

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

# ***Natura Cosméticos S.A.***

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

Deloitte Touche Tohmatsu

5. We had previously reviewed the individual and consolidated balance sheets as of June 30, 2005, and the statements of income for the quarter and nine-month period ended September 30, 2004, and the supplemental statement of cash flows for the nine-month period ended September 30, 2004, presented for comparative purposes, and issued unqualified review reports thereon, dated July 21, 2005 and October 15, 2004, respectively.
6. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, October 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 SEPTEMBER 30, 2005 AND JUNE 30, 2005**

(In thousands of Brazilian reais - R\$)

<b>ASSETS</b>	<u>Company</u>		<u>Consolidated</u>		<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>		<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and banks	30,874	18,558	47,477	33,354	Loans and financing (Note 14)	12,888	11,297	33,683	36,500
Temporary cash investments (Note 5)	134,618	133,857	193,159	209,481	Domestic suppliers	7,028	6,824	77,551	93,102
Trade accounts receivable (Note 6)	226,688	228,969	238,817	241,935	Foreign suppliers	-	-	5,259	9,185
Inventories (Note 7)	962	834	182,057	168,659	Suppliers - related parties (Note 10)	98,490	94,265	-	-
Recoverable taxes (Note 8)	500	261	29,649	22,935	Salaries, profit sharing and related charges	32,956	23,606	76,483	54,629
Advances to employees	2,825	2,458	7,052	4,849	Taxes payable (Note 15)	66,484	51,352	76,628	58,887
Related parties (Note 10)	4,613	4,928	-	-	Dividends (Note 17.e)	259	91,848	259	91,848
Deferred income and social contribution taxes (Note 9)	16,192	13,385	26,558	22,095	Interest on capital (Notes 17.d and 17.e)	8,796	11,389	8,796	11,389
Other receivables	7,095	5,270	12,965	12,909	Accrued freight	11,692	10,435	11,629	10,435
<b>Total current assets</b>	<b>424,367</b>	<b>408,520</b>	<b>737,734</b>	<b>716,217</b>	Reserve for losses on swap and forward contracts (Note 20.b)	3,360	2,775	3,392	3,118
					Insurance payable	1,155	310	1,797	425
<b>LONG-TERM ASSETS</b>					Advances from employees	5,254	4,008	5,920	4,699
Advance for future capital increase (Note 10.c)	972	876	-	-	Other payables	23,885	21,161	33,262	29,277
Cash investments (Note 5)	-	-	3,807	-	<b>Total current liabilities</b>	<b>272,247</b>	<b>329,270</b>	<b>334,659</b>	<b>403,494</b>
Receivables from shareholders (Notes 10.d and 17.c)	96	238	96	238					
Deferred income and social contribution taxes (Note 9)	17,129	17,191	26,599	25,063	<b>LONG-TERM LIABILITIES</b>				
Recoverable taxes (Note 8)	1,488	1,215	8,695	7,196	Loans and financing (Note 14)	76,525	78,825	150,413	138,595
Escrow deposits (Note 16)	22,561	21,874	27,689	26,871	Reserve for contingencies (Note 16)	52,321	52,279	82,632	76,625
Other receivables	-	-	566	2,078	Provision for losses on subsidiaries (Note 11)	3,467	4,490	-	-
<b>Total long-term assets</b>	<b>42,246</b>	<b>41,394</b>	<b>67,452</b>	<b>61,446</b>	Other payables	1,634	1,431	2,925	2,439
					<b>Total long-term liabilities</b>	<b>133,947</b>	<b>137,025</b>	<b>235,970</b>	<b>217,659</b>
					<b>MINORITY INTEREST</b>	-	-	8	7

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

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**NATURA COSMÉTICOS S.A.**

**BALANCE SHEETS AS OF SEPTEMBER 30, 2005 AND JUNE 30, 2005**

**(In thousands of Brazilian reais - R\$)**

<b><u>ASSETS</u></b>	<b><u>Company</u></b>		<b><u>Consolidated</u></b>		<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>	<b><u>Company</u></b>		<b><u>Consolidated</u></b>	
	<b><u>09/2005</u></b>	<b><u>06/2005</u></b>	<b><u>09/2005</u></b>	<b><u>06/2005</u></b>		<b><u>09/2005</u></b>	<b><u>06/2005</u></b>	<b><u>09/2005</u></b>	<b><u>06/2005</u></b>
<b>PERMANENT ASSETS</b>					<b>SHAREHOLDERS' EQUITY</b>				
Investments (Note 11)	508,771	497,344	6,242	7,286	Capital (Note 17.b)	230,762	230,762	230,762	230,762
Property, plant and equipment (Note 12)	<u>17,240</u>	<u>11,705</u>	<u>343,993</u>	<u>327,416</u>	Capital reserves	117,942	116,881	117,942	116,881
<b>Total permanent assets</b>	<b><u>526,011</u></b>	<b><u>509,049</u></b>	<b><u>350,235</u></b>	<b><u>334,702</u></b>	Profit reserves	94,674	94,674	93,279	93,279
					Retained earnings	144,521	53,803	144,270	53,735
					Treasury shares (Note 17.f)	<u>(1,469)</u>	<u>(3,452)</u>	<u>(1,469)</u>	<u>(3,452)</u>
					<b>Total shareholders' equity</b>	<b><u>586,430</u></b>	<b><u>492,668</u></b>	<b><u>584,784</u></b>	<b><u>491,205</u></b>
					<b>TOTAL LIABILITIES AND</b>				
<b>TOTAL ASSETS</b>	<b><u>992,624</u></b>	<b><u>958,963</u></b>	<b><u>1,155,421</u></b>	<b><u>1,112,365</u></b>	<b>SHAREHOLDERS' EQUITY</b>	<b><u>992,624</u></b>	<b><u>958,963</u></b>	<b><u>1,155,421</u></b>	<b><u>1,112,365</u></b>

**The accompanying notes and the attachment are an integral part of these interim financial statements.**

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

**NATURA COSMÉTICOS S.A.**

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

	Company				Consolidated			
	07/01/2005 to 09/30/2005	07/01/2004 to 09/30/2004	01/01/2005 to 09/30/2005	01/01/2004 to 09/30/2004	07/01/2005 to 09/30/2005	07/01/2004 to 09/30/2004	01/01/2005 to 09/30/2005	01/01/2004 to 09/30/2004
Gross sales to domestic market	780,480	622,725	2,132,297	1,678,635	786,129	628,579	2,149,001	1,688,770
Gross sales to foreign market	-	-	-	-	23,415	16,903	64,017	49,146
Other sales	1	-	1	5	254	174	932	490
<b>GROSS OPERATING REVENUES</b>	<b>780,481</b>	<b>622,725</b>	<b>2,132,298</b>	<b>1,678,640</b>	<b>809,798</b>	<b>645,656</b>	<b>2,213,950</b>	<b>1,738,406</b>
Taxes on sales, returns and rebates	(179,498)	(145,957)	(491,462)	(395,617)	(238,417)	(197,493)	(657,716)	(532,528)
<b>NET OPERATING REVENUES</b>	<b>600,983</b>	<b>476,768</b>	<b>1,640,836</b>	<b>1,283,023</b>	<b>571,381</b>	<b>448,163</b>	<b>1,556,234</b>	<b>1,205,878</b>
Cost of sales	(233,419)	(185,256)	(654,517)	(536,602)	(179,673)	(141,835)	(499,214)	(396,145)
<b>GROSS PROFIT</b>	<b>367,564</b>	<b>291,512</b>	<b>986,319</b>	<b>746,421</b>	<b>391,708</b>	<b>306,328</b>	<b>1,057,020</b>	<b>809,733</b>
<b>OPERATING (EXPENSES) INCOME</b>								
Selling	(152,106)	(122,962)	(413,468)	(319,724)	(178,335)	(140,987)	(488,529)	(371,507)
General and administrative	(78,344)	(70,726)	(246,015)	(187,084)	(73,542)	(66,461)	(215,665)	(168,046)
Management compensation	(1,707)	(1,807)	(4,624)	(5,121)	(2,453)	(2,178)	(6,845)	(6,176)
Equity in subsidiaries	(2,941)	(554)	(1,802)	13,988	-	-	-	-
Other operating expenses	(2,904)	-	(5,877)	-	(2,615)	-	(5,353)	-
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>129,562</b>	<b>95,463</b>	<b>314,533</b>	<b>248,480</b>	<b>134,763</b>	<b>96,702</b>	<b>340,628</b>	<b>264,004</b>
Financial expenses	(4,329)	(6,965)	(7,839)	(13,071)	(12,923)	(9,057)	(36,380)	(29,552)
Financial income	7,164	7,088	22,232	18,579	13,105	10,781	39,536	31,013
<b>INCOME FROM OPERATIONS</b>	<b>132,397</b>	<b>95,586</b>	<b>328,926</b>	<b>253,988</b>	<b>134,945</b>	<b>98,426</b>	<b>343,784</b>	<b>265,465</b>
Nonoperating income (expenses), net	(91)	233	(1,154)	570	(208)	(931)	(2,387)	(820)
<b>INCOME BEFORE DEBENTURES PARTICIPATION AND TAXES</b>	<b>132,306</b>	<b>95,819</b>	<b>327,772</b>	<b>254,558</b>	<b>134,737</b>	<b>97,495</b>	<b>341,397</b>	<b>264,645</b>
Debentures participation	-	-	-	(7,178)	-	-	-	(7,178)
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>132,306</b>	<b>95,819</b>	<b>327,772</b>	<b>247,380</b>	<b>134,737</b>	<b>97,495</b>	<b>341,397</b>	<b>257,467</b>
Income and social contribution taxes	(31,239)	(18,656)	(69,085)	(44,721)	(33,853)	(20,108)	(82,959)	(56,605)
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>101,067</b>	<b>77,163</b>	<b>258,687</b>	<b>202,659</b>	<b>100,884</b>	<b>77,387</b>	<b>258,438</b>	<b>200,862</b>
Minority interest	-	-	-	-	-	-	(2)	-
<b>NET INCOME</b>	<b>101,067</b>	<b>77,163</b>	<b>258,687</b>	<b>202,659</b>	<b>100,884</b>	<b>77,387</b>	<b>258,436</b>	<b>200,862</b>
<b>EARNINGS PER SHARE - R\$</b>	<b>1.1908</b>	<b>0.9105</b>	<b>3.0480</b>	<b>2.3912</b>	<b>1.1887</b>	<b>0.9131</b>	<b>3.0450</b>	<b>2.3700</b>

The accompanying notes and the attachment are an integral part of these interim financial statements.

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NATURA COSMÉTICOS S.A.

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

	Capital reserve			Profit reserves		Retained earnings	Total	
	Capital	Treasury shares	Share premium	Investment grants	Legal			Retention
<b>BALANCES AS OF DECEMBER 31, 2003</b>	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)
Amortization of receivables from shareholders	-	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)
<b>BALANCES AS OF DECEMBER 31, 2004</b>	<b>230,762</b>	<b>(3,655)</b>	<b>105,673</b>	<b>9,998</b>	<b>18,650</b>	<b>76,024</b>	<b>-</b>	<b>437,452</b>
Net income	-	-	-	-	-	-	70,040	70,040
Sale of treasury shares by exercise of stock options	-	16	166	-	-	-	-	182
Amortization of receivables from shareholders	-	56	-	-	-	-	-	56
<b>BALANCES AS OF MARCH 31, 2005</b>	<b>230,762</b>	<b>(3,583)</b>	<b>105,839</b>	<b>9,998</b>	<b>18,650</b>	<b>76,024</b>	<b>70,040</b>	<b>507,730</b>
Net income	-	-	-	-	-	-	87,580	87,580
Sale of treasury shares by exercise of stock options	-	75	1,044	-	-	-	-	1,119
Amortization of 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)
<b>BALANCES AS OF JUNE 30, 2005</b>	<b>230,762</b>	<b>(3,452)</b>	<b>106,883</b>	<b>9,998</b>	<b>18,650</b>	<b>76,024</b>	<b>53,803</b>	<b>492,668</b>
Net income	-	-	-	-	-	-	101,067	101,067
Sale of treasury shares by exercise of stock options	-	42	726	-	-	-	-	768
Amortization of receivables from shareholders	-	1,941	194	-	-	-	-	2,135
Tax incentives	-	-	-	141	-	-	-	141
Interest on capital - R\$0.122 per outstanding share	-	-	-	-	-	-	(10,349)	(10,349)
<b>BALANCES AS OF SEPTEMBER 30, 2005</b>	<b>230,762</b>	<b>(1,469)</b>	<b>107,803</b>	<b>10,139</b>	<b>18,650</b>	<b>76,024</b>	<b>144,521</b>	<b>586,430</b>

The accompanying notes and the attachment are an integral part of these interim financial statements.

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NATURA COSMÉTICOS S.A.

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

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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.

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 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, if applicable. 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 attorneys. 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, excluding treasury shares.

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 and resolutions established by the CVM, and include the financial statements of the Company and its direct and indirect subsidiaries, as follows:

	Ownership interest - %		
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2004</u>
Direct:			
Indústria e Comércio de Cosméticos Natura Ltda.	99.82	99.82	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	99.99	99.99	99.99
Commodities Trading S.A. – Uruguay	-	-	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	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	33.30

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 quarter ended March 31, 2005, the Company acquired an ownership interest in Natura Cosméticos México S.A.

The Company's shareholders' equity as of September 30, 2005 and June 30, 2005 differ by R\$1,646 e R\$1,463 from the amounts stated in the consolidated financial statements, due to the elimination of the subsidiaries' unrealized profits.

In addition, as of September 30, 2005 and 2004 the Company's net income has a difference of R\$251 e R\$1,797, 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>09/2005</u>	<u>09/2004</u>	<u>09/2005</u>	<u>06/2005</u>
Company	258,687	202,659	586,430	492,668
Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries	<u>(251)</u>	<u>(1,797)</u>	<u>(1,646)</u>	<u>(1,463)</u>
Consolidated	<u>258,436</u>	<u>200,862</u>	<u>584,784</u>	<u>491,205</u>

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

- Indústria e Comércio de Cosméticos Natura Ltda.: engaged principally 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 (this company has no activities currently) 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 and phytocosmetic 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. CASH INVESTMENTS

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Bank certificates of deposit (CDBs)	127,929	127,473	190,277	201,139
Investment funds	<u>6,689</u>	<u>6,384</u>	<u>6,689</u>	<u>8,342</u>
	<u>134,618</u>	<u>133,857</u>	<u>196,966</u>	<u>209,481</u>
Long-term	-	-	3,807	-
Current	<u>134,618</u>	<u>133,857</u>	<u>193,159</u>	<u>209,481</u>

As of September 30, 2005, CDBs yield interest rates ranging from 100% to 102.5% (100% to 102.5% as of June 30, 2005) of the interbank deposit rate (CDI), and the share in the total investment portfolio is 96.6% as of September 30, 2005 (96.0% as of June 30, 2005). Investments funds yield interest rates ranging from 98.7% to 103.8% of the CDI as of September 30, 2005 (96.40% to 99.96% as of June 30, 2005).

## 6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Trade accounts receivable	242,572	242,936	255,797	256,844
Allowance for doubtful accounts	<u>(15,884)</u>	<u>(13,967)</u>	<u>(16,980)</u>	<u>(14,909)</u>
	<u>226,688</u>	<u>228,969</u>	<u>238,817</u>	<u>241,935</u>

## 7. INVENTORIES

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Finished products	887	809	106,481	98,085
Raw materials and packaging	7	2	62,725	64,843
Work in process	-	-	14,827	7,635
Promotional material	68	23	14,415	10,966
Reserve for losses	<u>-</u>	<u>-</u>	<u>(16,391)</u>	<u>(12,870)</u>
	<u>962</u>	<u>834</u>	<u>182,057</u>	<u>168,659</u>

## 8. RECOVERABLE TAXES

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
ICMS (state VAT)	1,988	1,476	23,573	18,495
IRPJ (corporate income tax)	-	-	3,561	4,193
Social contribution tax	-	-	2,576	2,791
COFINS (tax on revenue)	-	-	2,449	420
II (import tax)	-	-	1,728	-
PIS/COFINS/CSLL - withheld at source	-	-	797	1,071
PIS (tax on revenue)	-	-	684	91
IRRF (withholding income tax)	-	-	143	-
IPI (federal VAT)	-	-	-	345
Other	-	-	<u>2,833</u>	<u>2,725</u>
	<u>1,988</u>	<u>1,476</u>	<u>38,344</u>	<u>30,131</u>
Long-term	1,488	1,215	8,695	7,196
Current	<u>500</u>	<u>261</u>	<u>29,649</u>	<u>22,935</u>

## 9. INCOME AND SOCIAL CONTRIBUTION TAXES

## a) Deferred

Deferred income (IRPJ) and social contribution (CSLL) 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	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Current:				
Tax loss carryforwards	-	-	1,148	1,333
Temporary differences:				
Allowance for doubtful accounts	5,662	5,024	5,662	5,024
Reserve for inventory losses	-	-	5,573	4,376
Reserve for losses on swap and forward transactions	1,142	944	1,153	1,060
Other	<u>9,388</u>	<u>7,417</u>	<u>13,022</u>	<u>10,302</u>
Deferred income and social contribution taxes	<u>16,192</u>	<u>13,385</u>	<u>26,558</u>	<u>22,095</u>
Long-term:				
Tax loss carryforwards	-	-	375	721
Temporary differences:				
Reserve for contingencies	16,329	16,315	25,118	23,159
Other	<u>800</u>	<u>876</u>	<u>1,106</u>	<u>1,183</u>
Deferred income and social contribution taxes	<u>17,129</u>	<u>17,191</u>	<u>26,599</u>	<u>25,063</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>09/2005</u>	<u>06/2005</u>
2006	13,287	8,711
2007	4,451	3,607
2008	1,132	7,432
2009	<u>7,729</u>	<u>5,313</u>
	<u>26,599</u>	<u>25,063</u>

## b) Current expense

## Reconciliation of income and social contribution taxes:

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Income before taxes on income	327,772	195,466	341,396	206,660
Income and social contribution taxes at the rate of 34%	(111,442)	(66,458)	(116,075)	(70,265)
Equity in subsidiaries and exchange variation on translation of foreign investments	(2,611)	(624)	-	-
Losses generated by subsidiaries	-	-	(11,920)	(8,124)
Reversal of provision for maintenance of dividend payment capacity	37,450	24,967	37,450	24,967
Interest on capital	8,069	4,550	8,069	4,550
Other	<u>(551)</u>	<u>(281)</u>	<u>(483)</u>	<u>(234)</u>
Income and social contribution taxes	<u>(69,085)</u>	<u>(37,846)</u>	<u>(82,959)</u>	<u>(49,106)</u>
Current income and social contribution taxes	(77,583)	(43,600)	(93,185)	(53,333)
Deferred income and social contribution taxes	<u>8,498</u>	<u>5,754</u>	<u>10,226</u>	<u>4,227</u>
	<u>(69,085)</u>	<u>(37,846)</u>	<u>(82,959)</u>	<u>(49,106)</u>

## 10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Current assets:				
Accounts receivable:				
Natura Logística e Serviços Ltda. (a)	2,551	2,495	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (a)	1,229	1,600	-	-
Nova Flora Participações Ltda. (b)	<u>833</u>	<u>833</u>	<u>-</u>	<u>-</u>
	<u>4,613</u>	<u>4,928</u>	<u>-</u>	<u>-</u>
Advance for future capital increase- Nova Flora Participações Ltda. (c)	<u>972</u>	<u>876</u>	<u>-</u>	<u>-</u>
Receivables from sale of shares (d)	<u>96</u>	<u>238</u>	<u>96</u>	<u>238</u>
Current liabilities:				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. (e)	81,322	71,367	-	-
Natura Logística e Serviços Ltda. (f)	7,083	9,777	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (g)	<u>10,085</u>	<u>13,121</u>	<u>-</u>	<u>-</u>
	<u>98,490</u>	<u>94,265</u>	<u>-</u>	<u>-</u>
Dividends payable- Shareholders	<u>259</u>	<u>91,848</u>	<u>259</u>	<u>91,848</u>
	<u>259</u>	<u>91,848</u>	<u>259</u>	<u>91,848</u>



	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Interest on capital payable:				
Shareholders	<u>8,796</u>	<u>11,389</u>	<u>8,796</u>	<u>11,389</u>
	<u>8,796</u>	<u>11,389</u>	<u>8,796</u>	<u>11,389</u>

Transactions with related parties are summarized as follows:

	<u>Product sales</u>		<u>Product purchases</u>	
	<u>09/2005</u>	<u>09/2004</u>	<u>09/2005</u>	<u>09/2004</u>
Natura Cosméticos S.A.	-	-	755,778	646,320
Indústria e Comércio de Cosméticos Natura Ltda.	778,753	662,937	-	-
Natura Cosméticos S.A. – Argentina	-	-	9,104	9,207
Natura Cosméticos S.A. – Peru	-	-	6,790	4,593
Natura Cosméticos S.A. – Chile	-	-	5,131	2,737
Natura Europa SAS	-	-	721	-
Natura Cosméticos S.A. – Mexico	-	-	781	-
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	448	64
Flora Medicinal J. Monteiro da Silva Ltda.	-	-	-	16
	<u>778,753</u>	<u>662,937</u>	<u>778,753</u>	<u>662,937</u>

	Service sales		Service purchases	
	<u>09/2005</u>	<u>09/2004</u>	<u>09/2005</u>	<u>09/2004</u>
Administrative structure: (h)				
Natura Logística e Serviços Ltda.	126,592	86,282	-	-
Natura Cosméticos S.A.	-	-	91,340	60,970
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	24,976	18,041
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	<u>10,276</u>	<u>7,271</u>
	<u>126,592</u>	<u>86,282</u>	<u>126,592</u>	<u>86,282</u>
Product research and development: (i)				
Natura Inovação e Tecnologia de Produtos Ltda.	82,326	51,505	-	-
Natura Cosméticos S.A.	-	-	<u>82,326</u>	<u>51,505</u>
	<u>82,326</u>	<u>51,505</u>	<u>82,326</u>	<u>51,505</u>
Lease of properties and common charges: (j)				
Indústria e Comércio de Cosméticos Natura Ltda.	4,191	6,308	-	(116)
Natura Cosméticos S.A.	-	(136)	787	787
Natura Empreendimentos S.A.	-	-	-	27
Natura Participações S.A.	-	-	-	14
Natura Logística e Serviços Ltda.	-	-	2,428	4,215
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	<u>976</u>	<u>1,245</u>
	<u>4,191</u>	<u>6,172</u>	<u>4,191</u>	<u>6,172</u>
Total service sales/purchases	<u>213,109</u>	<u>143,959</u>	<u>213,109</u>	<u>143,959</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, under a stock purchase and sale agreement, financing in the total amount of R\$6,174 was made to two directors of the Company, with interest rate of 3% per year and maturities between April 30, 2009 and September 30, 2010. This financing was granted to the directors in order for them to acquire common shares in Natura Empreendimentos S.A. and Natura Participações S.A. In the corporate restructuring completed in March 2004, these shares were exchanged for common shares issued by Natura Cosméticos S.A. The financing, in the amount of R\$2,514 as of September 30, 2005 (R\$4,776 as of June 30, 2005), is amortized with dividends and interest on capital paid by the Company to those directors.
- (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 September 30, 2005 and June 30, 2005, as well as the intercompany transactions that affected the results for the nine-month periods ended September 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

	Company		Consolidated	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Investments in subsidiaries	508,763	497,335	-	-
Goodwill on acquisition of investment - Nova Flora	-	-	8,015	8,015
Amortization of goodwill – Nova Flora	-	-	(7,324)	(6,641)
Goodwill on acquisition of investment - Natura				
Europa	-	-	5,551	5,912
Other	<u>8</u>	<u>9</u>	<u>-</u>	<u>-</u>
	<u>508,771</u>	<u>497,344</u>	<u>6,242</u>	<u>7,286</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.

Natura Cosméticos S.A.

Investments in direct subsidiaries are as follows:

	Indústria e Comércio de Cosméticos <u>Natura Ltda.</u>	Natura Cosméticos <u>S.A. - Chile</u>	Natura Cosméticos <u>S.A. - Peru</u>	Natura Cosméticos S.A. - <u>Argentina</u>	Natura Brasil Cosmética - <u>Portugal</u>	Nova Flora Participações <u>Ltda.</u>	Natura Inov. Tec. Prod. <u>Ltda.</u>	Natura Europa <u>SAS</u>	Natura Cosméticos S.A. - <u>Mexico</u>	<u>Total</u>
Shares of subsidiaries	432,500	40,284	18,697	59,221	13	2,413	5,008	26,529	9,997	
Number of shares (common shares) held	431,705	40,268	18,684	56,260	13	2,413	5,007	26,529	9,996	
Ownership interest - %	99.82%	99.96%	99.93%	95.00%	99.99%	100.00%	99.99%	100.00%	99.99%	
Capital	432,500	40,284	18,697	59,221	13	2,413	5,008	26,529	9,997	594,662
Shareholders' equity of subsidiaries	467,478	1,424	1,751	455	(47)	(3,420)	20,459	13,570	4,513	506,183
Share in shareholders' equity	466,619	1,423	1,750	432	(47)	(3,420)	20,457	13,570	4,513	505,297
Net income (loss) of subsidiaries	2,638	(244)	(566)	(1,506)	-	(948)	2,518	(2,064)	(2,838)	(3,010)
Book value of Company investment:										
Balances as of June 30, 2005	463,987	-	2,165	-	-	-	17,939	12,623	621	497,335
Equity in subsidiaries	2,632	(244)	(566)	(1,431)	-	(948)	2,518	(2,065)	(2,837)	(2,941)
Exchange variation on translation of foreign investments	-	(214)	(124)	(446)	-	-	-	(1,576)	(544)	(2,904)
Recognition (Reversal) of provision for losses	-	(748)	-	(1,220)	-	948	-	-	-	(1,020)
Capital increase	-	2,629	275	3,529	-	-	-	4,587	7,273	18,293
Balances as of September 30, 2005	466,619	1,423	1,750	432	-	-	20,457	13,569	4,513	508,763
Provision for losses:										
Balances as of June 30, 2005	-	(748)	-	(1,220)	(50)	(2,472)	-	-	-	(4,490)
(Recognition) Reversal of provision for losses	-	748	-	1,220	3	(948)	-	-	-	1,023
Balances as of September 30, 2005	-	-	-	-	(47)	(3,420)	-	-	-	(3,467)
Net balances as of September 30, 2005	466,619	1,423	1,750	432	(47)	(3,420)	20,457	13,569	4,513	505,296

## 12. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate - %	Company					
		09//2005			06/2005		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Vehicles	20	16,365	5,450	10,915	13,387	6,162	7,225
Software	20	5,041	1,656	3,385	3,122	1,514	1,608
IT equipment	20	7,006	5,837	1,169	6,906	5,724	1,182
Furniture and fixtures	10	4,041	3,200	841	4,035	3,132	903
Leasehold improvements	12	801	178	623	760	171	589
Machinery and equipment	10	1,171	867	304	1,037	842	195
Other	10	<u>6</u>	<u>3</u>	<u>3</u>	<u>6</u>	<u>3</u>	<u>3</u>
		<u>34,431</u>	<u>17,191</u>	<u>17,240</u>	<u>29,253</u>	<u>17,548</u>	<u>11,705</u>

	Annual depreciation rate - %	Consolidated					
		09/2005			06/2005		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Buildings	4	143,316	23,199	120,117	141,218	21,788	119,430
Machinery and equipment	10	123,693	40,880	82,813	96,391	37,499	58,892
Installations	10	68,887	28,988	39,899	66,293	27,192	39,101
Vehicles	20	24,226	7,599	16,627	20,016	7,749	12,267
Software	20	21,984	7,791	14,193	17,479	6,895	10,584
IT equipment	20	33,674	20,226	13,448	31,917	18,995	12,922
Molds	33	36,645	23,850	12,795	30,243	22,490	7,753
Furniture and fixtures	10	14,682	7,190	7,492	14,427	6,712	7,715
Leasehold improvements	12	929	197	732	778	189	589
Land	-	15,910	-	15,910	15,917	-	15,917
Advances to suppliers	-	10,876	-	10,876	18,417	-	18,417
Construction in progress	-	5,775	-	5,775	19,433	-	19,433
Other	10	<u>6,256</u>	<u>2,940</u>	<u>3,316</u>	<u>8,667</u>	<u>4,271</u>	<u>4,396</u>
		<u>506,853</u>	<u>162,860</u>	<u>343,993</u>	<u>481,196</u>	<u>153,780</u>	<u>327,416</u>

## 13. DEFERRED CHARGES

As mentioned in Note 1, on March 5, 2004, Natura Participações S.A. was 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 in the same amount. This goodwill arose from the merger of the shares of Natura Empreendimentos S.A. into Natura Participações S.A. on December 27, 2000. This merger 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>09/2005</u>	<u>06/2005</u>
Goodwill on investments	795,508	832,223
Provision for maintenance of dividend payment capacity	<u>(795,508)</u>	<u>(832,223)</u>
	<u>          -</u>	<u>          -</u>

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

Natura Cosméticos S.A.

## 14. LOANS AND FINANCING

Type	Company		Consolidated		Maturity	Charges	Guarantees
	09/2005	06/2005	09/2005	06/2005			
FINEP (Financing Agency for Studies and Projects)	-	-	34,409	36,729	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)	21,810	24,778	37,244	24,778	August 2007 to April 2010	Interest of 4.0% p.a. and 4,5% p.a. + TJLP	Mortgage (***) and Guarantee of Natura Cosméticos S.A.
Export credit note (NCE)	-	-	30,273	28,841	April 2008	Interest of 6,38% p.a. + UMBNDES (*)	Promissory notes and guarantee of Natura Cosméticos S.A.
BNDES-FINAME (Government Agency for Machinery and Equipment Financing)	-	-	8,643	6,255	July 2005 to April 2010	Interest of 104.7% of CDI (interbank deposit rate)	Chattel mortgage and guarantee of Natura Cosméticos S.A. and promissory notes
BNDES-PROGEREN (Support Program for Enhancing Employment and Income Capacity)	67,603	65,344	67,603	65,344	June 2007	Interest of 4.5.% p.a. + TJLP	Bank guarantee and guarantee of Indústria e Comércio de Cosméticos Natura Ltda.
Loans – Argentina	-	-	5,924	6,939	December 2005	Interest of 3.5% p.a. + TJLP	Guarantee of Natura Cosméticos S.A.
Loans – France	-	-	-	1,575	May 2006	Interest of 9.5% p.a. + exchange variation (Argentinean pesos)	Guarantee of Natura Cosméticos S.A.
Loans – Chile	-	-	-	1,329	July 2005	Interest of + 3.7% p.a. + exchange variation (euro)	Guarantee of Natura Cosméticos S.A.
Loans – Mexico	-	-	-	3,305	September 2005	Interest of 5.0% p.a. + exchange variation (Chilean pesos)	Guarantee of Natura Cosméticos S.A.
Total	<u>89,413</u>	<u>90,122</u>	<u>184,096</u>	<u>175,095</u>		Interest of 4.3% p.a. + exchange variation (dollar)	Guarantee of Natura Cosméticos S.A.
Current	12,888	11,297	33,683	36,500			
Long-term	<u>76,525</u>	<u>78,825</u>	<u>150,413</u>	<u>138,595</u>			

(\*) UMBNDES - BNDES monetary unit

(\*\*) Financing in local currency from the BNDES is guaranteed mainly by the Cajamar unit.

Maturities of long-term debt are as follows:

	<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>
2006	70,195	44,373
2007	57,302	52,518
2008	16,388	40,666
2009	5,295	831
2010	<u>1,233</u>	<u>207</u>
	<u>150,413</u>	<u>138,595</u>

#### 15. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
ICMS (state VAT)	49,023	44,324	49,075	44,536
IRPJ (income tax)	11,019	3,036	11,101	3,104
CSLL (social contribution tax)	4,012	1,127	4,012	1,127
COFINS (tax on revenue)	275	167	3,494	3,283
IRRF (withholding income tax)	1,105	1,464	2,123	2,456
PIS/COFINS/CSLL (Law No. 10,633/03)	947	1,194	1,244	1,516
PIS (tax on revenue)	60	37	830	694
Other	<u>43</u>	<u>3</u>	<u>4,749</u>	<u>2,171</u>
	<u>66,484</u>	<u>51,352</u>	<u>76,628</u>	<u>58,887</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 attorneys, management believes that the reserve for contingencies is sufficient to cover probable losses from unfavorable judgment.

The balances of contingencies are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Tax	44,654	46,088	69,363	64,898
Labor	3,930	2,882	4,771	3,895
Civil	<u>3,737</u>	<u>3,309</u>	<u>8,498</u>	<u>7,832</u>
	<u>52,321</u>	<u>52,279</u>	<u>82,632</u>	<u>76,625</u>



Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
IPI - zero rate (a)	-	-	15,309	14,695
PIS (tax on revenue) - semiannual - Decree-laws No. 2445/88 and No. 2449/88 (b)	12,351	11,878	13,833	13,306
Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (c)	5,787	8,465	5,787	8,465
Late payment fines on federal taxes paid in arrears (d)	4,757	4,552	5,659	5,416
Monetary restatement of federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (e)	4,795	4,875	4,918	4,875
Tax assessment - INSS (social security contribution) (f)	4,804	4,649	4,804	4,649
IPI credit on purchases of fixed assets and consumption material (g)	-	-	4,617	-
IPI (federal VAT) - tax collection lawsuit (h)	3,677	3,559	3,677	3,559
Assessment notice - 1990 corporate income tax (i)	2,387	2,312	2,387	2,312
Attorneys' fees and other	<u>6,096</u>	<u>5,798</u>	<u>8,372</u>	<u>7,621</u>
	<u>44,654</u>	<u>46,088</u>	<u>69,363</u>	<u>64,898</u>

- (a) 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.
- (b) 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. The appeal filed by the Company was judged favorably to it on September 12, 2005 by the 1st Panel of the 2<sup>nd</sup> Board of Tax Appeals that, by a majority of the votes, denied the alleged lapsing of the offset right and unanimously recognized the unconstitutionality of the decree-laws determining that the calculation basis should be the billing of the sixth month prior to the occurrence of the taxable event, without monetary restatement. The Company awaits publication and notification of the Decision.
- (c) 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\$3,653 (R\$3,504 as of June 30, 2005), is deposited in escrow.
- (d) 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 attorneys, was changed to probable, due to a recent decision by the Superior Court of Justice.
- (e) 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.

- (f) 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.
- (g) 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. In view of Federal Regional Courts' former decisions, the attorneys believe that the risk of loss changed to probable.
- (h) 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 lawsuit is in the Federal Regional Court of 3rd Region (SP) for judgment of the appeal filed by the debtor. The amounts involved in this tax collection lawsuit are guaranteed by an affiliate's cash investment in the amount of R\$3,807.
- (i) 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. 2413/88, which supported the Company in its tax payments at that time.

#### Labor contingencies

As of September 30, 2005, the Company and its subsidiaries are parties to 257 labor lawsuits filed by former employees and third parties (205 as of June 30, 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 lawsuits:

	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
<u>Civil:</u>				
Several civil lawsuits (a)	1,398	1,005	1,813	1,648
Civil lawsuits - Flora Medicinal (b)	-	-	4,344	3,880
Attorneys' fees and other	<u>2,339</u>	<u>2,304</u>	<u>2,341</u>	<u>2,304</u>
Total	<u>3,737</u>	<u>3,309</u>	<u>8,498</u>	<u>7,832</u>

- (a) As of September 30, 2005, the Company and its subsidiaries are parties to 679 lawsuits (577 as of June 30, 2005), at the civil court, special civil court and Procon (Consumer Protection Agency), filed by beauty consultants, consumers, suppliers 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 subsidiary 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 5 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 September 30, 2005 was R\$27,689 (R\$26,871 as of June 30, 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 attorneys. These lawsuits, for which the Company did not record any reserve, are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>06/2005</u>	<u>09/2005</u>	<u>06/2005</u>
Tax:				
IPI credit on purchases of fixed assets and consumption material (a)	-	-	-	9,980
INSS debt annulment action (b)	4,616	4,466	4,616	4,466
Tax assessment - transfer pricing on loan agreements with foreign related company (c)	1,211	1,178	1,211	1,178
Offset of 1/3 of COFINS - Law No. 9718/98 (d)	3,819	3,717	3,819	3,717
Other	<u>1,014</u>	<u>2,698</u>	<u>1,160</u>	<u>3,903</u>
	10,660	12,059	10,806	23,244
Civil	4,062	4,800	11,521	12,578
Labor	<u>2,193</u>	<u>2,016</u>	<u>3,965</u>	<u>3,619</u>
Total	<u>16,915</u>	<u>18,875</u>	<u>26,292</u>	<u>39,441</u>

- a) In view of Federal Regional Courts' former decisions, the attorneys reviewed the initial estimates and assessed part of this contingency as probable risk. Thus, a provision has been recorded to cover potential losses (see list of accrued tax contingencies).
- 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 yield of 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 September 30, 2005 and June 30, 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 July 27, 2005 the payment of interest on capital, relating to May, June and July 2005, pursuant to its bylaws, CVM Resolution No. 207/96 and Law No. 9249/95. As of September 30, 2005, the gross amount of interest on capital is R\$10,349 (R\$6,434 as of September 30, 2004) and was calculated in accordance with statutory limits, also with respect to the mandatory minimum dividend of 30% in accordance with article 202 of Law No. 6404/76 and the Company's bylaws.

Income tax in the amount of R\$1,553 (R\$949 as of September 30, 2004) 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:

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

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

On August 16, 2005, the Company paid dividends on income for the first half of 2005, in the amount of R\$90,434, and interest on capital, relating to January, February, March and April 2005, in the amount of R\$13,383 (R\$11,390 net of withholding income tax), as approved by Board of Directors Meeting on July 27, 2005 and April 28, 2005, respectively.

f) Treasury shares

As of September 30, 2005, common shares in treasury totaled 566,615 (579,145 as of June 30, 2005), at an average cost of 1.7172 (R\$ 1.7538 as of June 30, 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 former Natura Empreendimentos S.A. approved an incentive policy for certain directors and managers of the Group's companies, whereby they could buy and subscribe shares. Subsequently, this Program was also assumed by the former Natura Participações S.A., and the terms 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.

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 Company's obligation to repurchase shares pursuant to the Program, and modified the criteria for determining the strike price of the shares, which became the average market price of the Company's common shares on the São Paulo Stock Exchange (BOVESPA) over the last ten sessions. The option strike price is still updated based on the IPC-A (Extended Consumer Price Index).

Before the Company's initial public offering, the strike price was updated according to inflation levels as measured by the IPC-A, and the Company had the obligation to repurchase the shares.

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

The Plan for 2001 had three years for exercising the options, i.e., the option holder had the right to exercise options at the rate of 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. The deadline for exercising options was two years after the end of the fourth year.

The balance of options as of September 30, 2005 is 1,646,649.

The strike price, adjusted based on the IPC-A until September 30, 2005, varies between R\$14.96 and R\$78.99, according to the stock option programs from 2001 to 2005.

As mentioned above, after its initial public offering, the Company is no longer required to repurchase the shares acquired under the Program and, since the recording of a provision for 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 in the “Retained earnings” account is due to the fact that the provision was derived from Natura Participações S.A. and was received by Natura Cosméticos S.A. as part of the net assets in the merger process of March 2004, as disclosed in Note 1, and therefore, it had no effect on the income of Natura Cosméticos S.A.

As of September 30, 2005, had the Company’s management opted to record the effects of the plans based on the intrinsic value of the options (the difference between market price as of September 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 period ended September 30, 2005 would have been R\$252,775, as shown below:

	<u>Consolidated</u> <u>09/2005</u>
Net income for the period – Company	258,436
Effect of plans considering vesting period	<u>(5,661)</u>
Net income for the period - pro forma	<u>252,775</u>

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

As of September 30, 2005, the market price of the Company’s shares was R\$89.00 (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 in Brazil. 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\$2,001 as of September 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 and operating activities. 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 September 30, 2005 and June 30, 2005, the Company had swap and forward transactions with financial institutions in the amounts of R\$11,307 and R\$6,659, respectively. These transactions generated liabilities of R\$3,392 and R\$3,118, respectively, recorded in consolidated 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 and FINEP.

### d) Fair values

As of September 30, 2005 and June 30, 2005, the fair values of cash and banks, temporary cash investments, and accounts receivable and payable approximate the carrying amounts due to the short-term maturity of these financial instruments. The fair values of loans and financing substantially approximate the carrying amounts since these financial instruments have variable interest rates.



Regarding to the swap and forward transactions the carrying and far value are as follows:

	Consolidated			
	09/2005		06/2005	
	Carrying <u>value</u>	Fair <u>value</u>	Carrying <u>value</u>	Fair <u>value</u>
Swap and forward transactions	<u>3,392</u>	<u>3,414</u>	<u>3,118</u>	<u>3,197</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 September 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	434,862
Vehicles	Fire, theft and collision for 954 vehicles	25,171
Loss of profits	Nonrealization of profits arising from material damages to installations, buildings and production machinery and equipment	604,241

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

**NATURA COSMÉTICOS S.A.**

**STATEMENTS OF CASH FLOWS  
FOR THE QUARTER AND NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2005 AND 2004  
(In thousands of Brazilian reais - R\$)**

	<u>Company</u>		<u>Consolidated</u>	
	<u>09/2005</u>	<u>09/2004</u>	<u>09/2005</u>	<u>09/2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	258,687	202,659	258,436	200,862
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,454	3,204	31,321	25,821
Monetary and exchange variations, net	6,807	(4)	1,921	7,626
Reserve for losses on swap and forward contracts	1,183	(2,829)	12,049	(2,961)
Reserve for contingencies	9,685	(253)	16,602	564
Reserve for obsolete inventories	-	-	1,995	6,583
Other reserves	3,975	-	9,819	-
Deferred income and social contribution taxes	(8,499)	(7,015)	(10,226)	(13,567)
Disposal of permanent assets	1,157	336	6,256	753
Equity in subsidiaries	1,802	(13,988)	-	-
Debentures participation, net of taxes	-	5,743	-	5,743
	<b><u>278,251</u></b>	<b><u>187,853</u></b>	<b><u>328,173</u></b>	<b><u>231,424</u></b>
<b>(INCREASE) DECREASE IN ASSETS</b>				
<b>Current assets:</b>				
Accounts receivable	9,765	(5,251)	11,249	(10,035)
Inventories	672	(455)	(62,091)	(53,129)
Other receivables	(6,685)	(1,224)	(1,179)	(1,770)
<b>Long-term assets:</b>				
Escrow deposits	(432)	(7,098)	(1,574)	(9,808)
Other receivables	(3,981)	35,134	(2,656)	(10,213)
<b>Subtotal</b>	<b><u>(661)</u></b>	<b><u>21,106</u></b>	<b><u>(56,251)</u></b>	<b><u>(84,955)</u></b>
<b>INCREASE (DECREASE) IN LIABILITIES</b>				
<b>Current liabilities:</b>				
Suppliers	(3,533)	62,484	(4,580)	18,220
Payroll and related charges	5,943	6,077	11,115	21,195
Taxes payable	15,604	(6,782)	(1,570)	(20,468)
Other payables	5,055	(49,060)	(4,516)	(49,513)
<b>Long-term liabilities:</b>				
Other payables	-	(37,271)	1,038	(26,969)
<b>Subtotal</b>	<b><u>23,069</u></b>	<b><u>(24,552)</u></b>	<b><u>1,487</u></b>	<b><u>(57,535)</u></b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>300,659</u></b>	<b><u>184,407</u></b>	<b><u>273,409</u></b>	<b><u>88,934</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(8,807)	(2,243)	(83,788)	(44,128)
Investments	(139,299)	(40,438)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(148,106)</u></b>	<b><u>(42,681)</u></b>	<b><u>(83,788)</u></b>	<b><u>(44,128)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase (Decrease) in short- and long-term loans	55,496	(35,088)	47,248	26,386
Payment of dividends	(203,818)	(93,260)	(203,818)	(93,260)
Payment of interest on capital	(28,559)	(22,923)	(28,559)	(22,923)
Investment grants	141	-	141	-
Sale of treasury shares	4,392	4,459	4,391	4,459
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b><u>(172,348)</u></b>	<b><u>(146,812)</u></b>	<b><u>(180,597)</u></b>	<b><u>(85,338)</u></b>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets	-	43,879	-	43,879
<b>NET INCREASE IN CASH AND BANKS</b>	<b><u>(19,795)</u></b>	<b><u>38,793</u></b>	<b><u>9,024</u></b>	<b><u>3,347</u></b>
Cash and banks at beginning of year	185,287	57,283	231,612	136,111
Cash and banks at end of year	165,492	96,076	240,636	139,458
<b>CHANGE IN CASH AND BANKS</b>	<b><u>(19,795)</u></b>	<b><u>38,793</u></b>	<b><u>9,024</u></b>	<b><u>3,347</u></b>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE</b>				
Income and social contribution taxes paid	55,743	33,890	60,995	46,279
Interest paid on loans and financing	1,979	3,142	5,172	9,296
Payments of swap and forward contracts	2,367	2,235	14,794	9,170

**The accompanying notes and the attachment are an integral part of these interim financial statements.**



## 3Q05 EARNINGS RELEASE

**São Paulo - October 26, 2005** - Natura Cosméticos S.A. (São Paulo Stock Exchange: NATU3) announces today its results for the third quarter 2005 (3Q05). The financial and operating information below, except where otherwise indicated, is presented on a **consolidated basis**, according to the Brazilian Corporate Law.

### FINANCIAL SUMMARY - CONSOLIDATED

In R\$ million	3Q05	3Q04	% change	9M05	9M04	% change
Units sold - items for resale (in millions) - Brazil <sup>1</sup>	54.1	43.6	24.1%	148.4	119.9	23.8%
Gross Revenues	809.8	645.7	25.4%	2,214.0	1,738.4	27.4%
Net Revenues	571.4	448.2	27.5%	1,556.2	1,205.9	29.1%
Gross Profit	391.7	306.3	27.9%	1,057.0	809.7	30.5%
<i>Gross margin (%)</i>	68.6%	68.4%	-	67.9%	67.1%	-
Ebitda <sup>2</sup>	145.7	104.5	39.4%	369.6	289.0	27.9%
<i>Ebitda margin (%)</i>	25.5%	23.3%	-	23.7%	24.0%	-
Net Income	100.9	77.4	30.4%	258.4	200.9	28.7%
<i>Net margin (%)</i>	17.7%	17.3%	-	16.6%	16.7%	-
Total consultants <sup>3</sup> in Brazil (in thousands)	475.1	392.1	21.2%	475.1	392.1	21.2%
Total consultants <sup>3</sup> in Latin America <sup>4</sup> (in thousands)	34.0	24.2	40.9%	34.0	24.2	40.9%

(1) Total consolidated number of Cosmetics, Fragrances and Toiletries products resold by consultants. Therefore, units sold exclude samples, gifts, resale support material, Crer para Ver product, among others.

(2) EBITDA = income from operations before financial effects + non-operating income + depreciation/amortization

(3) Position at the end of the period of the 13<sup>th</sup> sales cycle.

(4) Argentina, Chile, Peru and Mexico.

## **COSMETICS, FRAGRANCE AND TOILETRIES (CF&T) SECTOR IN BRAZIL - NATURA'S TARGET MARKET FIGURES (8 mos 2005 x 8 mos 2004)**

According to data from sector associations Sipatesp/Abhipec<sup>1</sup> the CF&T target market<sup>2</sup> net revenues grew by 17.1% on an eight-month basis in 2005 compared to the same period of 2004, reaching R\$6,081.0 million (8 mos 04: R\$5,193.6 million).

Natura's market share of this target market grew by 2.1 percentage points, from 18.9% in the first eight months of 2004 to 21.0% in the same period of 2005.

(1) Sipatesp/Abhipec - Brazilian Cosmetics, Fragrance and Toiletries Association.

(2) Target Market: skin care, sunscreen, make-up, perfums, fragrances, hair care, shaving products and deodorants - does not include diapers, nail polishes, sanitary pads, hair dyes and oral hygiene.

## **CONSOLIDATED GROSS REVENUES**

3Q05 consolidated gross revenues were R\$809.8 million, up 25.4% over the same period of 2004 (R\$645.7 million). In the first nine months of 2005, gross revenues amounted to R\$2,214.0, 27.4% growth compared to the same period last year.

Natura's share in this market continued its consistent growth, as reflected in the previous item with the CF&T target market figures.

At the end of September 2005, total number of consultants reached 509.1 thousand, up 22.3% Y-o-Y.

## **COST OF SALES**

The **cost of sales** declined in relation to net revenues from 31.6% in 3Q04 to 31.4% in 3Q05.

Basically, all cost of sales items maintained their percentage over net revenues, in the periods under comparison, as per the table below:

<b>Composition of Cost of Sales (% of net revenues)</b>				
<b>Item</b>	<b>3Q05</b>	<b>3Q04</b>	<b>9M05</b>	<b>9M04</b>
RM/PM*	24.9	25.0	25.4	25.9
Labor	2.7	2.5	2.6	2.5
Depreciation	1.1	1.2	1.1	1.3
Others	2.8	3.0	3.0	3.1
<b>Total</b>	<b>31.4</b>	<b>31.6</b>	<b>32.1</b>	<b>32.9</b>

\* Raw material/packaging material.

**Selling expenses**, in relation to net revenues posted a slight reduction from 31.5% in 3Q04 to 31.2% in 3Q05. This reduction was primarily due to (i) decrease in expenses related to the logistical process, mainly of collecting orders (call center), and the redesign of such process already shows gains in productivity and (ii) lower marketing expenses, resulting from a different distribution in media expenses over the previous year.

**Administrative expenses** in relation to net revenues changed from 14.8% in 3Q04 to 12.9% in 3Q05. It is worth noting that the administrative expenses of these two quarters are not entirely comparable, due to the inclusion of some non-recurring entries, both in 3Q04 and 3Q05. If these non-recurring entries had been excluded, administrative expenses would have risen by 1.2% over 2004, in line with the company's strategy of intensifying its internationalization and innovation efforts.

In the first nine months, these expenses remained stable representing 13.9% of net revenues in 2004 and 2005.

## **EBITDA AND NET INCOME**

3Q05 **EBITDA** amounted to R\$145.7 million, up 39.4% compared to 3Q04 (R\$104.5 million). EBITDA margin changed from 23.3% in 3Q04 to 25.5% in 3Q05.

9M05 EBITDA totaled R\$369.6 million, 27.9% growth over 9M04 (R\$289.0 million). EBITDA margin posted a slight reduction from 24.0% to 23.7% Y-o-Y.

3Q05 **net income** totaled R\$100.9 million, up 30.4% compared to R\$77.4 million posted in 3Q04. Lower net income growth compared to EBITDA growth resulted primarily from the increase of the average rate of IR/CSLL (income tax/social contribution). This increase in the average rate of IR/CSLL was mostly due to: (i) the lower proportion of goodwill amortization on the income tax and social contribution calculation base and (ii) an increase in losses, generated in the international operations as a result of the opening of new subsidiaries.

## **INVESTMENTS**

Investments in the first nine months amounted to R\$83.8 million. In September the third automatic separation line (picking) was started. After stabilization of this third line, the separation capacity of orders will rise to roughly 80 thousand orders a day, from 44 thousand orders a day. R\$34.0 million were invested in the acquisition of new machines and shapes.

## INTERNATIONAL OPERATIONS

### Argentina, Chile and Peru

#### Financial Highlights - US\$ million (Argentina, Chile and Peru)

	3Q05	3Q04	% change	9M05	9M04	% change
Units sold - items for resale (in millions)	1.8	1.3	39.2%	4.8	3.2	47.3%
Net revenues	7.3	5.1	44.1%	18.9	12.7	48.9%
Income (loss) from operations	-0.7	-0.6	-	-2.4	-2.1	-
<i>Operating margin</i>	<i>-10.2%</i>	<i>-12.5%</i>	<i>-</i>	<i>-12.9%</i>	<i>-16.3%</i>	<i>-</i>

Note: Figures shown on the table above do not include Mexico operations. Structuring expenses regarding new operations in other Latin America countries were excluded (US\$ 0.3 million and US\$ 0.1 million in 3Q05 and 3Q04, respectively and US\$0.7 million and US\$ 0.2 million in 9M05 and 9M04, respectively).

3Q05 net revenues from **Argentina, Chile and Peru** operations grew, in dollars, by 44.1%.

Considering the growth in local currency weighted by the share in dollars of each operation, the growth reached 36.9% in 3Q05.

The operating loss posted in the quarters under comparison went from US\$0.6 million in 3Q04 to US\$ 0.7 million in 3Q05. Despite an increase in losses, in absolute terms, the operating margin improved under the compared periods. It is worth highlighting that the company continued to invest heavily in the development of new sales sectors and in sales growth.

At the end of September, 2005, the number of consultants in Argentina, Chile and Peru grew by 38.6%, Y-o-Y.

### Other Operations

Operations in **Mexico** started up on August 1<sup>st</sup>, 2005, therefore do not account for a significant share of the business yet. However, performance up to the end of 3Q05 is in line with the company's expectations.

Operations in **France** are in accordance with the company's expectations, both related to the store performance and the company's brand building.

## **International Expansion Process**

The international expansion process generated net expenses of R\$9.9 million in 3Q05 (3Q04: R\$5.4 million). In 9M05 this amount totaled R\$28.5 million (9M04:R\$9.9 million), with a highlight for the new operations (France and Mexico). For 2005, total net expenses estimated for the expansion process is R\$41.0 million (2004: R\$12.2 million).

## **CASH FLOW**

In the first nine months of 2005, gross cash generation<sup>1</sup> stood at R\$327.9 million, 28.7% higher than that posted in the same period of last year. Of this total, R\$50.7 million were allocated to working capital and to long-term assets and liabilities, in which inventories represented the great majority.

It is worth highlighting that the balance of inventories at the end of 3Q05 increased by 43.3% vs. 3Q04, whereas at the end of 2Q05 this increase stood at 71.6% over 2Q04, reflecting an improvement in the management of this asset. By carrying larger inventories, the company reduced the percentage of unfulfilled orders, which shows that the policy of adjusting the dimensions of coverage was correct.

The amount invested in the purchase of property, plant and equipment amounted to R\$83.8 million, resulting in a free cash flow<sup>2</sup> of R\$193.4 million in the period.

Note 1: (Net income)+ (Adjustments to reconcile net income to net cash provided by operating activities).

Note 2: (Net cash provided by operating activities) - (net cash used in investing activities)

## **CONFERENCE CALL & WEBCAST**

**Portuguese:           Friday - October 28, 2005**  
**08:00AM - US EST**  
In Brazil: 11-4613-0501  
International: 1-412-858-4600

**English:               Friday - October 28, 2005**  
**10:00AM - US EST**  
In Brazil: 11-4613-0501  
International: 1-412-858-4600

**Live webcast will be available at: [www.natura.net/investor](http://www.natura.net/investor)**

## ANNEX 1 - STATEMENT OF INCOME (CONSOLIDATED)

### Natura Cosméticos S/A - Consolidated

<i>(in R\$ million)</i>	3Q05	%NR	3Q04	%NR	% change	9M05	%NR	9M04	%NR	% change
Gross sales to domestic market	786.1	97.1%	628.6	97.4%	25.1%	2,149.0	97.1%	1,688.8	97.1%	27.3%
Gross sales to foreign market	23.4	2.9%	16.9	2.6%	38.5%	64.0	2.9%	49.1	2.8%	30.3%
Other sales	0.3	0.0%	0.2	0.0%	46.0%	0.9	0.0%	0.5	0.0%	90.2%
<b>GROSS OPERATING REVENUES</b>	<b>809.8</b>	<b>100.0%</b>	<b>645.7</b>	<b>100.0%</b>	<b>25.4%</b>	<b>2,214.0</b>	<b>100.0%</b>	<b>1,738.4</b>	<b>100.0%</b>	<b>27.4%</b>
Taxes on sales, returns and rebates	(238.4)	-29.4%	(197.5)	-30.6%	20.7%	(657.7)	-29.7%	(532.5)	-30.6%	23.5%
<b>NET OPERATING REVENUES</b>	<b>571.4</b>	<b>100.0%</b>	<b>448.2</b>	<b>100.0%</b>	<b>27.5%</b>	<b>1,556.2</b>	<b>100.0%</b>	<b>1,205.9</b>	<b>100.0%</b>	<b>29.1%</b>
Cost of sales	(179.7)	-31.4%	(141.8)	-31.6%	26.7%	(499.2)	-32.1%	(396.1)	-32.9%	26.0%
<b>GROSS PROFIT</b>	<b>391.7</b>	<b>68.6%</b>	<b>306.3</b>	<b>68.4%</b>	<b>27.9%</b>	<b>1,057.0</b>	<b>67.9%</b>	<b>809.7</b>	<b>67.1%</b>	<b>30.5%</b>
OPERATING (EXPENSES) INCOME										
Selling	(178.3)	-31.2%	(141.0)	-31.5%	26.5%	(488.5)	-31.4%	(371.5)	-30.8%	31.5%
General and administrative	(73.5)	-12.9%	(66.5)	-14.8%	10.7%	(215.7)	-13.9%	(168.0)	-13.9%	28.3%
Management compensation	(2.5)	-0.4%	(2.2)	-0.5%	12.6%	(6.8)	-0.4%	(6.2)	-0.5%	10.8%
Other operating expenses	(2.6)	-0.5%	-	0.0%	n/a	(5.4)	-0.3%	-	0.0%	n/a
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>134.8</b>	<b>23.6%</b>	<b>96.7</b>	<b>21.6%</b>	<b>39.4%</b>	<b>340.6</b>	<b>21.9%</b>	<b>264.0</b>	<b>21.9%</b>	<b>29.0%</b>
Financial expenses	(12.9)	-2.3%	(9.1)	-2.0%	42.7%	(36.4)	-2.3%	(29.6)	-2.5%	23.1%
Financial income	13.1	2.3%	10.8	2.4%	21.6%	39.5	2.5%	31.0	2.6%	27.5%
<b>INCOME FROM OPERATIONS</b>	<b>134.9</b>	<b>23.6%</b>	<b>98.4</b>	<b>22.0%</b>	<b>37.1%</b>	<b>343.8</b>	<b>22.1%</b>	<b>265.5</b>	<b>22.0%</b>	<b>29.5%</b>
Non-operating income	(0.2)	0.0%	(0.9)	-0.2%	-77.7%	(2.4)	-0.2%	(0.8)	-0.1%	191.1%
<b>INCOME BEFORE DEBENTURES PARTICIPATION</b>	<b>134.7</b>	<b>23.6%</b>	<b>97.5</b>	<b>21.8%</b>	<b>38.2%</b>	<b>341.4</b>	<b>21.9%</b>	<b>264.6</b>	<b>21.9%</b>	<b>29.0%</b>
Debentures participation	-	0.0%	-	0.0%	n/a	-	0.0%	(7.2)	-0.6%	-100.0%
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>134.7</b>	<b>23.6%</b>	<b>97.5</b>	<b>21.8%</b>	<b>38.2%</b>	<b>341.4</b>	<b>21.9%</b>	<b>257.5</b>	<b>21.4%</b>	<b>32.6%</b>
Income and social contribution taxes	(33.9)	-5.9%	(20.1)	-4.5%	68.4%	(83.0)	-5.3%	(56.6)	-4.7%	46.6%
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>100.9</b>	<b>17.7%</b>	<b>77.4</b>	<b>17.3%</b>	<b>30.4%</b>	<b>258.4</b>	<b>16.6%</b>	<b>200.9</b>	<b>16.7%</b>	<b>28.7%</b>
Minority interest	-	0.0%	-	0.0%	n/a	(0.0)	0.0%	-	0.0%	n/a
<b>NET INCOME</b>	<b>100.9</b>	<b>17.7%</b>	<b>77.4</b>	<b>17.3%</b>	<b>30.4%</b>	<b>258.4</b>	<b>16.6%</b>	<b>200.9</b>	<b>16.7%</b>	<b>28.7%</b>
<b>Depreciation</b>	<b>11.2</b>	<b>2.0%</b>	<b>8.7</b>	<b>2.0%</b>	<b>27.9%</b>	<b>31.3</b>	<b>2.0%</b>	<b>25.8</b>	<b>2.1%</b>	<b>21.3%</b>
<b>Ebitda</b>	<b>145.7</b>	<b>25.5%</b>	<b>104.5</b>	<b>23.3%</b>	<b>39.4%</b>	<b>369.6</b>	<b>23.7%</b>	<b>289.0</b>	<b>24.0%</b>	<b>27.9%</b>



## ANNEX 2 - BALANCE SHEET (09/30/2005 AND 06/30/2005)

### NATURA COSMÉTICOS S/A - R\$ million

ASSETS	Sep/05	Jun/05	LIABILITIES	Sep/05	Jun/05
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash and banks	47.5	33.4	Loans and financing	33.7	36.5
Temporary cash investments	193.2	209.5	Domestic suppliers	77.6	93.1
Trade accounts receivable	238.8	241.9	Foreign suppliers	5.3	9.2
Inventories	182.1	168.7	Payroll and related charges	76.5	54.6
Recoverable taxes	29.6	22.9	Tax payable	76.6	58.9
Advances to employees	7.1	4.8	Dividends	0.3	91.8
Related parties	0.0	0.0	Interest on capital	8.8	11.4
Deferred income and social contribution taxes	26.6	22.1	Freights payable	11.6	10.4
Other receivables	13.0	12.9	Reserve for losses on swap contracts	3.4	3.1
<b>Total current assets</b>	<b>737.7</b>	<b>716.2</b>	Insurance payable	1.8	0.4
<b>LONG-TERM ASSETS</b>			Advances to employees	5.9	4.7
Receivables from shareholders	0.1	0.2	Other payables	33.3	29.3
Temporary cash investments	3.8	0.0	<b>Total current liabilities</b>	<b>334.7</b>	<b>403.5</b>
Deferred income and social contribution taxes	26.6	25.1	<b>LONG-TERM LIABILITIES</b>		
Recoverable taxes	8.7	7.2	Loans and financing	150.4	138.6
Escrow deposits	27.7	26.9	Reserve for contingencies	82.6	76.6
Other receivables	0.6	2.1	Other payables	2.9	2.4
<b>Total long-term assets</b>	<b>67.5</b>	<b>61.4</b>	<b>Total long-term liabilities</b>	<b>236.0</b>	<b>217.7</b>
<b>PERMANENT ASSETS</b>			<b>MINORITY INTEREST</b>	<b>0.0</b>	<b>0.0</b>
Investments	6.2	7.3	<b>SHAREHOLDER'S EQUITY</b>		
Property, plant and equipment	344.0	327.4	Capital	230.8	230.8
<b>Total permanent assets</b>	<b>350.2</b>	<b>334.7</b>	Capital reserves	117.9	116.9
			Profit reserves	93.3	93.3
			Retained earnings	144.3	53.7
			Treasury shares	(1.5)	(3.5)
			<b>Total shareholders' equity</b>	<b>584.8</b>	<b>491.2</b>
<b>TOTAL ASSETS</b>	<b>1,155.4</b>	<b>1,112.4</b>	<b>TOTAL LIABILITIES</b>	<b>1,155.4</b>	<b>1,112.4</b>

## ANNEX 3 - STATEMENT OF CASH FLOW (CONSOLIDATED)

<b>Natura Cosméticos S/A - Consolidated - R\$ million</b>	<b>9M05</b>	<b>9M04</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net income</b>	<b>258.4</b>	<b>200.9</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	31.3	25.8
Monetary and exchange variations, net	1.9	7.6
Reserve for losses on swap and forward transactions	12.0	3.0
Reserve for contingencies	16.6	0.6
Reserve for obsolete inventories	2.0	6.9
Other reserves	9.8	0.0
Deferred income and social contribution taxes	(10.2)	(11.8)
Disposal of permanent assets	6.3	0.8
Debentures participation, net of taxes	0.0	5.7
	<b>328.2</b>	<b>239.5</b>
<b>(INCREASE) DECREASE IN ASSETS</b>		
Current assets:		
Accounts receivable	11.2	(9.2)
Inventories	(62.1)	(53.1)
Other receivables	(1.2)	(1.5)
Long-term assets:		
Escrow deposits	(1.6)	(9.0)
Other receivables	(2.7)	(12.0)
<b>Subtotal</b>	<b>(56.3)</b>	<b>(84.8)</b>
<b>INCREASE (DECREASE) IN LIABILITIES</b>		
Current liabilities:		
Suppliers	(4.6)	20.2
Payroll and related charges	11.1	21.2
Taxes payable	(1.6)	(25.0)
Other payables	(4.5)	(10.0)
Long-term liabilities:		
Other payables	1.0	25.6
<b>Subtotal</b>	<b>1.5</b>	<b>31.9</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>273.4</b>	<b>186.6</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(83.8)	(44.1)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(83.8)</b>	<b>(44.1)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
(Decrease) Increase in current and long-term loans	47.2	(41.6)
Payment of dividends	(203.8)	(130.0)
Payment of interest on capital	(28.6)	(11.4)
Investment grants	0.1	0.0
Sale of treasury share	4.4	0.0
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(180.6)</b>	<b>(183.0)</b>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A., net assets	0.0	43.9
<b>NET INCREASE IN CASH AND BANKS</b>	<b>9.0</b>	<b>3.3</b>
Cash and banks at the beginning of year	231.6	136.1
Cash and banks at the end of year	240.6	139.5
<b>CHANGE IN CASH AND BANKS</b>	<b>9.0</b>	<b>3.3</b>
SUPPLEMENTARY CASH FLOW DISCLOSURE:		
Income and social contribution taxes paid	61.0	46.3
Interest on paid on loans and financing	5.2	9.3
Swap and forward contracts paid	14.8	9.2



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