

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

# ***Natura Cosméticos S.A.***

*Interim Financial Statements for the  
Quarter Ended March 31, 2005  
and Independent Accountants' Review Report*

Deloitte Touche Tohmatsu Auditores Independentes

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

**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

1. We have performed a special review of the accompanying interim financial statements of Natura Cosméticos S.A. and subsidiaries (Company and consolidated), consisting of the balance sheets as of March 31, 2005, and the related statements of income for the quarter then ended and the performance report, all expressed in Brazilian reais and prepared in accordance with Brazilian accounting practices under the responsibility of the Company's management.
2. We conducted our review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, which consisted principally of: (a) inquiries of and discussions with persons responsible for the accounting, financial and operating areas as to the criteria adopted in preparing the interim financial statements, and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material modifications that should be made to the financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of mandatory interim financial statements.
4. Our review was conducted for the purpose of issuing a review report on the interim financial statements referred to in paragraph 1 taken as whole. The individual and consolidated statements of cash flows for the quarters ended March 31, 2005 and 2004 are presented for purposes of additional analysis and are not a required part of the interim financial statements. Such statements have been subjected to the review procedures described in paragraph 2 and, based on our review, we are not aware of any material modifications that should be made to these supplemental statements in order for them to be fairly stated, in all material respects, in relation to the interim financial statements for the quarters ended March 31, 2005 and 2004 taken as a whole.

Natura Cosméticos S.A.

5. We had previously audited the Company and consolidated balance sheets as of December 31, 2004, and reviewed the statements of income for the quarter ended March 31, 2004, presented for comparative purposes, and issued an unqualified review report thereon, dated February 4, 2005 and April 15, 2004, respectively.
6. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, April 20, 2005

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Edimar Facco  
Engagement Partner

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NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF MARCH 31, 2005 AND DECEMBER 31, 2004

(In thousands of Brazilian reais - R\$)

ASSETS	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Company		Consolidated	
	03/2005	12/2004	03/2005	12/2004		03/2005	12/2004	03/2005	12/2004
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and banks	40,232	26,656	45,693	29,592	Loans and financing	11,922	11,879	85,595	62,407
Temporary cash investments	223,349	158,631	272,317	202,020	Domestic suppliers	6,253	6,755	81,674	76,971
Trade accounts receivable	191,241	236,453	206,877	250,066	Foreign suppliers	-	-	2,507	4,172
Inventories	1,429	1,634	141,234	121,961	Suppliers - related parties	77,998	102,151	-	-
Recoverable taxes	166	3,009	17,942	18,158	Salaries, profit sharing and related charges	16,153	28,272	37,954	65,265
Advances to employees	4,284	4,084	6,021	6,949	Taxes payable	59,850	52,776	69,562	62,382
Related parties	926	833	-	-	Related parties	-	94	-	-
Deferred income and social contribution taxes	11,339	12,198	20,731	21,630	Dividends	113,644	113,644	113,644	113,644
Other receivables	139	358	8,118	6,063	Interest on capital	13,623	13,623	13,623	13,623
Total current assets	<u>473,105</u>	<u>443,856</u>	<u>718,933</u>	<u>656,439</u>	Other payables	28,860	35,356	34,041	42,331
					Reserve for losses on swap and forward transactions	1,884	4,544	3,662	6,138
<b>LONG-TERM ASSETS</b>					Total current liabilities	<u>330,187</u>	<u>369,094</u>	<u>442,262</u>	<u>446,933</u>
Related parties	-	-	-	-					
Advance for future capital increase	835	770	-	-	<b>LONG-TERM LIABILITIES</b>				
Receivables from shareholder	205	172	205	172	Loans and financing	16,763	19,549	66,973	71,982
Tax incentives	1,122	1,122	1,162	1,162	Reserve for contingencies	47,605	39,769	69,134	59,559
Deferred income and social contribution taxes	15,429	12,624	24,160	21,301	Provision for losses on subsidiaries	783	64	-	-
Recoverable taxes	931	876	4,621	3,848	Other payables	1,015	841	2,160	1,885
Escrow deposits	21,644	20,370	25,912	24,256	Total long-term liabilities	<u>66,166</u>	<u>60,223</u>	<u>138,267</u>	<u>133,426</u>
Other receivables	-	-	1,716	1,716					
Total long-term assets	<u>40,166</u>	<u>35,934</u>	<u>57,776</u>	<u>52,455</u>					

(Continues)

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NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF MARCH 31, 2005 AND DECEMBER 31, 2004  
(In thousands of Brazilian reais - R\$)

(Continued)

<u>ASSETS</u>	<u>Company</u>		<u>Consolidated</u>		<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>		<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
PERMANENT ASSETS					MINORITY INTEREST	-	-	5	7
Investments	378,727	373,748	7,965	8,707	SHAREHOLDERS' EQUITY				
Property, plant and equipment	<u>12,085</u>	<u>13,231</u>	<u>301,835</u>	<u>298,822</u>	Capital	230,762	230,762	230,762	230,762
Total permanent assets	390,812	386,979	309,800	307,529	Capital reserves	115,837	115,671	115,837	115,671
					Profit reserves	94,674	94,674	93,279	93,279
					Retained earnings	70,040	-	69,680	-
					Treasury shares	<u>(3,583)</u>	<u>(3,655)</u>	<u>(3,583)</u>	<u>(3,655)</u>
					Total shareholders' equity	507,730	437,452	505,975	436,057
TOTAL ASSETS	<u>904,083</u>	<u>866,769</u>	<u>1,086,509</u>	<u>1,016,423</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>904,083</u>	<u>866,769</u>	<u>1,086,509</u>	<u>1,016,423</u>

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NATURA COSMÉTICOS S.A.

STATEMENTS OF INCOME

FOR THE QUARTERS ENDED MARCH 31, 2005 AND 2004

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

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>03/2004</u>	<u>03/2005</u>	<u>03/2004</u>
Gross sales to domestic market	587,508	460,017	592,681	461,992
Gross sales to foreign market	-	-	18,080	13,544
Other sales	-	-	224	113
<b>GROSS OPERATING REVENUES</b>	<b>587,508</b>	<b>460,017</b>	<b>610,985</b>	<b>475,649</b>
Taxes on sales, returns and rebates	(135,005)	(109,011)	(183,876)	(146,479)
<b>NET OPERATING REVENUES</b>	<b>452,503</b>	<b>351,006</b>	<b>427,109</b>	<b>329,170</b>
Cost of sales	(186,783)	(148,700)	(144,993)	(108,375)
<b>GROSS PROFIT</b>	<b>265,720</b>	<b>202,306</b>	<b>282,116</b>	<b>220,795</b>
<b>OPERATING (EXPENSES) INCOME</b>				
Selling	(111,411)	(88,517)	(134,796)	(103,942)
General and administrative	(80,900)	(55,297)	(57,135)	(41,789)
Management compensation	(1,619)	(1,625)	(2,354)	(1,940)
Equity in subsidiaries	4,261	7,984	-	-
Other operating expenses	-	-	(1,133)	-
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>76,051</b>	<b>64,851</b>	<b>86,698</b>	<b>73,124</b>
Financial expenses	(1,617)	(5,653)	(8,603)	(14,124)
Financial income	10,278	9,160	14,237	13,083
<b>INCOME FROM OPERATIONS</b>	<b>84,712</b>	<b>68,358</b>	<b>92,332</b>	<b>72,083</b>
Nonoperating income (expenses), net	36	262	(1,085)	688
<b>INCOME BEFORE DEBENTURES PARTICIPATION AND TAXES</b>	<b>84,748</b>	<b>68,620</b>	<b>91,247</b>	<b>72,771</b>
Debentures participation	-	(7,178)	-	(7,178)
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>84,748</b>	<b>61,442</b>	<b>91,247</b>	<b>65,593</b>
Income and social contribution taxes	(14,708)	(15,320)	(21,567)	(20,935)
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>70,040</b>	<b>46,122</b>	<b>69,680</b>	<b>44,658</b>
Minority interest	-	-	-	-
<b>NET INCOME</b>	<b>70,040</b>	<b>46,122</b>	<b>69,680</b>	<b>44,658</b>
<b>EARNINGS PER SHARE - R\$</b>	<b>0.8260</b>	<b>0.5585</b>	<b>0.8217</b>	<b>0.5407</b>

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

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NATURA COSMÉTICOS S.A.

NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE PERIODS ENDED MARCH 31, 2005 AND DECEMBER 31, 2004  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise indicated)

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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 net assets 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>	
<b>CURRENT ASSETS</b>		<b>CURRENT LIABILITIES</b>	
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>
<b>LONG-TERM ASSETS</b>		<b>LONG-TERM LIABILITIES</b>	
Related parties	<u>10,544</u>	Loans and financing	17,004
Total long-term assets	<u>10,544</u>	Other payables	<u>11</u>
		Total long-term liabilities	<u>17,015</u>
<b>PERMANENT ASSETS</b>		<b>SHAREHOLDERS' EQUITY</b>	
Investments	<u>136,522</u>	Capital	86,950
Total permanent assets	136,522	Capital reserves	5,347
		Profit reserves	<u>12,654</u>
		Total shareholders' equity	<u>104,951</u>
	<u>205,154</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>205,154</u>
<b>TOTAL ASSETS</b>	<u>205,154</u>		

NATURA PARTICIPAÇÕES S.A.

<u>ASSETS</u>		<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	
<b>CURRENT ASSETS</b>		<b>CURRENT LIABILITIES</b>	
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>		
Total current assets	<u>61,651</u>	<b>LONG-TERM LIABILITIES</b>	
		Related parties	<u>10,391</u>
<b>LONG-TERM ASSETS</b>		Total long-term liabilities	<u>10,391</u>
Receivables from sale of shares	<u>5,506</u>		
Total long-term assets	<u>5,506</u>	<b>SHAREHOLDERS' EQUITY</b>	
		Capital	1,107,776
<b>PERMANENT ASSETS</b>		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		
	<u>172,108</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>172,108</u>
<b>TOTAL ASSETS</b>	<u>172,108</u>		



## 2. PRESENTATION OF FINANCIAL STATEMENTS

The interim 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 maintenance of dividend payment capacity, 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) Swap and forward transactions

The nominal values of swap and forward 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 20.b).

m) Financial income and expenses

Represented by interest, 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.

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 and the Consolidated statements of cash flows are presented as supplementary information.

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, the 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 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 interest - %</u>		
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2004</u>
Direct:			
Indústria e Comércio de Cosméticos Natura Ltda.	99.76	99.76	99.76
Natura Cosméticos S.A. – Chile	99.96	99.96	99.96
Natura Cosméticos S.A. – Peru	99.93	99.85	99.85
Natura Cosméticos S.A. – Argentina	95.00	99.99	99.99
Natura Brasil Cosmética Ltda. – Portugal	99.00	99.99	99.99
Commodities Trading S.A. – Uruguay	100.00	100.00	100.00
Nova Flora Participações Ltda.	100.00	100.00	100.00
Natura Inovação e Tecnologia de Produtos Ltda.	99.99	100.00	100.00
Natura Europa SAS	100.00	100.00	-
Natura Cosméticos S.A. – Mexico	99.99	-	-
Indirect:			
Natura Logística e Serviços Ltda.	99.99	99.99	99.99
Flora Medicinal J. Monteiro da Silva Ltda.	100.00	100.00	100.00
Ybios S.A. (proportional consolidation)	33.33	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.

In the year ended December 31, 2004 and the quarter ended March 31, 2005, the Company acquired ownership interest in the companies Natura Europa S.A. and Ybios S.A. and Natura Cosméticos Mexico S.A., respectively.

The Company's shareholders' equity and net income as of March 31, 2005 and December 31, 2004 differ by R\$1,755 and R\$1,395, from the amounts stated in the consolidated financial statements, due to the elimination of the subsidiaries' unrealized profits.

In addition, as of March 31, 2005 and 2004 the Company's net income has a difference of R\$ 360 and R\$ 1,464, respectively, from the net income stated in the consolidated financial statements, for elimination of subsidiaries' unrealized profit.

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<u>03/2005</u>	<u>03/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Company	70,040	46,122	507,730	437,452
Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries	<u>(360)</u>	<u>(1,464)</u>	<u>(1,755)</u>	<u>(1,395)</u>
Consolidated	<u>69,680</u>	<u>44,658</u>	<u>505,975</u>	<u>436,057</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 and Natura Europa SAS, 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 Cosméticos Mexico S.A. - Engaged in the purchase, sale, import, export, distribution and storage of cosmetics, fragrances in general, toiletries 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 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>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Bank certificates of deposit (CDBs)	194,030	128,841	238,812	165,583
Investment funds	<u>29,319</u>	<u>29,790</u>	<u>33,505</u>	<u>36,437</u>
	<u>223,349</u>	<u>158,631</u>	<u>272,317</u>	<u>202,020</u>

As of March 31, 2005 and December 31, 2004, bank certificates of deposit (CDBs) are remunerated at rates ranging from 100% to 101.8% of the CDI (interbank deposit rate), and the share in the total investment portfolio is 87.7% (82% as of December 31, 2004). Investments funds are remunerated at rates ranging from 89.79% to 104.14% of the CDI (99.5% to 105.5% as of December 31, 2004).

## 6. TRADE ACCOUNTS RECEIVABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Trade accounts receivable	204,175	250,246	220,747	265,048
Allowance for doubtful accounts	<u>(12,934)</u>	<u>(13,793)</u>	<u>(13,870)</u>	<u>(14,982)</u>
	<u>191,241</u>	<u>236,453</u>	<u>206,877</u>	<u>250,066</u>

## 7. INVENTORIES

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Finished products	1,418	1,604	70,496	57,105
Raw materials and packaging	-	2	66,726	62,327
Work in process	-	-	10,330	7,617
Promotional material	11	28	10,229	9,308
Reserve for losses	<u>-</u>	<u>-</u>	<u>(16,547)</u>	<u>(14,396)</u>
	<u>1,429</u>	<u>1,634</u>	<u>141,234</u>	<u>121,961</u>

## 8. RECOVERABLE TAXES

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
IRPJ (corporate income tax)	-	2,701	4,681	8,984
Social contribution tax	-	-	2,475	1,420
ICMS (state VAT)	1,097	1,184	10,815	6,129
PIS/COFINS/CSLL - withheld at source	-	-	870	1,896
Other	-	-	<u>3,722</u>	<u>3,577</u>
	<u>1,097</u>	<u>3,885</u>	<u>22,563</u>	<u>22,006</u>
Long-term	931	876	4,621	3,848
Current	<u>166</u>	<u>3,009</u>	<u>17,942</u>	<u>18,158</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>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Current:				
Tax loss carryforwards	-	-	375	691
Temporary differences:				
Reserve for inventory losses	-	-	5,626	4,895
Allowance for doubtful accounts	4,584	4,829	4,584	4,829
Reserve for losses on swap and forward transactions	640	1,545	1,283	2,087
Other reserves	<u>6,115</u>	<u>5,824</u>	<u>8,863</u>	<u>9,128</u>
Deferred income and social contribution taxes	<u>11,339</u>	<u>12,198</u>	<u>20,731</u>	<u>21,630</u>
Long-term:				
Tax loss carryforwards	-	-	1,541	2,032
Temporary differences:				
Reserve for contingencies	14,725	12,058	21,611	18,399
Other reserves	<u>704</u>	<u>566</u>	<u>1,008</u>	<u>870</u>
Deferred income and social contribution taxes	<u>15,429</u>	<u>12,624</u>	<u>24,160</u>	<u>21,301</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>03/2005</u>	<u>12/2004</u>
2006	11,140	1,644
2007	2,661	3,207
2008	9,908	9,796
2009	<u>451</u>	<u>6,654</u>
	<u>24.160</u>	<u>21.301</u>

b) Current expense

Reconciliation of income and social contribution taxes:

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>03/2004</u>	<u>03/2005</u>	<u>03/2004</u>
Income before taxes on income	84,748	61,442	91,247	65,593
Income and social contribution taxes at the rate of 34%	(28,814)	(20,890)	(31,024)	(22,302)
Equity in subsidiaries	1,449	2,715	-	-
Losses generated by subsidiaries	-	-	(3,147)	(1,475)
Reversal of provision for maintenance of dividend payment capacity	12,483	4,161	12,483	4,161
Other	<u>174</u>	<u>(1,306)</u>	<u>121</u>	<u>(1,319)</u>
Income and social contribution taxes	<u>(14,708)</u>	<u>(15,320)</u>	<u>(21,567)</u>	<u>(20,935)</u>
Current income and social contribution taxes	16,654	15,188	23,527	20,758
Deferred income and social contribution taxes	<u>(1,946)</u>	<u>132</u>	<u>(1,960)</u>	<u>177</u>
	<u>14.708</u>	<u>15.320</u>	<u>21.567</u>	<u>20.935</u>

## 10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Current assets:				
Accounts receivable:				
Indústria e Comércio de Cosméticos Natura Ltda. (a)	52	-	-	-
Natura Logística e Serviços Ltda. (a)	32	-	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (a)	9	-	-	-
Nova Flora Participações Ltda. (b)	<u>833</u>	<u>833</u>	-	-
	<u>926</u>	<u>833</u>	<u>-</u>	<u>-</u>
Advance for future capital increase:				
Nova Flora Participações Ltda. (c)	<u>835</u>	<u>770</u>	<u>-</u>	<u>-</u>
Receivables from sale of shares (d)	<u>205</u>	<u>172</u>	<u>205</u>	<u>172</u>
Current liabilities:				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. (e)	64,225	85,874	-	-
Natura Logística e Serviços Ltda. (f)	7,872	8,028	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (g)	<u>5,901</u>	<u>8,249</u>	<u>-</u>	<u>-</u>
	<u>77,998</u>	<u>102,151</u>	<u>-</u>	<u>-</u>
Accounts payable				
Natura Inovação e Tecnologia de Produtos Ltda.	-	94	-	-
	<u>-</u>	<u>94</u>	<u>-</u>	<u>-</u>
Dividends payable:				
Shareholders	<u>113,644</u>	<u>113,644</u>	<u>113,644</u>	<u>113,644</u>
	<u>113,644</u>	<u>113,644</u>	<u>113,644</u>	<u>113,644</u>
Interest on capital payable:				
Shareholders	<u>13,623</u>	<u>13,623</u>	<u>13,623</u>	<u>13,623</u>
	<u>13,623</u>	<u>13,623</u>	<u>13,623</u>	<u>13,623</u>



Transactions with related parties are summarized as follows:

	Product sales		Product purchases	
	03/2005	03/2004	03/2005	03/2004
Natura Cosméticos S.A.	-	-	215,710	178,690
Indústria e Comércio de Cosméticos Natura Ltda.	222,750	183,362	-	-
Natura Cosméticos S.A. – Argentina	-	-	2,774	2,203
Natura Cosméticos S.A. – Peru	-	-	2,779	1,538
Natura Cosméticos S.A. – Chile	-	-	1,149	915
Natura Europa SAS	-	-	215	-
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	123	-
Flora Medicinal J. Monteiro da Silva Ltda.	-	-	-	16
	<u>222,750</u>	<u>183,362</u>	<u>222,750</u>	<u>183,362</u>
	Service sales		Service purchases	
	03/2005	03/2004	03/2005	03/2004
Administrative structure: (h)				
Natura Logística e Serviços Ltda.	45,336	28,155	-	-
Natura Cosméticos S.A.	-	-	34,086	20,323
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	7,740	6,014
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	3,510	1,818
Flora Medicinal J. Monteiro da Silva Ltda.	-	-	-	-
	<u>45,336</u>	<u>28,155</u>	<u>45,336</u>	<u>28,155</u>
Product research and development: (i)				
Natura Inovação e Tecnologia de Produtos Ltda.	23,909	11,251	-	-
Natura Cosméticos S.A.	-	-	23,909	11,251
Ybios S.A.	-	-	-	-
	<u>23,909</u>	<u>11,251</u>	<u>23,909</u>	<u>11,251</u>
Lease of properties and common charges: (j)				
Indústria e Comércio de Cosméticos Natura Ltda.	1,398	1,330	618	-
Natura Cosméticos S.A.	-	-	262	262
Natura Logística e Serviços Ltda.	512	-	810	810
Natura Inovação e Tecnologia de Produtos Ltda.	105	-	325	217
Natura Empreendimentos S.A.	-	-	-	27
Natura Participações S.A.	-	-	-	14
	<u>2,015</u>	<u>1,330</u>	<u>2,015</u>	<u>1,330</u>
Total service sales/purchases	<u>294,010</u>	<u>224,098</u>	<u>294,010</u>	<u>224,098</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) Cash contributions to Nova Flora Participações Ltda. mainly for maintenance of working capital.
- (d) 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\$4,799 as of March 31, 2005 (R\$4,823 as of December 31, 2004), are paid by dividends and interest on capital on the restricted shares.
- (e) Payables for the purchase of products. Prices and terms are within normal market conditions.
- (f) Payables for services described in item (h).
- (g) Payables for services described in item (i).
- (h) Logistics and general administrative services.
- (i) Product and market research and development.
- (j) Rental of the industrial complex located in Cajamar and several units that compose Natura's facilities.

The main intercompany balances as of March 31, 2005 and December 31, 2004, as well as the intercompany transactions that affected the results for the periods ended March 31, 2005 and 2004 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

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Investments in subsidiaries	378,727	373,748	-	-
Goodwill on acquisition of investment - Nova Flora				
(i)	-	-	8,015	8,015
Amortization of goodwill	-	-	(5,966)	(5,487)
Intangible recorded on acquisition of commercial				
location - Natura Europa (ii)	-	-	<u>5,916</u>	<u>6,179</u>
	<u>378,727</u>	<u>373,748</u>	<u>7,965</u>	<u>8,707</u>

- (i) The goodwill on the acquisition by the subsidiary Nova Flora Participações Ltda. will be fully amortized in 2005, due to the low expectation of profitability from 2006 onwards.
- (ii) The goodwill generated on the purchase of Natura Europa SAS is based on the commercial location where it operates, as the report issued by independent appraisers supported because it is an intangible asset, marketable, which does not suffer decrease in value over time.

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 Ltda	Natura Europa SAS	Natura Cosméticos S.A.. - México
Shares of subsidiaries	328,992	43,974	22,116	65,555	18	298	2,413	5,008	13,495	-
Number of shares (common shares) held	328,213	43,956	22,101	62,277	18	298	2,413	5,007	13,495	-
Ownership interest - %	99.76%	99.96%	99.93%	95.00%	99.99%	100.00%	100.00%	99.99%	100.00%	99.99%
Capital	328,992	43,974	22,116	65,555	18	298	2,413	5,008	13,495	-
Shareholders' equity of subsidiaries	355,165	(383)	2,037	930	(61)	20	384	15,400	5,681	(339)
Share in shareholders' equity	354,324	(383)	2,036	884	(61)	20	384	15,398	5,681	(339)
Net income (loss) of subsidiaries	5,952	(728)	(900)	(2,182)	3	-	(644)	7,185	(4,173)	(339)
<b><u>Book value of Company investment:</u></b>										
Balances as of December 31, 2004	348,385	346	2,936	2,965	-	20	1,028	8,214	9,854	-
Equity in subsidiaries	5,939	(729)	(900)	(2,081)	3	-	(644)	7,184	(4,173)	(339)
Recognition (reversal) of provision for losses	-	383	-	-	(3)	-	-	-	-	339
Balances as of March 31, 2005	<u>354,324</u>	<u>=</u>	<u>2,036</u>	<u>884</u>	<u>=</u>	<u>20</u>	<u>384</u>	<u>15,398</u>	<u>5,681</u>	
<b><u>Provision for losses in long-term liabilities:</u></b>										
Balances as of December 31, 2004	-	-	-	-	(64)	-	-	-	-	-
(Recognition) Reversal of provision	-	(383)	-	-	3	-	-	-	-	(339)
Balances as of March 31, 2005	<u>-</u>	<u>(383)</u>	<u>-</u>	<u>-</u>	<u>(61)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(339)</u>

## 12. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate - %	Company					
		03/2005			12/2004		
		<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Machinery and equipment	10	1,036	819	217	960	610	350
Vehicles	20	13,141	5,574	7,567	13,071	4,788	8,283
Furniture and fixtures	10	3,906	3,059	847	3,929	3,031	898
IT equipment	20	6,896	5,752	1,144	6,868	5,624	1,244
Software licenses	20	3,085	1,370	1,715	3,079	1,226	1,853
Leasehold improvements	12	755	164	591	756	157	599
Other	10	<u>6</u>	<u>2</u>	<u>4</u>	<u>6</u>	<u>2</u>	<u>4</u>
		<u>28,825</u>	<u>16,740</u>	<u>12,085</u>	<u>28,669</u>	<u>15,438</u>	<u>13,231</u>

	Annual depreciation rate - %	Consolidated					
		03/2005			12/2004		
		<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book Value</u>
Buildings	4	126,990	20,399	106,591	126,990	19,166	107,824
Installations	10	64,711	26,344	38,367	64,486	24,757	39,729
Machinery and equipment	10	80,584	35,320	45,264	76,549	32,305	44,244
Vehicles	20	21,289	8,817	12,472	19,953	7,816	12,137
Molds	33	28,496	21,599	6,897	26,879	20,703	6,176
Furniture and fixtures	10	12,992	7,033	5,959	12,809	6,825	5,984
IT equipment	20	32,383	20,231	12,152	31,910	19,094	12,816
Software licenses	20	15,670	6,073	9,597	12,477	5,379	7,098
Leasehold improvements	12	774	182	592	774	175	599
Land	-	15,910	-	15,910	15,910	-	15,910
Advances to suppliers	-	18,461	-	18,461	19,742	-	19,742
Construction in progress	-	24,680	-	24,680	21,478	-	21,478
Other	10	<u>9,762</u>	<u>4,869</u>	<u>4,893</u>	<u>9,856</u>	<u>4,771</u>	<u>5,085</u>
		<u>452,702</u>	<u>150,867</u>	<u>301,835</u>	<u>439,813</u>	<u>140,991</u>	<u>298,822</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>03/2005</u>	<u>12/2004</u>
Goodwill on investments	868,939	905,655
Provision for maintenance of dividend payment capacity	<u>(868,939)</u>	<u>(905,655)</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.

#### 14. LOANS AND FINANCING

<u>Type</u>	<u>Company</u>		<u>Consolidated</u>		<u>Maturity</u>	<u>Charges</u>	<u>Guarantees</u>
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>			
FINEP (Financing Agency for Studies and Projects)	-	-	34,546	36,545	December 2008	Interest of 3.0% p.a. + TJLP (long-term interest rate)	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
BNDES (Brazilian Bank for Economic and Social Development)	28,374	31,131	28,374	31,131	August to October 2007	Interest of 4.0% p.a. + TJLP Interest of 4.0% p.a. + UMBNDES (**)	Mortgage and bank guarantee
Loans (onlending - IFC [International Finance Corporation])	-	-	27,348	26,654	December 2011	6-mo. LIBOR + 6.1% p.a. + exchange variation (dollar)	Promissory notes and guarantee of Natura Cosméticos S.A.
Resolution No. 2.770 and overdraft account	311	-	40,454	27,828	May 2005	Interest of 105% of CDI (interbank deposit rate)	Promissory notes and guarantee of Natura Cosméticos S.A.
BNDES-FINAME (Government Agency for Machinery and Equipment Financing)	-	-	3,451	3,768	April 2005 to June 2009	Interest of 4.5% p.a. + TJLP	Chattel mortgage and guarantee of Natura Cosméticos S.A.
BNDES-Poc (*)	-	297	-	297	February 2005	Interest of 4.5% p.a. + TJLP	Guarantee of Natura Cosméticos S.A.
Loans – Argentina	-	-	8,108	6,706	December 2005	Interest of 9.5% p.a. + exchange variation (peso)	Guarantee of Natura Cosméticos S.A.
Loans - France	-	-	7,696	1,088	June 2005	Interest of + 3.7% p.a. + exchange variation (euro)	Guarantee of Natura Cosméticos S.A.
Loans - Chile	-	-	1,250	372	June 2005	Interest of 5.0% p.a. + exchange variation (peso)	Guarantee of Natura Cosméticos S.A.
Loans - Mexico	-	-	1,341	-	September 2005	Interest of 4.3% p.a. + exchange variation (dollar)	Guarantee of Natura Cosméticos S.A.
Total	<u>28.685</u>	<u>31.428</u>	<u>152.568</u>	<u>134.389</u>			
Current	11,922	11,879	85,595	62,407			
Long-term	<u>16.763</u>	<u>19.549</u>	<u>66.973</u>	<u>71.982</u>			

(\*)POC - Proposal of Credit Operation

(\*\*)UMBNDES - BNDES monetary unit

Maturities of long-term debt are as follows:

	<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>
2006	20,096	25,359
2007	21,782	21,714
2008	13,606	13,470
2009	3,864	3,847
2010	3,807	3,790
2011	<u>3,818</u>	<u>3,802</u>
	<u>66,973</u>	<u>71,982</u>

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

#### 15. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
ICMS (state VAT)	44,288	48,640	44,294	48,650
IPI (federal VAT)	-	-	-	431
COFINS (tax on revenue)	186	382	3,075	4,424
PIS (tax on revenue)	26	84	632	960
Income tax	8,000	-	8,095	159
Social contribution tax	2,990	-	2,990	-
Withholding income tax	3,584	2,873	7,856	4,084
PIS/COFINS/CSLL (Law No. 10,633/03)	759	770	1,050	1,095
Other	<u>17</u>	<u>27</u>	<u>1,570</u>	<u>2,579</u>
	<u>59,850</u>	<u>52,776</u>	<u>69,562</u>	<u>62,382</u>

#### 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>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Tax	44,519	36,970	62,274	53,190
Labor	2,424	2,198	3,590	3,244
Civil	<u>662</u>	<u>601</u>	<u>3,270</u>	<u>3,125</u>
	<u>47,605</u>	<u>39,769</u>	<u>69,134</u>	<u>59,559</u>

Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

	<u>Company</u>		<u>Consolidated</u>	
	<u>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (a)	8,249	8,057	8,249	8,057
Monetary restatement of federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (b)	4,720	4,694	4,841	4,814
Tax assessment - INSS (social security contribution) (c)	4,504	4,371	4,504	4,371
IPI (federal VAT) - Tax collection lawsuit (d)	3,463	3,353	3,463	3,353
PIS (tax on revenue) - Semiannual - Decree-laws No. 2445/88 and 2449/88 (e)	11,438	11,039	12,813	12,370
IPI - zero rate (f)	-	-	14,165	13,604
Late payment fines on federal taxes paid in arrears (g)	4,373	-	5,201	-
Assessment notice - 1990 Corporate Income Tax (h)	2,251	-	2,251	-
Attorneys' fees and other	<u>5,521</u>	<u>5,456</u>	<u>6,787</u>	<u>6,621</u>
	<u>44,519</u>	<u>36,970</u>	<u>62,274</u>	<u>53,190</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\$ 3,636, is deposited in escrow.
- (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.
- (g) Refers to the levy of a late payment fine on the payment of federal taxes in arrears, whose expectation of loss, according to the opinion of the legal counsel, was changed to probable, due to a recent decision by the Superior Court of Justice.
- (h) Refers to an assessment notice issued by the Federal Revenue Service requiring the payment of income tax on profit from incentive-based exports made in base year 1989, at the rate of 18% (Law No. 7988 of December 29, 1989) and not 3%, as established by article 1 of Decree-law No. 2413/89, which supported the Company in its tax payments at that time. Due to a recent decision issued by the Regional Federal Court of the 3rd Region, and the existence of former court decisions by the First Panel of the Federal Supreme Court against the argument defended by the Company, the chance of loss is considered probable.

#### Labor contingencies

As of March 31, 2005, the Company and its subsidiaries are parties to 177 labor lawsuits filed by former employees and third parties (163 as of December 31, 2004), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability.

#### Civil contingencies

As of March 31, 2005, the Company and its subsidiaries are parties to 532 lawsuits (571 as of December 31, 2004) 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 March 31, 2005 was R\$ 25,912 (R\$ 24,256 as of December 31, 2004) - 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>03/2005</u>	<u>12/2004</u>	<u>03/2005</u>	<u>12/2004</u>
<u>Tax:</u>				
IPI credit on purchases of fixed assets (a)	-	-	9,545	9,245
INSS debt annulment action (b)	4,327	4,199	4,327	4,199
Tax assessment - transfer pricing on loan agreements (c)	1,151	1,707	1,151	1,707
Offset of Cofins – Law No. 9718/98 (d)	3,633	-	3,633	-
Other	<u>1,922</u>	<u>2,388</u>	<u>3,138</u>	<u>2,860</u>
	11,033	8,294	21,794	18,011
Civil	8,055	6,109	19,458	7,799
Labor	<u>8,288</u>	<u>7,933</u>	<u>10,404</u>	<u>19,094</u>
Total	<u>27,376</u>	<u>22,336</u>	<u>51,656</u>	<u>44,904</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) Law No. 9718/98 increased the COFINS (tax revenue) rate from 2% to 3%, and allowed this 1% difference to be offset in 1999 against the social contribution tax paid in the same year. However, in 1999 the Company and its subsidiaries filed for a writ of mandamus and obtained an injunction suspending the payment of the tax credit (1% rate difference) and authorizing the payment of COFINS based on Supplementary Law No. 70/91, prevailing at the time. In December 2000, considering former unfavorable court decisions, the Company and its subsidiaries waived the lawsuit and enrolled in the tax debt refinancing program (REFIS), for payment in installments of the debt related to the COFINS not paid in the period. With the payment of the tax, the Company and its subsidiaries gained the right to offset 1% of COFINS against social contribution tax, which was made in the first half of 2001. However, the Federal Revenue Service understands that the period for offset was restricted to base year 1999. This lawsuit is awaiting ruling at the lower administrative court.

## 17. 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\$72.3 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.

In the first quarter of 2004, the amount of R\$7,058 was deducted from the legal reserve, recognized in prior years, to absorb the net liabilities arising from the merger of the net assets of Natura Empreendimentos S.a. and Natura Participações S.A., which exceeded the reserve for profit retention.

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 March 31, 2005 and 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. The Company is authorized to increase the capital up to the limit of 2,823,414 common shares without par value.

c) Receivables from shareholders

In 2004, the amount of R\$3,029 was reclassified from the heading "Receivables from shareholders" to the heading "Treasury shares" until it is paid up. Details are disclosed in Note 10.(d).

d) Dividend payment policy

Each year, shareholders are entitled to a minimum dividend equivalent to 30% 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 remaining balance of dividends and interest on capital, in the amounts of R\$113,644 and R\$13,623, respectively, referring to 2004, approved in the Extraordinary Shareholders' Meeting of March 29, 2005, was paid on April 5, 2005.

e) Treasury shares

As of March 31, 2005, common shares in treasury totaled 641,501 (651,849 as of December 31, 2004), at an average cost of R\$1.6970, for the two periods.

f) 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.

g) Reserve for profit retention

As of December 31, 2004, this reserve was recorded in accordance with article 196 of Law No. 6404/76 for future investments, in the amount of R\$76,024.

## 18. 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 (there are no longer options referring to this plan as of March 31, 2005), 2001, 2002, 2003, 2004 and 2005 were approved under these rules.

The plan for 2001 has 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, 2004 and 2005 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>
Cancelled options	(118,163)
Exercised options	(10,348)
Distributed options	<u>225,884</u>
Balance of options as of March 31, 2005	<u>1,892,993</u>

Balance of call options by plan:

	Number of call options (in shares)	Amount for the year updated according to the IPCA through March 31, 2005 – R\$
2001	84,513	18.84
2002	554,593	26.15
2003	683,973	14.65
2004	344,030	36.05
2005	<u>255,884</u>	77.35
Total	1,892,993	

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 March 31, 2005, 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 March 31, 2005 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 March 31, 2005 would have been R\$73,122, as shown below:

	<u>03/2005</u>
Net income for the period – Company	69,680
Effect of plans considering maturity period	<u>3,442</u>
Net income for the period – “pro forma”	<u><u>73.122</u></u>

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

As of March 31, 2005, the market price of the Company's shares was R\$72.60 (R\$77.50 as of December 31, 2004.).

## 19. 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 totaled R\$619,912 as of March 31, 2005.

## 20. 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 March 31, 2005 and December 31, 2004, the Company had swap and forward transactions with financial institutions in the amounts of R\$33,418 and R\$74,007, respectively. These transactions generated losses of R\$3,662 and R\$6,138, 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 for speculation purposes.

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 March 31, 2005 and December 31, 2004, 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.

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

	Consolidated			
	03/2005		12/2004	
	<u>Book</u> <u>value</u>	<u>Fair</u> <u>value</u>	<u>Book</u> <u>value</u>	<u>Fair</u> <u>value</u>
Swap and forward transactions	<u>3,662</u>	<u>3,706</u>	<u>6,138</u>	<u>6,494</u>

At the balance sheet date the Company consults the financial market and updates the fair value of financial instruments.

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.

## 21. 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 March 31, 2005, the insurance coverage was as follows:

<u>Items</u>	<u>Coverage</u>	<u>Insured amount</u>
Industrial complex/inventories	Any material damages to buildings,	384,862

	installations and machinery and equipment	
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 QUARTERS ENDED MARCH 31, 2005 AND 2004  
(In thousands of Brazilian reais - R\$)

	<u>Company</u>	
	<u>03/2005</u>	<u>03/2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	70,040	46,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,262	1,029
Monetary and exchange variations, net	(421)	(4,713)
Provision for losses on swap and forward transactions	(2,660)	952
Reserve for contingencies	7,799	326
Reserve for obsolete inventories	-	-
Deferred income and social contribution taxes	(1,946)	(1,149)
Disposal of permanent assets	302	(62)
Equity in subsidiaries	(4,261)	(7,983)
Debentures participation, net of taxes	-	5,743
Minority interest	-	-
	<u>70,115</u>	<u>40,265</u>
<b>(INCREASE) DECREASE IN ASSETS</b>		
Current assets:		
Accounts receivable	45,212	12,458
Inventories	205	(399)
Other assets	143	(5,385)
Long-term assets:		
Escrow deposits	(332)	(1,461)
Other assets	(65)	25,522
Subtotal	<u>45,163</u>	<u>30,735</u>
<b>INCREASE (DECREASE) IN LIABILITIES</b>		
Current liabilities:		
Suppliers	(24,672)	12,067
Payroll and related charges	(12,282)	(9,558)
Taxes payable	9,862	(8,385)
Other payables	(6,590)	19,628
Long-term liabilities:		
Other payables	174	-
Subtotal	<u>(33,508)</u>	<u>13,752</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>81,770</u>	<u>84,752</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(418)	(819)
Investments	-	(13,314)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(418)</u>	<u>(14,133)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) Increase in short- and long-term loans	(3,240)	(35,002)
Payment of dividends	-	(20,000)
Payment of interest on capital	-	(8,541)
Sale of treasury shares	182	754
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(3,058)</u>	<u>(62,789)</u>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets	-	<u>(52,602)</u>
<b>NET INCREASE IN CASH AND BANKS</b>	<u>78,294</u>	<u>(44,772)</u>
Cash and banks at beginning of year	185,287	57,283
Cash and banks at end of year	263,581	12,511
<b>CHANGE IN CASH AND BANKS</b>	<u>78,294</u>	<u>(44,772)</u>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE:</b>		
Income and social contribution taxes paid	5,087	8,161
Interest paid on loans and financing	732	1,091
Payments of swap and forward transactions	-	7,117

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