

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

Natura Cosméticos S.A.

*Interim Financial Statements for the Quarter
and Six-Month Period Ended June 30, 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 June 30, 2005, and the related statements of income for the quarter and six-month period 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 six-month period ended June 30, 2005 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 six-month period ended June 30, 2005 taken as a whole.

Deloitte Touche Tohmatsu

5. We had previously reviewed the individual and consolidated balance sheets as of March 31, 2005, and the statements of income for the quarter and six-month period ended June 30, 2004, and the supplemental statement of cash flows for the six-month period ended June 30, 2004, presented for comparative purposes, and issued unqualified review reports thereon, dated April 20, 2005 and July 16, 2004, respectively.
6. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, July 21, 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 JUNE 30, 2005 AND MARCH 31, 2005

(In thousands of Brazilian reais - R\$)

| <u>ASSETS</u> | <u>Company</u> | | <u>Consolidated</u> | | <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | <u>Company</u> | | <u>Consolidated</u> | |
|---|-----------------------|-----------------------|----------------------------|-----------------------|--|-----------------------|-----------------------|----------------------------|-----------------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> | | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| CURRENT ASSETS | | | | | CURRENT LIABILITIES | | | | |
| Cash and banks | 18,558 | 40,232 | 33,354 | 45,693 | Loans and financing | 11,297 | 11,922 | 36,500 | 85,595 |
| Temporary cash investments | 133,857 | 223,349 | 209,481 | 272,317 | Domestic suppliers | 6,824 | 6,253 | 93,102 | 81,674 |
| Trade accounts receivable | 228,969 | 191,241 | 241,935 | 206,877 | Foreign suppliers | - | - | 9,185 | 2,507 |
| Inventories | 834 | 1,429 | 168,659 | 141,234 | Suppliers - related parties | 94,265 | 77,998 | - | - |
| Recoverable taxes | 261 | 166 | 22,935 | 17,942 | Salaries, profit sharing and related charges | 23,606 | 16,153 | 54,629 | 37,954 |
| Advances to employees | 2,458 | 4,284 | 4,849 | 6,021 | Taxes payable | 51,352 | 59,850 | 58,887 | 69,562 |
| Related parties | 4,928 | 926 | - | - | Dividends | 91,848 | 113,644 | 91,848 | 113,644 |
| Deferred income and social contribution taxes | 13,385 | 11,339 | 22,095 | 20,731 | Interest on capital | 11,389 | 13,623 | 11,389 | 13,623 |
| Other current credits | 5,270 | 139 | 12,909 | 8,118 | Accrued freights | 10,435 | 7,530 | 10,435 | 7,530 |
| Total current assets | <u>408,520</u> | <u>473,105</u> | <u>716,217</u> | <u>718,933</u> | Reserve for losses on swap and forward contracts | 2,775 | 1,884 | 3,118 | 3,662 |
| | | | | | Other payables | 25,479 | 21,330 | 34,401 | 26,511 |
| | | | | | Total current liabilities | <u>329,270</u> | <u>330,187</u> | <u>403,494</u> | <u>442,262</u> |
| LONG-TERM ASSETS | | | | | LONG-TERM LIABILITIES | | | | |
| Advance for future capital increase | 876 | 835 | - | - | Loans and financing | 78,825 | 16,763 | 138,595 | 66,973 |
| Receivables from shareholders | 238 | 205 | 238 | 205 | Reserve for contingencies | 52,279 | 47,605 | 76,625 | 69,134 |
| Tax incentives | - | 1,122 | - | 1,162 | Provision for losses on subsidiaries | 4,490 | 783 | - | - |
| Deferred income and social contribution taxes | 17,191 | 15,429 | 25,063 | 24,160 | Other payables | 1,431 | 1,015 | 2,439 | 2,160 |
| Recoverable taxes | 1,215 | 931 | 7,196 | 4,621 | Total long-term liabilities | <u>137,025</u> | <u>66,166</u> | <u>217,659</u> | <u>138,267</u> |
| Escrow deposits | 21,874 | 21,644 | 26,871 | 25,912 | | | | | |
| Other long term credits | - | - | 2,078 | 1,716 | | | | | |
| Total long-term assets | <u>41,394</u> | <u>40,166</u> | <u>61,446</u> | <u>57,776</u> | | | | | |

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NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF JUNE 30, 2005 AND MARCH 31, 2005

(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>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> | | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| PERMANENT ASSETS | | | | | MINORITY INTEREST | - | - | 7 | 5 |
| Investments | 497,344 | 378,727 | 7,286 | 7,965 | SHAREHOLDERS' EQUITY | | | | |
| Property, plant and equipment | 11,705 | 12,085 | 327,416 | 301,835 | Capital | 230,762 | 230,762 | 230,762 | 230,762 |
| Total permanent assets | 509,049 | 390,812 | 334,702 | 309,800 | Capital reserves | 116,881 | 115,837 | 116,881 | 115,837 |
| | | | | | Profit reserves | 94,674 | 94,674 | 93,279 | 93,279 |
| | | | | | Retained earnings | 53,803 | 70,040 | 53,735 | 69,680 |
| | | | | | Treasury shares | (3,452) | (3,583) | (3,452) | (3,583) |
| | | | | | Total shareholders' equity | 492,668 | 507,730 | 491,205 | 505,975 |
| | | | | | TOTAL LIABILITIES AND | | | | |
| TOTAL ASSETS | 958,963 | 904,083 | 1,112,365 | 1,086,509 | SHAREHOLDERS' EQUITY | 958,963 | 904,083 | 1,112,365 | 1,086,509 |

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

NATURA COSMÉTICOS S.A.

**STATEMENTS OF INCOME
FOR THE QUARTER AND SIX-MONTH PERIOD ENDED JUNE 30, 2005 AND 2004
(In thousands of Brazilian reais - R\$, except for earnings per share)**

| | Company | | | | Consolidated | | | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 04/01/2005 to 06/30/2005 | 04/01/2004 to 06/30/2004 | 01/01/2005 to 06/30/2005 | 01/01/2004 to 06/30/2004 | 04/01/2005 to 06/30/2005 | 04/01/2004 to 06/30/2004 | 01/01/2005 to 06/30/2005 | 01/01/2004 to 06/30/2004 |
| Gross sales to domestic market | 764,308 | 595,893 | 1,351,816 | 1,055,910 | 770,191 | 598,199 | 1,362,872 | 1,060,191 |
| Gross sales to foreign market | - | - | - | - | 22,522 | 18,699 | 40,602 | 32,243 |
| Other sales | - | 5 | - | 5 | 454 | 203 | 678 | 316 |
| GROSS OPERATING REVENUES | 764,308 | 595,898 | 1,351,816 | 1,055,915 | 793,167 | 617,101 | 1,404,152 | 1,092,750 |
| Taxes on sales, returns and rebates | (176,958) | (140,649) | (311,963) | (249,660) | (235,423) | (188,557) | (419,299) | (335,036) |
| NET OPERATING REVENUES | 587,350 | 455,249 | 1,039,853 | 806,255 | 557,744 | 428,544 | 984,853 | 757,714 |
| Cost of sales | (234,316) | (202,646) | (421,099) | (351,346) | (174,548) | (145,934) | (319,541) | (254,309) |
| GROSS PROFIT | 353,034 | 252,603 | 618,754 | 454,909 | 383,196 | 282,610 | 665,312 | 503,405 |
| OPERATING (EXPENSES) INCOME | | | | | | | | |
| Selling | (149,951) | (109,423) | (261,362) | (196,761) | (175,398) | (128,344) | (310,194) | (232,286) |
| General and administrative | (86,771) | (59,882) | (167,671) | (116,358) | (84,988) | (57,999) | (142,123) | (99,819) |
| Management compensation | (1,298) | (1,689) | (2,917) | (3,314) | (2,038) | (2,089) | (4,392) | (3,998) |
| Equity in subsidiaries | (3,122) | 6,558 | 1,139 | 14,542 | - | - | - | - |
| Other operating expenses | (2,973) | - | (2,973) | - | (1,605) | - | (2,738) | - |
| INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS | 108,919 | 88,167 | 184,970 | 153,018 | 119,167 | 94,178 | 205,865 | 167,302 |
| Financial expenses | (1,893) | (453) | (3,510) | (6,106) | (14,854) | (5,764) | (23,457) | (20,495) |
| Financial income | 4,790 | 2,330 | 15,068 | 11,490 | 12,194 | 6,542 | 26,431 | 20,232 |
| INCOME FROM OPERATIONS | 111,816 | 90,044 | 196,528 | 158,402 | 116,507 | 94,956 | 208,839 | 167,039 |
| Nonoperating income (expenses), net | (1,098) | 75 | (1,062) | 337 | (1,094) | (577) | (2,179) | 111 |
| INCOME BEFORE DEBENTURES PARTICIPATION AND TAXES | 110,718 | 90,119 | 195,466 | 158,739 | 115,413 | 94,379 | 206,660 | 167,150 |
| Debentures participation | - | - | - | (7,178) | - | - | - | (7,178) |
| INCOME BEFORE TAXES ON INCOME | 110,718 | 90,119 | 195,466 | 151,561 | 115,413 | 94,379 | 206,660 | 159,972 |
| Income and social contribution taxes | (23,138) | (10,745) | (37,846) | (26,065) | (27,539) | (15,562) | (49,106) | (36,497) |
| NET INCOME BEFORE MINORITY INTEREST | 87,580 | 79,374 | 157,620 | 125,496 | 87,874 | 78,817 | 157,554 | 123,475 |
| Minority interest | - | - | - | - | (2) | - | (2) | - |
| NET INCOME | 87,580 | 79,374 | 157,620 | 125,496 | 87,872 | 78,817 | 157,552 | 123,475 |
| EARNINGS PER SHARE - R\$ | 1.0321 | 0.9365 | 1.8574 | 1.4807 | 1.0355 | 0.9299 | 1.8566 | 1.4569 |

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NATURA COSMÉTICOS S.A.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE QUARTERS ENDED MARCH 31, 2005 AND JUNE 30, 2005
(In thousands of Brazilian reais - R\$)**

| | Capital reserve | | | Profit reserves | | Retained earnings | Total | |
|--|-----------------|-----------------|----------------|-------------------|---------------|-------------------|---------------|----------------|
| | Capital | Treasury shares | Share premium | Investment grants | Legal | | | Retention |
| BALANCES AS OF DECEMBER 31, 2003 | 56,387 | - | - | 9,998 | 10,687 | 45,544 | - | 122,616 |
| Capital increases: | | | | | | | | |
| Capitalization of debentures | 138,569 | - | 100,000 | - | - | - | - | 238,569 |
| Merger of Natura Empreendimentos S.A. | 1,415 | - | - | - | - | - | - | 1,415 |
| Subscription of shares | 34,391 | - | - | - | - | - | - | 34,391 |
| Purchase of shares | - | (1,415) | - | - | - | - | - | (1,415) |
| Sale of treasury shares by exercise of stock options | - | 309 | 5,177 | - | - | - | - | 5,486 |
| Receivables from shareholders | - | (3,029) | - | - | - | - | - | (3,029) |
| Realization of profit on sale of shares | - | 480 | 496 | - | - | - | - | 976 |
| Absorption of excess liabilities through merger of Natura Empreendimentos S.A., after the elimination of the merged company's investment in the Company | - | - | - | - | - | (23,367) | - | (23,367) |
| Absorption of excess liabilities through merger of Natura Participações S.A., after the elimination of the merged company's investment in the Company | - | - | - | - | - | (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) | - |
| Profit retention reserve | - | - | - | - | - | 76,024 | (76,024) | - |
| Dividends - R\$ 2.204 per outstanding share | - | - | - | - | - | - | (186,910) | (186,910) |
| Interest on capital - R\$ 0.347 per outstanding share | - | - | - | - | - | - | (29,442) | (29,442) |
| BALANCES AS OF DECEMBER 31, 2004 | 230,762 | (3,655) | 105,673 | 9,998 | 18,650 | 76,024 | - | 437,452 |
| Net income | - | - | - | - | - | - | 70,040 | 70,040 |
| Treasury shares | - | - | - | - | - | - | - | - |
| Sale of treasury shares by exercise of stock options | - | 16 | 166 | - | - | - | - | 182 |
| Receivables from shareholders | - | 56 | - | - | - | - | - | 56 |
| BALANCES AS OF MARCH 31, 2005 | 230,762 | (3,583) | 105,839 | 9,998 | 18,650 | 76,024 | 70,040 | 507,730 |
| Net income | - | - | - | - | - | - | 87,580 | 87,580 |
| Treasury shares | - | - | - | - | - | - | - | - |
| Sale of treasury shares by exercise of stock options | - | 75 | 1,044 | - | - | - | - | 1,119 |
| Receivables from shareholders | - | 56 | - | - | - | - | - | 56 |
| Dividends - R\$ 1.065 per outstanding share | - | - | - | - | - | - | (90,434) | (90,434) |
| Interest on capital - R\$ 0.157 per outstanding share | - | - | - | - | - | - | (13,383) | (13,383) |
| BALANCES AS OF JUNE 30, 2005 | 230,762 | (3,452) | 106,883 | 9,998 | 18,650 | 76,024 | 53,803 | 492,668 |

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

NATURA COSMÉTICOS S.A.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE QUARTER AND SIX-MONTH PERIOD ENDED JUNE 30, 2005
(Amounts in thousands of Brazilian reais - R\$, unless otherwise indicated)

1. OPERATIONS

Natura Cosméticos S.A. (the “Company”) and its subsidiaries 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. 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> | |
|------------------------|----------------|---|----------------|
| 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> |
| | | Total long-term liabilities | <u>17,015</u> |
| PERMANENT ASSETS | | SHAREHOLDERS' EQUITY | |
| 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 | 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 | (1,043,060) |
| 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 INTERIM FINANCIAL STATEMENTS

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

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 through 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 through 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 through 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 through the balance sheet dates, as provided for by contract and mentioned in Note 14.

k) Reserve for contingencies

Adjusted through 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 contracts

The nominal values of swap and forward contracts 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 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.

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 individual and consolidated statements of cash flows.

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 those 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:

| | Ownership interest - % | | |
|---|------------------------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2004</u> |
| Direct: | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. | 99.82 | 99.76 | 99.76 |
| Natura Cosméticos S.A. – Chile | 99.96 | 99.96 | 99.96 |
| Natura Cosméticos S.A. – Peru | 99.93 | 99.93 | 99.85 |
| Natura Cosméticos S.A. - Argentina | 95.00 | 95.00 | 99.99 |
| Natura Brasil Cosmética Ltda. - Portugal | 99.00 | 99.00 | 99.99 |
| Commodities Trading S.A. - Uruguay | - | 100.00 | 100.00 |
| Nova Flora Participações Ltda. | 100.00 | 100.00 | 100.00 |
| Natura Inovação e Tecnologia de Produtos Ltda. | 99.99 | 99.99 | 100.00 |
| Natura Europa SAS | 100.00 | 100.00 | - |
| Natura Cosméticos S.A. - Mexico | 99.99 | 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 – joint control) | 33.33 | 33.33 | - |

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 SAS and Ybios S.A. and Natura Cosméticos S.A. - Mexico, respectively.

The Company's shareholders' equity and net income as of June 30, 2005 and March 31, 2005 differ by R\$1,463 and R\$1,755 from the amounts stated in the consolidated financial statements, due to the elimination of the subsidiaries' unrealized profits.

In addition, as of June 30, 2005 and 2004 the Company's net income has a difference of R\$ 68 and R\$2,021, 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>06/2005</u> | <u>06/2004</u> | <u>06/2005</u> | <u>03/2005</u> |
| Company | 157,620 | 125,496 | 492,668 | 507,730 |
| Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries | <u>(68)</u> | <u>(2,021)</u> | <u>(1,463)</u> | <u>(1,755)</u> |
| Consolidated | <u>157,552</u> | <u>123,475</u> | <u>491,205</u> | <u>505,975</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, Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos S.A - Mexico 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 and Commodities Trading S.A. - Uruguay (subsidiary shut down in May 2005): 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 S.A. - Mexico: engaged in the purchase, sale, import, export, distribution and storage 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 sale of phytotherapeutic products of its own brand. This company has no activities currently.

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

| | Company | | Consolidated | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Bank certificates of deposit (CDBs) | 127,473 | 194,030 | 201,139 | 238,812 |
| Investment funds | <u>6,384</u> | <u>29,319</u> | <u>8,342</u> | <u>33,505</u> |
| | <u>133,857</u> | <u>223,349</u> | <u>209,481</u> | <u>272,317</u> |

As of June 30, 2005, CDBs are remunerated at rates ranging from 100% to 102.5% (100% to 101.8% as of March 31, 2005) of the interbank deposit rate (CDI), and the share in the total investment portfolio is 96.0% as of June 30, 2005 (87.7% as of March 31, 2005). Investments funds are remunerated at rates ranging from 96.40% to 99.96% of the CDI as of June 30, 2005 (89.79% to 104.14% as of March 31, 2005).

6. TRADE ACCOUNTS RECEIVABLE

| | Company | | Consolidated | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Trade accounts receivable | 242,936 | 204,175 | 256,844 | 220,747 |
| Allowance for doubtful accounts | <u>(13,967)</u> | <u>(12,934)</u> | <u>(14,909)</u> | <u>(13,870)</u> |
| | <u>228,969</u> | <u>191,241</u> | <u>241,935</u> | <u>206,877</u> |

7. INVENTORIES

| | Company | | Consolidated | |
|-----------------------------|------------|--------------|----------------|----------------|
| | 06/2005 | 03/2005 | 06/2005 | 03/2005 |
| Finished products | 809 | 1,418 | 78,085 | 70,496 |
| Raw materials and packaging | 2 | - | 64,843 | 66,726 |
| Work in process | - | - | 7,635 | 10,330 |
| Promotional material | 23 | 11 | 10,966 | 10,229 |
| Reserve for losses | - | - | (12,870) | (16,547) |
| | <u>834</u> | <u>1,429</u> | <u>168,659</u> | <u>141,234</u> |

8. RECOVERABLE TAXES

| | Company | | Consolidated | |
|--------------------------------------|--------------|--------------|---------------|---------------|
| | 06/2005 | 03/2005 | 06/2005 | 03/2005 |
| ICMS (state VAT) | 1,476 | 1,097 | 18,495 | 10,815 |
| IRPJ (corporate income tax) | - | - | 4,193 | 4,681 |
| Social contribution tax | - | - | 2,791 | 2,475 |
| IPI (federal VAT) | - | - | 345 | - |
| PIS/COFINS/CSLL - withheld at source | - | - | 1,071 | 870 |
| PIS (tax on revenue) | - | - | 91 | 91 |
| COFINS (tax on revenue) | - | - | 420 | 420 |
| Other | - | - | 2,725 | 3,211 |
| | <u>1,476</u> | <u>1,097</u> | <u>30,131</u> | <u>22,563</u> |
| Long-term | <u>1,215</u> | <u>931</u> | 7,196 | 4,621 |
| Current | <u>261</u> | <u>166</u> | <u>22,935</u> | <u>17,942</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:

| | Company | | Consolidated | |
|---|---------|---------|--------------|---------|
| | 06/2005 | 03/2005 | 06/2005 | 03/2005 |
| Current: | | | | |
| Tax loss carryforwards | - | - | 1,333 | 375 |
| Temporary differences: | | | | |
| Reserve for inventory losses | - | - | 4,376 | 5,626 |
| Allowance for doubtful accounts | 5,024 | 4,584 | 5,024 | 4,584 |
| Reserve for losses on swap and forward transactions | 944 | 640 | 1,060 | 1,283 |

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Other | <u>7,417</u> | <u>6,115</u> | <u>10,302</u> | <u>8,863</u> |
| Deferred income and social contribution taxes | <u>13,385</u> | <u>11,339</u> | <u>22,095</u> | <u>20,731</u> |

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Long-term: | | | | |
| Tax loss carryforwards | - | - | 721 | 1,541 |
| Temporary differences: | | | | |
| Reserve for contingencies | 16,315 | 14,725 | 23,159 | 21,611 |
| Other | <u>876</u> | <u>704</u> | <u>1,183</u> | <u>1,008</u> |
| Deferred income and social contribution taxes | <u>17,191</u> | <u>15,429</u> | <u>25,063</u> | <u>24,160</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:

| | Consolidated | |
|------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> |
| 2006 | 8,711 | 11,140 |
| 2007 | 3,607 | 2,661 |
| 2008 | 7,432 | 9,908 |
| 2009 | <u>5,313</u> | <u>451</u> |
| | <u>25,063</u> | <u>24,160</u> |

b) Current expense

Reconciliation of income and social contribution taxes:

| | Company | | Consolidated | |
|--|-----------------|-----------------|-----------------|-----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Income before taxes on income | 195,466 | 84,748 | 206,660 | 91,247 |
| Income and social contribution taxes at the rate of 34% | (66,458) | (28,814) | (70,265) | (31,024) |
| Equity in subsidiaries | (624) | 1,449 | - | - |
| Losses generated by subsidiaries | - | - | (8,124) | (3,147) |
| Reversal of provision for maintenance of dividend payment capacity | 24,967 | 12,483 | 24,967 | 12,483 |
| Interest on capital | 4,550 | - | 4,550 | - |
| Other | <u>(281)</u> | <u>174</u> | <u>(234)</u> | <u>121</u> |
| Income and social contribution taxes | <u>(37,846)</u> | <u>(14,708)</u> | <u>(49,106)</u> | <u>(21,567)</u> |
| Current income and social contribution taxes | (43,600) | (16,654) | (53,333) | (23,527) |
| Deferred income and social contribution taxes | <u>5,754</u> | <u>1,946</u> | <u>4,227</u> | <u>1,960</u> |
| | <u>(37,846)</u> | <u>(14,708)</u> | <u>(49,106)</u> | <u>(21,567)</u> |

10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

| | Company | | Consolidated | |
|--|---------------|----------------|---------------|----------------|
| | 06/2005 | 03/2004 | 06/2005 | 03/2004 |
| Current assets: | | | | |
| Accounts receivable: | | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. (a) | - | 52 | - | - |
| Natura Logística e Serviços Ltda. (a) | 2,495 | 32 | - | - |
| Natura Inovação e Tecnologia de Produtos Ltda. (a) | 1,600 | 9 | - | - |
| Nova Flora Participações Ltda. (b) | <u>833</u> | <u>833</u> | - | - |
| | <u>4,928</u> | <u>926</u> | - | - |
| Advance for future capital increase- Nova Flora Participações Ltda. (c) | <u>876</u> | <u>835</u> | - | - |
| Receivables from sale of shares (d) | <u>238</u> | <u>205</u> | <u>238</u> | <u>205</u> |
| Current liabilities: | | | | |
| Suppliers: | | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. (e) | 71,367 | 64,225 | - | - |
| Natura Logística e Serviços Ltda. (f) | 9,777 | 7,872 | - | - |
| Natura Inovação e Tecnologia de Produtos Ltda. (g) | <u>13,121</u> | <u>5,901</u> | - | - |
| | <u>94,265</u> | <u>77,998</u> | - | - |
| Dividends payable- Shareholders | <u>91,848</u> | <u>113,644</u> | <u>91,848</u> | <u>113,644</u> |
| Interest on capital payable: Shareholders | <u>11,389</u> | <u>13,623</u> | <u>11,389</u> | <u>13,623</u> |

Transactions with related parties are summarized as follows:

| | Product sales | | Product purchases | |
|---|----------------|----------------|-------------------|----------------|
| | 06/2005 | 06/2004 | 06/2005 | 06/2004 |
| Natura Cosméticos S.A. | - | - | 484,962 | 421,961 |
| Indústria e Comércio de Cosméticos Natura Ltda. | 499,098 | 433,052 | - | - |
| Natura Cosméticos S.A. - Argentina | - | - | 5,665 | 3,464 |
| Natura Cosméticos S.A. - Peru | - | - | 4,293 | 2,144 |
| Natura Cosméticos S.A. - Chile | - | - | 3,315 | 5,458 |
| Natura Europa SAS | - | - | 502 | - |
| Natura Cosméticos S.A. - Mexico | - | - | 103 | - |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 258 | 9 |
| Flora Medicinal J. Monteiro da Silva Ltda. | - | - | - | 16 |
| | <u>499,098</u> | <u>433,052</u> | <u>499,098</u> | <u>433,052</u> |

| | Service sales | | Service purchases | |
|---|----------------|----------------|-------------------|----------------|
| | 06/2005 | 06/2004 | 06/2005 | 06/2004 |
| Administrative structure: (h) | | | | |
| Natura Logística e Serviços Ltda. | 86,909 | 57,219 | - | - |
| Natura Cosméticos S.A. | - | - | 63,303 | 40,647 |
| Indústria e Comércio de Cosméticos Natura Ltda. | - | - | 16,608 | 12,028 |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 6,998 | 4,544 |
| | <u>86,909</u> | <u>57,219</u> | <u>86,909</u> | <u>57,219</u> |
| Product research and development: (i) | | | | |
| Natura Inovação e Tecnologia de Produtos Ltda. | 55,157 | 29,229 | - | - |
| Natura Cosméticos S.A. | - | - | 55,157 | 29,229 |
| | <u>55,157</u> | <u>29,229</u> | <u>55,157</u> | <u>29,229</u> |
| Lease of properties and common charges: (j) | | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. | 2,794 | 2,726 | - | - |
| Natura Cosméticos S.A. | - | - | 524 | 524 |
| Natura Empreendimentos S.A. | - | - | - | 27 |
| Natura Participações S.A. | - | - | - | 14 |
| Natura Logística e Serviços Ltda. | - | - | 1,619 | 1,619 |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 651 | 542 |
| | <u>2,794</u> | <u>2,726</u> | <u>2,794</u> | <u>2,726</u> |
| Total service sales/purchases | <u>643,958</u> | <u>522,226</u> | <u>643,958</u> | <u>522,226</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 the principal directors of the Company in exchange for financings totaling R\$6,174, which accrue interest at 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\$4,776 as of June 30, 2005 (R\$4,799 as of March 31, 2005), 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 June 30, 2005 and March 31, 2005, as well as the intercompany transactions that affected the results for the six-month periods ended June 30, 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>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Investments in subsidiaries | 497,335 | 378,727 | - | - |
| Goodwill on acquisition of investment - Nova Flora | - | - | 8,015 | 8,015 |
| Amortization of goodwill – Nova Flora | - | - | (6,641) | (5,966) |
| Goodwill on acquisition of investment - Natura Europa | - | - | 5,912 | 5,916 |
| Other | <u>9</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>497,344</u> | <u>378,727</u> | <u>7,286</u> | <u>7,965</u> |

The goodwill on the acquisition made by the subsidiary Nova Flora Participações Ltda. will be fully amortized in 2005, due to the low expectation of profitability from 2006 onwards.

The goodwill generated on the purchase of a commercial location where Natura Europa SAS operates is supported by an appraisal report issued by independent appraisers, attributable to the fact that it is an intangible, marketable asset, which does not suffer any decrease in value over time.

Investments in direct subsidiaries are as follows:

| | Indústria e Comércio de Cosméticos Natura Ltda. | Natura Cosméticos S.A. - Chile | Natura Cosméticos S.A. - Peru | Natura Cosméticos S.A. - Argentina | Natura Brasil Cosmética - Portugal | Commodities Trading S.A. - Uruguay | Nova Flora Participações Ltda. | Natura Inovação Ltda. | Natura Europa SAS | Natura Cosméticos S.A. - Mexico | Total |
|---|--|--------------------------------------|-------------------------------------|---|---|--|--------------------------------------|-----------------------------|-------------------------|--|---------|
| Shares of subsidiaries | 432,500 | 39,983 | 19,499 | 59,058 | 14 | - | 2,413 | 5,008 | 23,704 | 3,253 | |
| Number of shares (common shares) held | 431,705 | 39,967 | 19,485 | 56,105 | 14 | - | 2,413 | 5,007 | 23,704 | 3,253 | |
| Ownership interest - % | 99,82% | 99,96% | 99,93% | 95,00% | 99,99% | - | 100,00% | 99,99% | 100,00% | 99,99% | |
| Capital | 432,500 | 39,983 | 19,499 | 59,058 | 14 | - | 2,413 | 5,008 | 23,704 | 3,253 | 585,432 |
| Shareholders' equity of subsidiaries | 464,841 | (748) | 2,167 | (1,284) | (50) | - | (2,472) | 17,941 | 12,623 | 621 | 493,639 |
| Share in shareholders' equity | 463,987 | (748) | 2,165 | (1,220) | (50) | - | (2,472) | 17,940 | 12,623 | 621 | 492,846 |
| Net income (loss) of subsidiaries | 6,168 | (1,234) | 397 | (1,868) | - | - | (2,857) | 2,541 | (4,038) | (2,293) | (3,184) |
| Book value of Company investment: | | | | | | | | | | | |
| Balances as of March 31, 2005 | 354,324 | - | 2,036 | 884 | - | 20 | 384 | 15,398 | 5,681 | - | 378,727 |
| Equity in subsidiaries | 6,155 | (1,233) | 397 | (1,775) | - | (20) | (2,856) | 2,541 | (4,039) | (2,292) | (3,122) |
| Exchange variation on translation of foreign investments | - | (372) | (268) | (329) | 11 | - | - | - | (1,990) | (25) | (2,973) |
| Recognition (Reversal) of provision for losses | - | 365 | - | 1,220 | (11) | - | 2,472 | - | - | 339 | 3,707 |
| Capital increase | 103,508 | 1,240 | - | - | - | - | - | - | 12,971 | 3,277 | 120,996 |
| Balances as of June 30, 2005 | 463,987 | - | 2,165 | - | - | - | - | 17,939 | 12,623 | 621 | 497,335 |
| Provision for losses: | | | | | | | | | | | |
| Balances as of March 31, 2005 | - | (383) | - | - | (61) | - | - | - | - | (339) | (783) |
| (Recognition) Reversal of provision | - | (365) | - | (1,220) | 11 | - | (2,472) | - | - | 339 | (3,707) |
| Balances as of June 30, 2005 | - | (748) | - | (1,220) | (50) | - | (2,472) | - | - | - | (4,490) |
| Balances as of June 30, 2005 | 463,987 | (748) | 2,165 | (1,220) | (50) | - | (2,472) | 17,939 | 12,623 | 621 | 492,845 |

12. PROPERTY, PLANT AND EQUIPMENT

| | Annual depreciation rate - % | Company | | | | | |
|-------------------------|------------------------------------|---------------|-----------------------------|-------------------|---------------|-----------------------------|-------------------|
| | | 06//2005 | | | 03/2005 | | |
| | | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Machinery and equipment | 10 | 1,037 | 842 | 195 | 1,036 | 819 | 217 |
| Vehicles | 20 | 13,387 | 6,162 | 7,225 | 13,141 | 5,574 | 7,567 |
| Furniture and fixtures | 10 | 4,035 | 3,132 | 903 | 3,906 | 3,059 | 847 |
| IT equipment | 20 | 6,906 | 5,724 | 1,182 | 6,896 | 5,752 | 1,144 |
| Software licenses | 20 | 3,122 | 1,514 | 1,608 | 3,085 | 1,370 | 1,715 |
| Leasehold improvements | 12 | 760 | 171 | 589 | 755 | 164 | 591 |
| Other | 10 | 6 | 3 | 3 | 6 | 2 | 4 |
| | | <u>29,253</u> | <u>17,548</u> | <u>11,705</u> | <u>28,825</u> | <u>16,740</u> | <u>12,085</u> |

| | Annual depreciation rate - % | Consolidated | | | | | |
|--------------------------|------------------------------------|----------------|-----------------------------|-------------------|----------------|-----------------------------|-------------------|
| | | 06/2005 | | | 03/2005 | | |
| | | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Buildings | 4 | 141,218 | 21,788 | 119,430 | 126,990 | 20,399 | 106,591 |
| Installations | 10 | 66,293 | 27,192 | 39,101 | 64,711 | 26,344 | 38,367 |
| Machinery and equipment | 10 | 96,391 | 37,499 | 58,892 | 80,584 | 35,320 | 45,264 |
| Vehicles | 20 | 20,016 | 7,749 | 12,267 | 21,289 | 8,817 | 12,472 |
| Molds | 33 | 30,243 | 22,490 | 7,753 | 28,496 | 21,599 | 6,897 |
| Furniture and fixtures | 10 | 14,427 | 6,712 | 7,715 | 12,992 | 7,033 | 5,959 |
| IT equipment | 20 | 31,917 | 18,995 | 12,922 | 32,383 | 20,231 | 12,152 |
| Software licenses | 20 | 17,479 | 6,895 | 10,584 | 15,670 | 6,073 | 9,597 |
| Leasehold improvements | 12 | 778 | 189 | 589 | 774 | 182 | 592 |
| Land | - | 15,917 | - | 15,917 | 15,910 | - | 15,910 |
| Advances to suppliers | - | 18,417 | - | 18,417 | 18,461 | - | 18,461 |
| Construction in progress | - | 19,433 | - | 19,433 | 24,680 | - | 24,680 |
| Other | 10 | 8,667 | 4,271 | 4,396 | 9,762 | 4,869 | 4,893 |
| | | <u>481,196</u> | <u>153,780</u> | <u>327,416</u> | <u>452,702</u> | <u>150,867</u> | <u>301,835</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:

| | Company | |
|--|------------------|------------------|
| | <u>06/2005</u> | <u>03/2005</u> |
| Goodwill on investments | 832,223 | 868,939 |
| Provision for maintenance of dividend payment capacity | <u>(832,223)</u> | <u>(868,939)</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

| Type | Company | | Consolidated | | Maturity | Charges | Guarantees |
|---|---------------|---------------|----------------|----------------|-------------------------|---|---|
| | 06/2005 | 03/2005 | 06/2005 | 03/2005 | | | |
| FINEP (Financing Agency for Studies and Projects) | - | - | 36,729 | 34,546 | 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) | 24,778 | 28,374 | 24,778 | 28,374 | 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 | December 2011 | Six-month LIBOR + 6.1% p.a. + exchange variation (dollar) | Promissory notes and guarantee of Natura Cosméticos S.A. |
| Export credit note (NCE) | - | - | 28,841 | - | April 2008 | Interest of 104.7% of CDI (interbank deposit rate) | Promissory notes and guarantee of Natura Cosméticos S.A. |
| Resolution No. 2,770 and overdraft account | - | 311 | - | 40,454 | May 2005 | Interest of 105% of CDI | Promissory notes and guarantee of Natura Cosméticos S.A. |
| BNDES-FINAME (Government Agency for Machinery and Equipment Financing) | - | - | 6,255 | 3,451 | July 2005 to April 2010 | Interest of 4.5% p.a. + TJLP | Chattel mortgage and guarantee of Natura Cosméticos S.A. and promissory notes |
| BNDES-PROGEREN (Support Program for Enhancing Employment and Income Capacity) | 65,344 | - | 65,344 | - | June 2007 | Interest of 3.5% p.a. + TJLP | Bank guarantee and guarantee of Indústria e Comércio de Cosméticos Natura Ltda. |
| Loans – Argentina | - | - | 6,939 | 8,108 | December 2005 | Interest of 9.5% p.a. + exchange variation (Argentinean pesos) | Guarantee of Natura Cosméticos S.A. |
| Loans – France | - | - | 1,575 | 7,696 | May 2006 | Interest of + 3.7% p.a. + exchange variation (euro) | Guarantee of Natura Cosméticos S.A. |
| Loans – Chile | - | - | 1,329 | 1,250 | July 2005 | Interest of 5.0% p.a. + exchange variation (Chilean pesos) | Guarantee of Natura Cosméticos S.A. |
| Loans – Mexico | - | - | 3,305 | 1,341 | September 2005 | Interest of 4.3% p.a. + exchange variation (dollar) | Guarantee of Natura Cosméticos S.A. |
| Total | <u>90,122</u> | <u>28,685</u> | <u>175,095</u> | <u>152,568</u> | | | |
| Current | 11,297 | 11,922 | 36,500 | 85,595 | | | |
| Long-term | <u>78,825</u> | <u>16,763</u> | <u>138,595</u> | <u>66,973</u> | | | |

(*) UMBNDES - BNDES monetary unit

Maturities of long-term debt are as follows:

| | Consolidated | |
|------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> |
| 2006 | 44,373 | 20,096 |
| 2007 | 52,518 | 21,782 |
| 2008 | 40,666 | 13,606 |
| 2009 | 831 | 3,864 |
| 2010 | 207 | 3,807 |
| 2011 | - | <u>3,818</u> |
| | <u>138,595</u> | <u>66,973</u> |

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

15. TAXES PAYABLE

| | Company | | Consolidated | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| ICMS (state VAT) | 44,324 | 44,288 | 44,536 | 44,294 |
| COFINS (tax on revenue) | 167 | 186 | 3,283 | 3,075 |
| PIS (tax on revenue) | 37 | 26 | 694 | 632 |
| Income tax | 3,036 | 8,000 | 3,104 | 8,095 |
| CSLL (social contribution tax) | 1,127 | 2,990 | 1,127 | 2,990 |
| IRRF (withholding income tax) | 1,464 | 3,584 | 2,456 | 7,856 |
| PIS/COFINS/CSLL (Law No. 10,633/03) | 1,194 | 759 | 1,516 | 1,050 |
| Other | 3 | 17 | <u>2,171</u> | <u>1,570</u> |
| | <u>51,352</u> | <u>59,850</u> | <u>58,887</u> | <u>69,562</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 judgment.

The balances of contingencies are as follows:

| | Company | | Consolidated | |
|-------|----------------|----------------|----------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Tax | 46,088 | 44,519 | 64,898 | 62,274 |
| Labor | 2,882 | 2,424 | 3,895 | 3,590 |
| Civil | <u>3,309</u> | <u>662</u> | <u>7,832</u> | <u>3,270</u> |
| | <u>52,279</u> | <u>47,605</u> | <u>76,625</u> | <u>69,134</u> |

Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|----------------|---------------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (a) | 8,465 | 8,249 | 8,465 | 8,249 |
| Monetary restatement of federal taxes (IRPJ/ CSLL/ILL) according to the UFIR (fiscal reference unit) (b) | 4,875 | 4,720 | 4,875 | 4,841 |
| Tax assessment - INSS (social security contribution) (c) | 4,649 | 4,504 | 4,649 | 4,504 |
| IPI (federal VAT) - tax collection lawsuit (d) | 3,559 | 3,463 | 3,559 | 3,463 |
| PIS (tax on revenue) - semiannual - Decree-laws No. 2445/88 and No. 2449/88 (e) | 11,878 | 11,438 | 13,306 | 12,813 |
| IPI - zero rate (f) | - | - | 14,695 | 14,165 |
| Late payment fines on federal taxes paid in arrears (g) | 4,552 | 4,373 | 5,416 | 5,201 |
| Assessment notice - 1990 corporate income tax (h) | 2,312 | 2,251 | 2,312 | 2,251 |
| Attorneys' fees and other | <u>5,798</u> | <u>5,521</u> | <u>7,621</u> | <u>6,787</u> |
| | <u>46,088</u> | <u>44,519</u> | <u>64,898</u> | <u>62,274</u> |

- (a) Refers to CSLL (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\$3,504 (R\$3,636 as of March 2005), 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 INSS (social security contribution) 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.
- (e) Refers to the offset of PIS paid as per Decree-laws No. 2445/88 and No. 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 and with tax exemption. 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 a tax 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.

Labor contingencies

As of June 30, 2005, the Company and its subsidiaries are parties to 205 labor lawsuits filed by former employees and third parties (177 as of March 31, 2005), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability.

Civil contingencies

Accrued civil contingencies are comprised of the following proceedings:

| | <u>Company</u> | | <u>Consolidated</u> | |
|--------------------------------------|----------------|----------------|---------------------|----------------|
| | <u>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| <u>Civil:</u> | | | | |
| Several civil lawsuits (a) | 1,005 | 662 | 2,748 | 3,270 |
| Civil lawsuits - Flora Medicinal (b) | - | - | 2,780 | - |
| Attorneys' fees and other | <u>2,304</u> | <u>-</u> | <u>2,304</u> | <u>-</u> |
| Total | <u>3,309</u> | <u>662</u> | <u>7,832</u> | <u>3,270</u> |

- (a) As of June 30, 2005, the Company and its subsidiaries are parties to 577 lawsuits (532 as of March 31, 2005) 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.
- (b) The Company is a party to civil lawsuits filed by a former shareholder of the indirect shareholder Flora Medicinal, which seek the determination of any amounts and the satisfaction of alleged liabilities due to the former shareholder's withdrawal. With the end of the expert investigation phase in 4 of the five civil lawsuits, it was possible to determine the amounts involved, although no decision, even by the lower court, has been issued.

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 June 30, 2005 was R\$26,871 (R\$25,912 as of March 31, 2005) - 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>06/2005</u> | <u>03/2005</u> | <u>06/2005</u> | <u>03/2005</u> |
| Tax: | | | | |
| IPI credit on purchases of fixed assets and consumption material (a) | - | - | 9,980 | 9,545 |
| INSS debt annulment action (b) | 4,466 | 4,327 | 4,466 | 4,327 |
| Tax assessment - transfer pricing on loan agreements with foreign related company (c) | 1,178 | 1,151 | 1,178 | 1,151 |
| Offset of 1/3 of COFINS - Law No. 9718/98 (d) | 3,717 | 3,633 | 3,717 | 3,633 |
| Other | <u>2,698</u> | <u>1,922</u> | <u>3,903</u> | <u>3,138</u> |
| | 12,059 | 11,033 | 23,244 | 21,794 |
| Civil | 4,800 | 8,055 | 12,578 | 19,458 |
| Labor | <u>2,016</u> | <u>8,288</u> | <u>3,619</u> | <u>10,404</u> |
| Total | <u>18,875</u> | <u>27,376</u> | <u>39,441</u> | <u>51,656</u> |

- (a) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through injunctions 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 a foreign related party. On July 12, 2004, an administrative defense was filed and is still being judged.

- (d) Law No. 9718/98 increased the COFINS (tax on 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 mandate and obtained authorization to suspend the payment of the tax credit (1% rate difference) and to pay COFINS based on Supplementary Law No. 70/91, prevailing at that 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, as mentioned in Note 1.

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, as mentioned in Note 1.

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.

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 June 30, 2005 and March 31, 2005, 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) Interest on capital

The Company's management proposed at the Board of Directors' meeting held on April 28, 2005 the payment of interest on capital pursuant to its bylaws, CVM Resolution No. 207/86 and Law No. 9249/95. As of June 30, 2005, the gross amount of interest on capital is R\$13,383 (R\$13,433 as of June 30, 2004) and was calculated in accordance with statutory limits, also with respect to the mandatory minimum dividend of 30% 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% 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 Company paid, on April 5, 2005, dividends and interest on capital in the amounts of R\$113,577 and R\$16,009 (R\$13,608, net of withholding income tax), respectively, for the second half of 2004, as approved by the Extraordinary Shareholders' Meeting on March 29, 2005.

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

Interim dividends were calculated as follows:

| | <u>Company</u> | |
|--|----------------|----------------|
| | <u>06/2005</u> | <u>06/2004</u> |
| Net income | 157,620 | 125,496 |
| Profit reserve – legal (to be recorded at the end of the year) | (7,881) | (6,275) |
| Calculation basis for mandatory minimum annual dividend | 149,739 | 119,221 |
| Mandatory minimum annual dividend | 30% | 30% |
| Minimum annual dividend | 44,922 | 35,766 |
| Proposed interim dividends | 90,434 | 73,333 |
| Interest on capital, net of withholding income tax –interim | 11,389 | 11,418 |
| Withholding income tax – interest on capital | <u>1,994</u> | <u>2,014</u> |
| Total dividends and interest on capital | <u>103,817</u> | <u>86,765</u> |
| Amount exceeding the mandatory minimum annual dividend | 58,895 | 50,999 |
| Dividends per share - R\$ | 1.065 | 0.865 |
| Interest on capital per share - R\$ | 0.157 | 0.158 |

f) Treasury shares

As of June 30, 2005, common shares in treasury totaled 579,145 (641,501 as of March 31, 2005), at an average cost of R\$1.7538 (R\$1.6970 as of March 31, 2005).

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, 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, the Stock Option Grant Program (the "Program") was also assumed by the extinguished Natura Participações S.A., and the general bases of 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. The Company completed an initial public offering in Brazil and modified the Program to remove the Company's obligation to repurchase 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 June 30, 2005), 2001, 2002, 2003, 2004 and 2005 were approved under these rules.

The Plan for 2001 has a three-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 repurchase 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 São Paulo Stock Exchange (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> |
| Cancelled options | (146,285) |
| Exercised options | <u>(62,106)</u> |
| Balance of options as of June 30, 2005 | <u>1,684,602</u> |

Balance of call options by plan:

| | <u>Number of call options (in shares)</u> | <u>Amount for the year updated according to the IPCA through June 30, 2005 - R\$</u> |
|-------|---|--|
| 2001 | 84,513 | 19.10 |
| 2002 | 443,160 | 26.50 |
| 2003 | 606,835 | 14.85 |
| 2004 | 324,210 | 36.53 |
| 2005 | <u>225,884</u> | 78.39 |
| Total | <u>1,684,602</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. 01/04 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 June 30, 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 June 30, 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 June 30, 2005 would have been R\$168,828, as shown below:

| | <u>06/2005</u> |
|---|----------------|
| Net income for the period – Company | 157,552 |
| Effect of plans considering maturity period | <u>11,276</u> |
| Net income for the period - pro forma | <u>168,828</u> |

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

As of June 30, 2005, the market price of the Company's shares was R\$74.89 (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 the Company 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\$1,231 as of June 30, 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 Company and its subsidiaries 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.

As of June 30, 2005 and March 31, 2005, the Company had swap and forward transactions with financial institutions in the amounts of R\$6,659 and R\$33,418, respectively. These transactions generated liabilities of R\$3,118 and R\$3,662, respectively, recorded in current. 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 June 30, 2005 and March 31, 2005, 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 | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 06/2005 | | 03/2005 | |
| | <u>Book value</u> | <u>Fair value</u> | <u>Book value</u> | <u>Fair value</u> |
| Swap and forward transactions | <u>3,118</u> | <u>3,197</u> | <u>3,662</u> | <u>3,706</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 the opinion of its insurance advisors. As of June 30, 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, installations and machinery and equipment | 439,862 |
| Vehicles | Fire, theft and collision for 816 vehicles | 25,171 |
| 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 QUARTER AND SIX-MONTH PERIOD ENDED JUNE 30, 2005 AND 2004
(In thousands of Brazilian reais - R\$)

| | Company | | Consolidated | |
|---|------------------|-----------------|---------------------|-----------------|
| | 06/2005 | 06/2004 | 06/2005 | 06/2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | 157,620 | 125,496 | 157,552 | 123,475 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 2,513 | 2,167 | 20,137 | 17,149 |
| Monetary and exchange variations, net | 1,248 | (3,233) | (6,619) | 6,266 |
| Reserve for losses on swap and forward contracts | (1,769) | (7,971) | (3,020) | (7,996) |
| Reserve for contingencies | 12,510 | 1,034 | 17,066 | 714 |
| Reserve for obsolete inventories | - | - | (1,526) | 5,355 |
| Other reserves | 187 | - | 1,137 | - |
| Deferred income and social contribution taxes | (5,754) | (2,696) | (4,227) | (5,833) |
| Disposal of permanent assets | 286 | 148 | 4,434 | 359 |
| Equity in subsidiaries | (1,139) | (14,542) | - | - |
| Debentures participation, net of taxes | - | 5,743 | - | 5,743 |
| | 165,702 | 106,146 | 184,933 | 145,231 |
| (INCREASE) DECREASE IN ASSETS | | | | |
| Current assets: | | | | |
| Accounts receivable | 7,484 | 19,670 | 8,131 | 18,047 |
| Inventories | 800 | (466) | (45,172) | (23,110) |
| Other receivables | (4,892) | (4,153) | (373) | (168) |
| Long-term assets: | | | | |
| Escrow deposits | (395) | (4,940) | (1,488) | (7,056) |
| Other receivables | (3,079) | 24,197 | 800 | (2,948) |
| Subtotal | (82) | 34,308 | (38,102) | (15,235) |
| INCREASE (DECREASE) IN LIABILITIES | | | | |
| Current liabilities: | | | | |
| Suppliers | (7,931) | 58,970 | 15,720 | (990) |
| Payroll and related charges | (3,040) | (768) | (8,536) | 3,411 |
| Taxes payable | 985 | (7,897) | (12,670) | (6,182) |
| Other payables | 1,149 | (5) | 2,505 | (1,155) |
| Long-term liabilities: | | | | |
| Other payables | - | 7,732 | 554 | 8,329 |
| Subtotal | (8,837) | 58,031 | (2,426) | 3,414 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 156,783 | 198,485 | 144,405 | 133,410 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of property, plant and equipment | (1,460) | (1,327) | (53,139) | (26,820) |
| Investments | (121,003) | (20,129) | - | - |
| NET CASH USED IN INVESTING ACTIVITIES | (122,463) | (21,456) | (53,139) | (26,820) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Increase (Decrease) in short- and long-term loans | 59,308 | (31,832) | 46,456 | 25,009 |
| Payment of dividends | (112,229) | (20,000) | (112,229) | (20,000) |
| Payment of interest on capital | (15,617) | (10,556) | (15,617) | (10,556) |
| Sale of treasury shares | 1,346 | 5,195 | 1,347 | 5,195 |
| NET CASH USED IN FINANCING ACTIVITIES | (67,192) | (57,193) | (80,043) | (352) |
| Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets | - | (52,602) | - | (52,602) |
| NET INCREASE IN CASH AND BANKS | (32,872) | 67,234 | 11,223 | 53,636 |
| Cash and banks at beginning of year | 185,287 | 57,283 | 231,612 | 136,111 |
| Cash and banks at end of year | 152,415 | 124,517 | 242,835 | 189,748 |
| CHANGE IN CASH AND BANKS | (32,872) | 67,234 | 11,223 | 53,637 |
| SUPPLEMENTARY CASH FLOW DISCLOSURE | | | | |
| Income and social contribution taxes paid | 36,545 | 18,116 | 36,549 | 26,551 |
| Interest paid on loans and financing | 1,390 | 2,131 | 3,263 | 3,582 |
| Payments of swap and forward contracts | 2,043 | 7,117 | 14,123 | 6,796 |