292)
Payment of debentures	-	(4,080)
Sale of treasury shares	630	-
NET CASH USED IN FINANCING ACTIVITIES	<u>(149,906)</u>	<u>(98,933)</u>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets	<u>42,269</u>	<u>-</u>
NET INCREASE IN CASH AND BANKS	<u>95,501</u>	<u>78,708</u>
Cash and banks at beginning of year	136,111	57,403
Cash and banks at end of year	231,612	136,111
CHANGE IN CASH AND BANKS	<u>95,501</u>	<u>78,708</u>
SUPPLEMENTARY CASH FLOW DISCLOSURE:		
Income and social contribution taxes paid	84,378	13,468
Interest paid on loans and financing	12,061	9,657
Swap contracts paid	9,170	8,134

NATURA COSMÉTICOS S.A.STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In thousands of Brazilian reais - R\$)

	Consolidated			
	2004		2003	
REVENUES	<u>2,509,073</u>		<u>1,879,961</u>	
Sales of goods, products and services	2,533,614		1,904,835	
Allowance for doubtful accounts - reversal/recognition	(23,673)		(26,329)	
Nonoperating	(868)		1,455	
INPUTS PURCHASED FROM THIRD PARTIES	<u>(1,365,906)</u>		<u>(942,240)</u>	
Cost of sales and services	(852,405)		(555,757)	
Materials, energy, outside services and other	(513,501)		(386,483)	
GROSS VALUE ADDED	<u>1,143,167</u>		<u>937,721</u>	
RETENTIONS	<u>(34,340)</u>		<u>(33,673)</u>	
Depreciation and amortization	(34,340)		(33,673)	
VALUE ADDED GENERATED BY THE COMPANY	<u>1,108,827</u>		<u>904,048</u>	
VALUE ADDED RECEIVED IN TRANSFER	<u>35,414</u>		<u>34,339</u>	
Financial income	35,414		34,339	
TOTAL VALUE ADDED TO BE DISTRIBUTED	<u><u>1,144,241</u></u>		<u><u>938,387</u></u>	
DISTRIBUTION OF VALUE ADDED	(1,144,241)	100%	(938,387)	100%
Payroll and related charges	(247,291)	21%	(177,783)	19%
Taxes and contributions	(547,804)	48%	(502,084)	53%
Financial expenses and rents	(41,675)	4%	(66,987)	7%
Debentures participation	(7,178)	1%	(127,709)	14%
Dividends	(186,910)	17%	(23,668)	3%
Interest on capital	(29,442)	2%	(10,049)	1%
Minority interest	1	0%	60	0%
Retained earnings (*)	(83,942)	7%	(30,167)	3%

(*) excludes unrealized profit from subsidiaries.

Supplementary information on the statements of value added

Of the amounts recorded under "Taxes and contributions" in 2004 and 2003, the amounts of R\$296,892 and R\$224,160, respectively, refer to ICMS (state VAT) under the taxpayers' substitution regime levied on the estimated profit margin defined by the State Finance Secretariats obtained from sales made by Natura beauty consultants to final consumers.

In order to analyze this tax impact on the statements of value added, these amounts should be deducted from the amounts recorded under "Sales of goods, products and services" and "Taxes and contributions", since sales revenues do not include the estimated profit attributable to Natura beauty consultants upon the sale of products, in the amounts of R\$1,059,324 and R\$795,764 in 2004 and 2003, respectively, considering an estimated profit margin of 30%.

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FREE TRANSLATION

Management Report for 2004

The year of Natura's 35th anniversary was rich in achievements that, in retrospect, arouse the sincerest feelings of joy.

Among these achievements, the IPO on May 26 deserves the greatest attention. With this, we concluded a project begun around seven years ago, with important measures for the institutionalization of Natura. The success achieved in this move, proven both by the participation of over 5,000 investors and the subsequent evolution of the shares, was absolutely surprising.

The IPO, in a period of adverse external conditions, was perceived as a paradigm of a new moment in the Brazilian capital market. We are very pleased with this surprise, but also have the corresponding feeling of responsibility. We believe that this recognition represents an unmistakable demonstration of confidence in the Company's management and in its capacity to continuously generate value. It also reveals investors' great affinity with the vision, beliefs and values that have guided us, and will guide us in building our Company, our brand, our country and our world.

The reasons for enthusiasm have also been great from an operational point of view. Sales in 2004 grew 33%, accumulating 117% growth over the last three years. Net income, totaling R\$ 300.3 million, represented 17% of net revenues. Operations in the rest of Latin America also evolved consistently, with growth, in dollars, of 52% for the year and 107% over the last three years. One of the reasons for this vitality was the 15.6% increase in the number of consultants and independent consultants, totaling 407,000 people in Brazil and 26,000 abroad.

With this public, so fundamental in our operation, we have sought to increasingly enhance our relationship and offer broad opportunities for personal and professional development. For this community, an estimated income of R\$ 1 billion was estimated this year.

In 2004, 63% of sales was from products launched or relaunched in the last two years. We invested 2.7% of net revenues in research and development, and for coming years, we intend to maintain a level of more than 3%. We will also maintain our strategy of innovation in its various dimensions: in the sustainable use of Brazilian biodiversity, in technological advances, in the communication of our concepts, and in the enhancement of our relationship.

In the continuous incorporation of the principles of sustainable development in the Company's everyday operations, there has been considerable evolution in environmental management systems and corporate responsibility. We defined strategic priorities based on economic, financial, social and environmental aspects, culminating in the structuring of action plans for the entire Company. Major advances were the ISO 14001 certification and the expansion of the analysis of products' life cycle. Consistent steps have also been taken in the relationship with communities supplying biodiversity assets and surrounding communities, notably, Natura's active participation with local government and civil society in actions to implement the Agenda 21 in Cajamar.

The universality of our beliefs, values and reason for being is the framework for the growing recognition we have obtained in building the Natura brand, both in Brazil and abroad. This recognition gives us confidence in the possibility of accelerated international expansion in coming years. We will seek new markets in Latin America, where we have already consolidated the direct sales model, and will study new formulas to take Natura's proposal of value to other regions.

On this path, the main challenge is to develop entrepreneurial leadership in tune with our values. Internationalization also translates into a more complex operation, revealing the need to join growth with the maintenance of strategic discipline, the culture and the management style that are characteristic of Natura. Another major challenge is the evolution of the relationship with traditional communities.

The decision to contribute to the creation of a development model that combines economic prosperity, social justice and environmental conservation will continue to require an enormous effort in learning and innovation. From this perspective, it is our full conviction that business participation in building a better world will be increasingly associated with the evidence that all of us – individuals, companies, NGOs and governments – are co-responsible for the present and future quality of life on Earth. In this context, we reaffirm our support for the United Nations Global Pact and the effort to promote the principles proposed by the UN.

We express our gratitude and recognition for everyone who has contributed to the construction of Natura. To our consumers, who have privileged us in their choices. To our consultants, for sharing their beliefs, passions and causes with us. To our employees, for being expressions of continuous enhancement transforming both individuals and organizations. To our suppliers, with which we have shared the search for creating value for consumers and society. To our other partners in civil society and public authorities, aware that our network of relationships strengthens the network of life. To everyone, our profound appreciation for everything we have achieved and now celebrate, with vigorous determination to increasingly live out our beliefs, passions and responsibilities. They are the seeds of Natura that are sprouting, and of a world of which we have always dreamed.

Antonio Luiz da Cunha Seabra
Co-Chairman of the Board of Directors – Founder

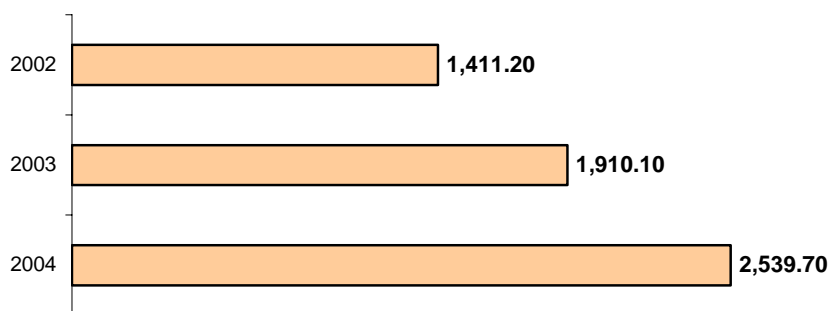
Guilherme Peirão Leal
Co-Chairman of the Board of Directors

Pedro Luiz Barreiros Passos
CEO

Analysis of Economic, Financial, Social and Environmental Results

Natura's gross revenues reached R\$ 2.5 billion in 2004, with 33% growth in relation to the prior year. The volume of units sold¹ grew 36.3%, going from 127.2 million in 2003 to 173.4 million in 2004. The Company's share of the Brazilian cosmetics, fragrances and personal hygiene market, in the segments in which it is present, went from 17.1% in 2003 to 18.9% in 2004. Net income, of R\$ 300.3 million, represented 17% of net revenues.

Gross revenues (R\$ million)



⁽¹⁾ Units resold by beauty consultants in Brazil (excluding samples, gifts, resale support material, "See It When You Believe It" line products, among others).

A major driving force in sales growth was the investment of R\$ 47.4 million in research and development. The number of product launches increased from 117 in 2003 to 182 in 2004. Highlights include an internationally patented component – Elastinol+R – in the Chronos line.

The cost of sales in relation to net revenues fell from 34.5% in 2003 to 32.5% in 2004. Gains of efficiency and scale, better management of margins, the appreciation of the Brazilian real in relation to the dollar, and a slight reduction

in the tax burden, resulting from changes in legislation on PIS and COFINS (federal taxes on revenue) and ICMS (state VAT), all contributed to this result.

Due to the dilution of costs provided by the increase in sales, operating expenses in relation to net revenues decreased from 45.9% to 44.5%, not considering extraordinary costs on the IPO.

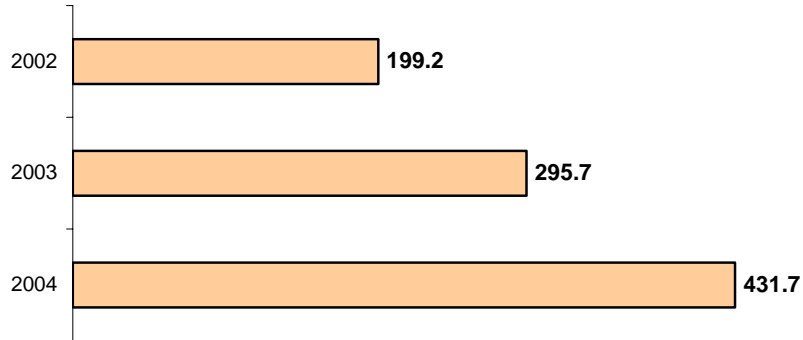
The combination of these factors allowed the Company to end the year with EBITDA of R\$ 431.7 million, 46.0% greater than in 2003. Gross cash generation for 2004 was R\$ 385.6 million, 60.6% higher than in the prior year. Of this total, R\$ 99.4 million was used in working capital and long-term assets and liabilities and R\$ 83,1 million was invested in fixed assets.

The volume used in working capital was primarily due to the increase in trade accounts receivable and inventories, a direct consequence of the increase in sales. The Company ended 2004 with free cash generation of R\$ 203.1 million.

Over the course of 2004, Natura paid the gross amount of R\$ 143.5 million in dividends and interest on capital, of which R\$ 56.7 million referred to the results of 2003 and R\$ 86.8 million referred to the results of the first half of 2004. In relation to the results of the second half of 2004, the Board of Directors, in a meeting held on February 23, 2005, proposed the payment of the gross amount of R\$ 216.3 million for 2004. Deducting from this amount the portion of R\$ 86.8 million, the additional gross amount is R\$ 129.6 million, to be paid on April 5, 2005, after approval by the Annual Shareholders' Meeting.

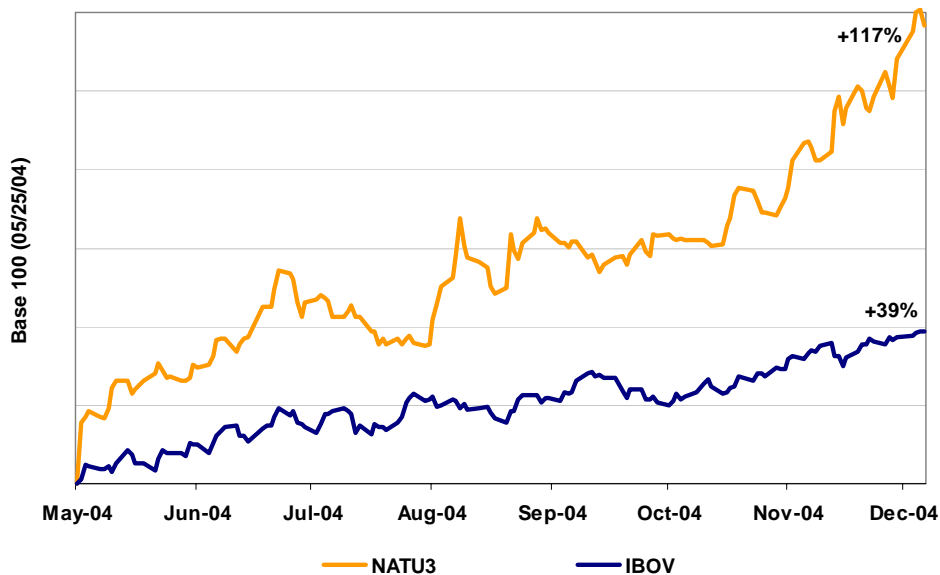
Natura closed 2004 with net cash of R\$ 91.1 million. The Company invested R\$ 21 million in the construction of a new warehouse in order to expand materials storage and handling capacity by 120% in early 2005. A major investment will also be made in expanding production capacity. With this, the Company will increase its flexibility to better face demand peaks and overcome operational imbalances – factors that, in the 4Q04, led to a small portion of demand not being met.

EBITDA (R\$ million)



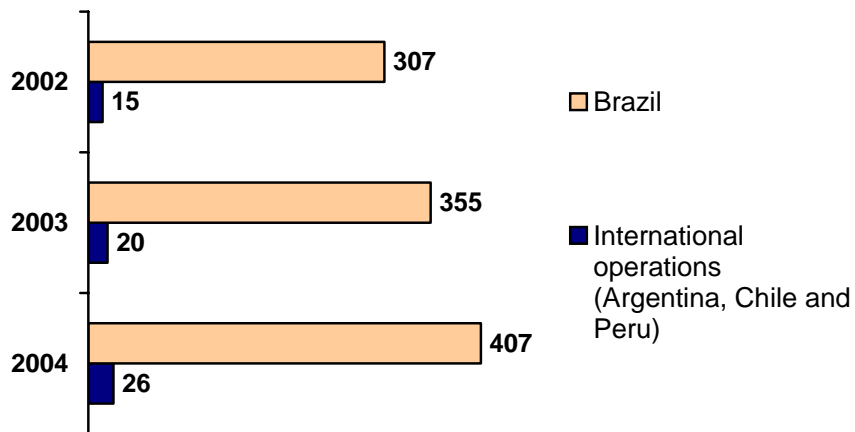
With the IPO and the listing of its shares on the Novo Mercado of the São Paulo Stock Exchange (Bovespa) on May 26, 2004, Natura reaffirmed its commitment to transparency, ethics and enhanced corporate governance. Up to the last trading session of the year, Natura shares appreciated 117%, compared to a 39% rise in the Bovespa Index (Ibovespa) over the same period.

Appreciation: Natura (Natu3) vs. Ibovespa

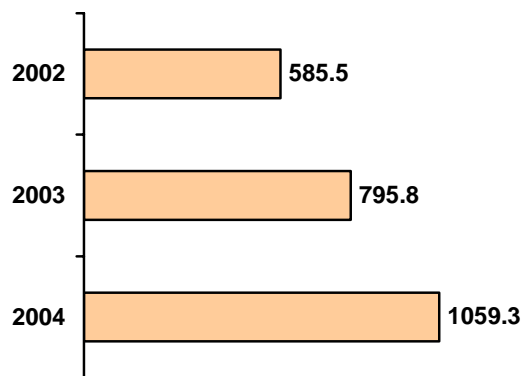


The importance of the Company's main relationship groups for its business success is undeniable. In this context, the highlights are the growth in the number of Natura consultants and their productivity. At the end of 2004, there were 407,000 consultants in Brazil and 26,000 in the international operations. Revenue per consultant, the main indicator of direct sales, grew 10.2% in Brazil, as a result of more frequent contacts and investments in training. Growth in productivity abroad in dollars was approximately 10.7%. For this particular group, an estimated income of R\$ 1.06 billion was allocated in 2004 – 33.1% higher than in 2003.

Natura Consultants (thousands)



Generation of Wealth ⁽¹⁾ – Independent consultants (R\$ million)



⁽¹⁾ Added value distributed to beauty consultants, estimated based on suggested retail prices.

An equally significant response came from employees, who, for the second year in a row, took Natura to the position of Best Company for Women to Work For in Brazil, according to a survey published by Exame magazine's Guide to the Best Companies to Work For, in partnership with the Great Place to Work

Institute. Investments in training and education, profit sharing and the launch of the “Building the Future” program – which deals with quality of life, extension of career and financial planning, with the offer of a pension plan – brought Natura even closer to its employees.

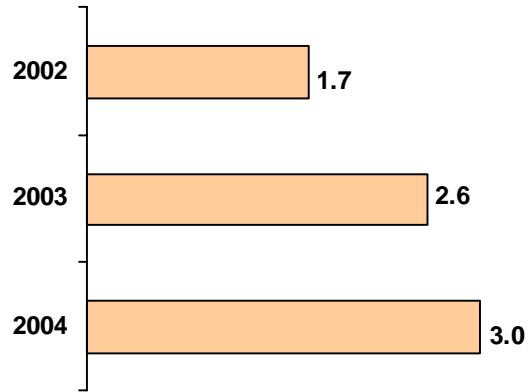
Consumers responded positively to Natura’s proposal of value, as shown in sales results. The brand was also widely recognized by society: in 2004, Natura was indicated as top of mind in the cosmetics category, in a survey by the newspaper Folha de S.Paulo, and as Brazil’s Most Admired Company by the magazine Carta Capital and the consulting firm InterScience.

In 2004, Natura continued its process of growing closer to its suppliers, with which it has sought to increasingly share its search for excellence, innovation and learning for sustainability. In relationships with communities supplying Brazilian biodiversity assets, the highlight was the experience with the Mixed Cooperative of Extraction Producers of the Iratapuru River, in the state of Amapá. The community’s three products – nuts, copaíba and breu branco – were certified by the Forest Stewardship Council. In addition to the sales value of raw materials, the cooperative began receiving a portion of the revenue from the products derived from these ingredients.

One of the noteworthy initiatives in the relationship with society was, once again, the “Crer para Ver” program, maintained in partnership with Fundação Abrinq. In its nine-year history, the “Crer para Ver” program has raised R\$ 17.9 million and supported 148 projects in 3,638 schools. In 2004, fund raising reached a record level and the program began support for literacy courses for youth and adults, also in partnership with the Ministry of Education. With the expansion of the program’s scope, in addition to participating in fund raising, Natura consultants will have the role of sending youth and adults back to school.

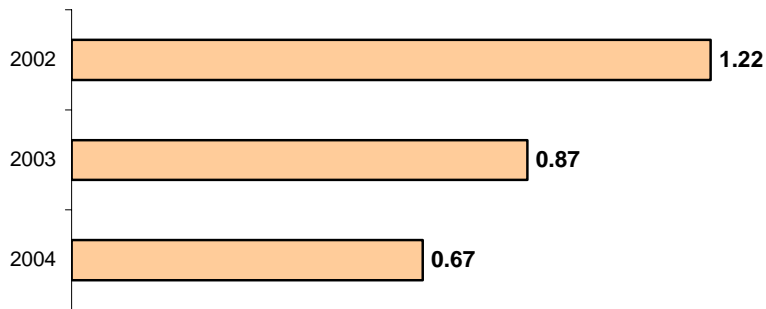
Natura’s management of corporate responsibility and its high standards for transparency in disclosing economic, financial, social and environmental results have earned it important recognition in 2004. The Company was cited for the fifth year in a row as a model of corporate social responsibility by Exame magazine’s Guide of Good Corporate Citizenship. In addition, Natura’s annual report was voted the 16th best in a international survey coordinated by the British consulting firm Sustainability with the rating agency Standard & Poor’s and the United Nations Environment Programme.

“Crer para Ver” Program – net funds raised (R\$ million)

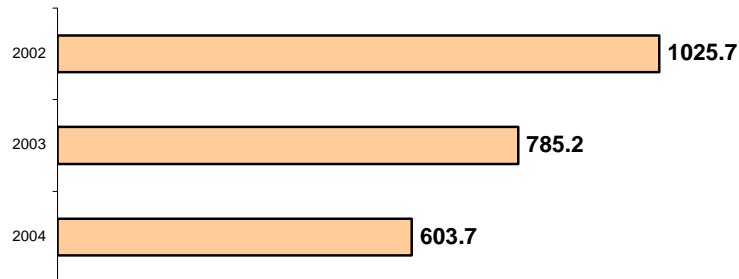


The enhancement of the environmental management system – including the obtaining of ISO 14001 certification, in May – allowed Natura, even with the expansion of its business, to promote more efficient use of water and energy. Water consumption per unit was reduced by 23%. Energy consumption per unit was also reduced by 23%. The percentage of reuse of water treated in the Effluent Treatment Station went from 29% in 2003 to 39.5% in 2004. The generation of waste per unit was reduced by 12.3%. The incineration of waste, which was 6.4%, decreased to 5.4%, and disposal in landfills decreased from 24.4% to 21.2%. Finally, the percentage of recycled waste rose from 69.2% to 73.4%.

Water consumption per unit sold (liters/unit)



Total energy consumption (energy matrix) ⁽¹⁾ per unit sold (Tjoules/unit)



⁽¹⁾ The energy matrix comprises the total energy that Natura uses, from various sources (electricity, diesel and LPG).

Backed by the results obtained in 2004, Natura will continue seeking expansion in the Brazilian market, with the expansion of the number of consultants and investments in innovation, and will strive to increase its international presence. In Latin America, the Company has made progress in the consolidation of the direct sales model, and in 2005 should extend it to other markets, such as Mexico. In addition, Natura will invest in building a new operating model in Europe, with the opening, in Paris, of Maison Natura Brasil, located in a privileged location in the French capital.
