

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

Natura Cosméticos S.A.

*Interim Financial Statements for the
Quarter Ended March 31, 2006
and Independent Accountants' Review Report*

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

1. We have performed a special review of the accompanying interim financial statements of Natura Cosméticos S.A. and subsidiaries (Company and consolidated), consisting of the balance sheets as of March 31, 2006, and the related statements of income for the quarter then ended and the performance report, all expressed in Brazilian reais and prepared in accordance with Brazilian accounting practices under the responsibility of the Company's management.
2. We conducted our review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, which consisted principally of: (a) inquiries of and discussions with persons responsible for the accounting, financial and operating areas as to the criteria adopted in preparing the interim financial statements, and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material modifications that should be made to the financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of mandatory interim financial statements.
4. Our review was conducted for the purpose of issuing a review report on the interim financial statements referred to in paragraph 1 taken as whole. The individual and consolidated statements of cash flows, contained in Attachment, for the quarters ended March 31, 2006 and 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 quarters ended March 31, 2006 and 2005 taken as a whole.

Natura Cosméticos S.A.

5. We had previously audited the individual and consolidated balance sheets as of December 31, 2005, and reviewed the statements of income and the supplemental statement of cash flows for the quarter ended March 31, 2005, presented for comparative purposes, and issued unqualified review reports thereon, dated February 21, 2006 and April 20, 2005, respectively.
6. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, April 20, 2006

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 MARCH 31, 2006 AND DECEMBER 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>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> | | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| CURRENT ASSETS | | | | | CURRENT LIABILITIES | | | | |
| Cash and banks | 4,804 | 38,882 | 12,115 | 56,198 | Loans and financing (Note 14) | 66,637 | 44,942 | 94,871 | 68,309 |
| Cash investments (Note 5) | 127,687 | 237,084 | 180,533 | 330,241 | Domestic suppliers | 18,672 | 38,070 | 103,529 | 148,045 |
| Trade accounts receivable (Note 6) | 234,464 | 302,688 | 247,854 | 316,264 | Foreign suppliers | - | - | 6,495 | 4,115 |
| Inventories (Note 7) | 1,792 | 835 | 189,878 | 152,307 | Suppliers - related parties (Note 10) | 108,070 | 124,241 | - | - |
| Recoverable taxes (Note 8) | 404 | 508 | 28,625 | 23,967 | Salaries, profit sharing and related charges, net | 19,112 | 30,074 | 50,701 | 73,122 |
| Advances to employees | 3,231 | 3,312 | 6,065 | 5,331 | Taxes payable (Note 15) | 63,992 | 75,536 | 78,842 | 89,085 |
| Related parties (Note 10) | 6,240 | 4,850 | - | - | Dividends (Notes 10 and 17.c) | 142 | 195,070 | 142 | 195,070 |
| Deferred income and social contribution taxes (Note 9.a) | 16,324 | 16,404 | 24,261 | 25,757 | Interest on capital (Note 10) | - | 17,699 | - | 17,699 |
| Other receivables | 12,892 | 8,160 | 23,678 | 14,799 | Accrued freight | 11,380 | 13,786 | 11,380 | 13,786 |
| Total current assets | 407,838 | 612,723 | 713,009 | 924,864 | Sundry accruals | 9,110 | 8,863 | 9,274 | 9,026 |
| | | | | | Other payables | 14,239 | 12,780 | 15,513 | 13,564 |
| LONG-TERM ASSETS | | | | | Allowance for losses on swap contracts (Notes 20.b and 20.d) | 2,824 | 2,703 | 2,824 | 2,703 |
| Receivables from shareholders (Notes 10.e and 17.b) | 16 | 130 | 16 | 130 | Total current liabilities | 314,178 | 563,764 | 373,571 | 634,524 |
| Advance for future capital increase (Note 10.d) | 1,017 | 1,007 | - | - | | | | | |
| Recoverable taxes (Note 8) | 1,492 | 1,432 | 11,314 | 9,574 | LONG-TERM LIABILITIES | | | | |
| Deferred income and social contribution taxes (Note 9.a) | 18,515 | 17,680 | 30,148 | 29,324 | Loans and financing (Note 14) | 21,810 | 44,290 | 95,161 | 119,156 |
| Escrow deposits (Note 16) | 24,227 | 23,590 | 30,295 | 29,477 | Allowance for losses on subsidiaries (Note 11) | 5,182 | 4,202 | - | - |
| Other receivables | - | - | 511 | 526 | Reserve for contingencies (Note 16) | 55,955 | 53,843 | 92,758 | 90,599 |
| Cash investments (Notes 5 and 16.i) | - | - | 4,128 | 3,968 | Other payables | 1,990 | 1,806 | 3,539 | 3,232 |
| Total long-term assets | 45,267 | 43,839 | 76,412 | 72,999 | Total long-term liabilities | 84,937 | 104,141 | 191,458 | 212,987 |
| | | | | | | | | | |
| PERMANENT ASSETS | | | | | MINORITY INTEREST | | | | |
| Investments (Note 11) | 537,972 | 516,929 | 5,477 | 5,761 | SHAREHOLDERS' EQUITY (Note 17) | | | | |
| Property, plant and equipment (Note 12) | 17,044 | 17,674 | 377,018 | 365,284 | Capital (Note 17.a) | 230,762 | 230,762 | 230,762 | 230,762 |
| Total permanent assets | 555,016 | 534,603 | 382,495 | 371,045 | Capital reserves (Notes 17.a, 17.b and 17.e) | 124,441 | 120,678 | 124,441 | 120,678 |
| | | | | | Profit reserves (Note 17.g) | 254,497 | 172,589 | 252,370 | 170,718 |
| | | | | | Treasury shares (Note 17.d) | (694) | (769) | (694) | (769) |
| | | | | | Total shareholders' equity | 609,006 | 523,260 | 606,879 | 521,389 |
| TOTAL ASSETS | 1,008,121 | 1,191,165 | 1,171,916 | 1,368,908 | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,008,121 | 1,191,165 | 1,171,916 | 1,368,908 |

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

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

NATURA COSMÉTICOS S.A.

STATEMENTS OF INCOME

FOR THE QUARTERS ENDED MARCH 31, 2006 AND 2005

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

| | <u>Controladora</u> | | <u>Consolidado</u> | |
|--|---------------------|----------------|--------------------|----------------|
| | <u>03/2006</u> | <u>03/2005</u> | <u>03/2006</u> | <u>03/2005</u> |
| Gross sales to domestic market | 693,227 | 587,508 | 698,824 | 592,681 |
| Gross sales to foreign market | - | - | 23,491 | 18,080 |
| Other sales | - | - | 323 | 224 |
| GROSS OPERATING REVENUES | 693,227 | 587,508 | 722,638 | 610,985 |
| Taxes on sales, returns and rebates | (155,530) | (135,005) | (210,811) | (183,876) |
| NET OPERATING REVENUES | 537,697 | 452,503 | 511,827 | 427,109 |
| Cost of sales | (215,066) | (186,783) | (159,507) | (144,993) |
| GROSS PROFIT | 322,631 | 265,720 | 352,320 | 282,116 |
| OPERATING (EXPENSES) INCOME | | | | |
| Selling | (139,242) | (111,411) | (165,977) | (134,796) |
| General and administrative | (88,632) | (80,900) | (80,316) | (57,135) |
| Management compensation | (1,639) | (1,619) | (2,432) | (2,354) |
| Equity in subsidiaries (Note 11) | 2,524 | 4,261 | - | - |
| Other operating expenses, net | (3,549) | - | (3,549) | (1,133) |
| INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS | 92,093 | 76,051 | 100,046 | 86,698 |
| Financial expenses (Note 21) | (3,607) | (1,617) | (9,600) | (8,603) |
| Financial income (Note 21) | 11,694 | 10,278 | 15,850 | 14,237 |
| INCOME FROM OPERATIONS | 100,180 | 84,712 | 106,296 | 92,332 |
| Nonoperating (expenses) income, net | 193 | 36 | 141 | (1,085) |
| INCOME BEFORE TAXES ON INCOME | 100,373 | 84,748 | 106,437 | 91,247 |
| Income and social contribution taxes (Note 9.b) | (18,465) | (14,708) | (24,784) | (21,567) |
| NET INCOME BEFORE MINORITY INTEREST | 81,908 | 70,040 | 81,653 | 69,680 |
| Minority interest | - | - | (1) | - |
| NET INCOME | 81,908 | 70,040 | 81,652 | 69,680 |
| EARNINGS PER SHARE - R\$ (Note 17.a) (*) | 0.1926 | 0.8260 | 0.1920 | 0.8217 |

(*) The decrease in earnings per share for the 1st quarter of 2006, compared to the 1st quarter of 2005, is due to the stock split on March 31, 2006, as described in Note 17.a.

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

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

NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE QUARTER ENDED MARCH 31, 2006 AND YEAR ENDED DECEMBER 31, 2005
(In thousands of Brazilian reais - R\$)

| | <u>Capital</u> | <u>Capital reserves</u> | | | <u>Profit reserves</u> | | <u>Retained earnings</u> | <u>Total</u> |
|--|----------------|-------------------------|----------------------|--------------------------|------------------------|-----------------|--------------------------|----------------|
| | | <u>Treasury shares</u> | <u>Share premium</u> | <u>Investment grants</u> | <u>Legal</u> | <u>Retenção</u> | | |
| BALANCES AS OF DECEMBER 31, 2004 | 230,762 | (3,655) | 105,673 | 9,998 | 18,650 | 76,024 | - | 437,452 |
| Sale of treasury shares by exercise of stock options (Note 17.d) | - | 337 | 4,537 | - | - | - | - | 4,874 |
| Payment of receivables from shareholders (Note 17.b) | - | 2,053 | 249 | - | - | - | - | 2,302 |
| Tax incentives | - | - | - | 717 | - | - | - | 717 |
| Net income | - | - | - | - | - | - | 397,357 | 397,357 |
| Allocation of net income: | | | | | | | | |
| Profit retention reserve (Note 17.g) | - | - | - | - | - | 77,915 | (77,915) | - |
| Dividends - R\$3.357 per outstanding share (Note 17.c) | - | - | - | - | - | - | (285,237) | (285,237) |
| Interest on capital - R\$0.403 per outstanding share (Note 17.c) | - | - | - | - | - | - | (34,205) | (34,205) |
| BALANCES AS OF DECEMBER 31, 2005 | <u>230,762</u> | <u>(1,265)</u> | <u>110,459</u> | <u>10,715</u> | <u>18,650</u> | <u>153,939</u> | <u>-</u> | <u>523,260</u> |
| Sale of treasury shares by exercise of stock options (Note 17.d) | - | 76 | 1,133 | - | - | - | - | 1,209 |
| Payment of receivables from shareholders (Note 17.b) | - | - | 1,998 | - | - | - | - | 1,998 |
| Tax incentives | - | - | - | 631 | - | - | - | 631 |
| Net income | - | - | - | - | - | - | 81,908 | 81,908 |
| BALANCES AS OF MARCH 31, 2006 | <u>230,762</u> | <u>(1,189)</u> | <u>113,590</u> | <u>11,346</u> | <u>18,650</u> | <u>153,939</u> | <u>81,908</u> | <u>609,006</u> |

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

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

NATURA COSMÉTICOS S.A.

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

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.

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).

The terminology and grouping of certain accounts in the statements of income and cash flows have been changed from the prior year for better classification and presentation. Such changes included the first quarter of 2005, in order to allow comparability between the quarters. Please note that such changes did not result in any change in the individual account balances and total balances.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Results of operations

Determined on the accrual basis of accounting.

b) 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 Notes 20.b and 20.d.

m) Financial income and expenses

Represented by interest and monetary and exchange variations on cash investments, escrow deposits and 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 (Attachment).

q) Use of estimates

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

4. CONSOLIDATION CRITERIA

The consolidated financial statements 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>03/2006</u> | <u>12/2005</u> | <u>03/2005</u> |
| Direct: | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. | 99.99 | 99.82 | 99.76 |
| Natura Cosméticos S.A. - Chile | 99.96 | 99.96 | 99.96 |
| Natura Cosméticos S.A. - Peru | 99.93 | 99.93 | 99.93 |
| Natura Cosméticos S.A. - Argentina | 95.00 | 95.00 | 95.00 |
| Natura Brasil Cosmética Ltda. - Portugal | 99.99 | 99.99 | 99.99 |
| Commodities Trading S.A. - Uruguai | - | - | 100.00 |
| Nova Flora Participações Ltda. | 99.99 | 100.00 | 100.00 |
| Natura Inovação e Tecnologia de Produtos Ltda. | 99.99 | 99.99 | 99.99 |
| Natura Europa SAS | 100.00 | 100.00 | 100.00 |
| Natura Cosméticos S.A. - México | 99.99 | 99.99 | 99.99 |
| Natura Cosméticos C.A. - Venezuela | 99.00 | 99.00 | - |
| 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 | 33.33 |

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 relation to the first quarter of 2005, the Company resumed operations of Natura Cosméticos C.A. - Venezuela, and discontinued operations of Commodities Trading S.A. - Uruguay.

The shareholders' equity balances as of March 31, 2006 and December 31, 2005, reported by the Company, differ by R\$2,127 and R\$1,871, respectively, from those recorded in the consolidated financial statements due to the elimination of unrealized profits of subsidiaries. For the same reason, net income balances reported by the Company as of March 31, 2006 and 2005 differ by R\$256 e R\$360, respectively, from the balances in the consolidated financial statements.

| | <u>Net income</u> | | <u>Shareholders' equity</u> | |
|---|-------------------|----------------|-----------------------------|----------------|
| | <u>03/2006</u> | <u>03/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Company | 81,908 | 70,040 | 609,006 | 523,260 |
| Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries | <u>(256)</u> | <u>(360)</u> | <u>(2,127)</u> | <u>(1,871)</u> |
| Consolidated | <u>81,652</u> | <u>69,680</u> | <u>606,879</u> | <u>521,389</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 Cosméticos C.A. - Venezuela (currently in the preoperating stage), Natura Brasil Cosmética Ltda. - Portugal (this company has no activities currently) and Commodities Trading S.A. - Uruguay (this subsidiary ceased operations 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.: its activities consist of product and technology development and market research.
- Natura Europa SAS: engaged in the purchase, sale, import, export and distribution of cosmetics, fragrances in general, hygiene and health products.
- Natura Cosméticos S.A. - Mexico: engaged in the purchase, sale, import, export, distribution and storage of cosmetics, fragrances in general, 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>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Bank certificates of deposit (CDBs) | 119,160 | 228,106 | 176,134 | 325,231 |
| Investment funds | <u>8,527</u> | <u>8,978</u> | <u>8,527</u> | <u>8,978</u> |
| | <u>127,687</u> | <u>237,084</u> | <u>184,661</u> | <u>334,209</u> |
| Long term (Note 16.i) | - | - | 4,128 | 3,968 |
| Current | <u>127,687</u> | <u>237,084</u> | <u>180,533</u> | <u>330,241</u> |

As of March 31, 2006 and December 31, 2005, CDBs yield interest rates ranging from 100% to 102.5% of the interbank deposit rate (CDI), and the share in the total investment portfolio is 95.38% (97.31% as of December 31, 2005). Investments funds yield interest rates ranging from 100.66% to 101.56% do CDI (101.64% to 101,92% as of December 31, 2005).

6. TRADE ACCOUNTS RECEIVABLE

| | Company | | Consolidated | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Trade accounts receivable | 253,563 | 322,228 | 268,217 | 337,104 |
| Allowance for doubtful accounts | <u>(19,099)</u> | <u>(19,540)</u> | <u>(20,363)</u> | <u>(20,840)</u> |
| | <u>234,464</u> | <u>302,688</u> | <u>247,854</u> | <u>316,264</u> |

7. INVENTORIES

| | Company | | Consolidated | |
|-----------------------------|----------------|----------------|-----------------|-----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Finished products | 1,718 | 811 | 116,714 | 88,468 |
| Raw materials and packaging | - | - | 66,925 | 66,162 |
| Promotional material | 74 | 24 | 14,279 | 7,979 |
| Work in process | - | - | 7,002 | 6,037 |
| Allowance for losses | - | - | <u>(15,042)</u> | <u>(16,339)</u> |
| | <u>1,792</u> | <u>835</u> | <u>189,878</u> | <u>152,307</u> |

8. RECOVERABLE TAXES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| ICMS (state VAT) on purchases of fixed assets | 1,894 | 1,918 | 12,701 | 11,581 |
| ICMS (state VAT) on purchases of goods | 2 | 22 | 12,160 | 6,946 |
| IRPJ (corporate income tax) | - | - | 5,096 | 3,580 |
| CSLL (social contribution tax) | - | - | 3,636 | 3,091 |
| COFINS (tax on revenue) | - | - | 495 | 2,025 |
| PIS/COFINS/CSLL - withheld at source | - | - | 943 | 860 |
| PIS (tax on revenue) | - | - | 339 | 671 |
| IRRF (withholding income tax) | - | - | - | 776 |
| Other | - | - | <u>4,569</u> | <u>4,011</u> |
| | <u>1,896</u> | <u>1,940</u> | <u>39,939</u> | <u>33,541</u> |
| Long term | 1,492 | 1,432 | 11,314 | 9,574 |
| Current | <u>404</u> | <u>508</u> | <u>28,625</u> | <u>23,967</u> |

ICMS credits on the acquisition of fixed assets are offset at the rate of 1/48, pursuant to prevailing legislation.

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 subsidiaries) 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>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Current: | | | | |
| Tax loss carryforwards | - | - | 1,100 | 1,089 |
| Temporary differences: | | | | |
| Allowance for doubtful accounts (Note 6) | 6,891 | 6,952 | 6,891 | 6,952 |
| Allowance for inventory losses (Note 7) | - | - | 5,047 | 5,555 |
| Allowance for losses on swap and forward transactions (Notes 20.b and 20.d) | 960 | 919 | 960 | 919 |
| Other provisions | <u>8,473</u> | <u>8,533</u> | <u>10,263</u> | <u>11,242</u> |
| Deferred income and social contribution taxes | <u>16,324</u> | <u>16,404</u> | <u>24,261</u> | <u>25,757</u> |
| Long term: | | | | |
| Tax loss carryforwards | - | - | 375 | 375 |
| Temporary differences: | | | | |
| Reserve for contingencies (Note 16) | 17,565 | 16,847 | 28,515 | 27,809 |
| Other provisions | <u>950</u> | <u>833</u> | <u>1,258</u> | <u>1,140</u> |
| Deferred income and social contribution taxes | <u>18,515</u> | <u>17,680</u> | <u>30,148</u> | <u>29,324</u> |

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

| | <u>Consolidated</u> | |
|------|---------------------|----------------|
| | <u>03/3006</u> | <u>12/2005</u> |
| 2007 | 20,284 | 19,850 |
| 2008 | 2,315 | 2,146 |
| 2009 | 5,357 | 5,571 |
| 2010 | <u>2,192</u> | <u>1,757</u> |
| | <u>30,148</u> | <u>29,324</u> |

b) Current expense

Reconciliation of income and social contribution taxes:

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|-----------------|-----------------|---------------------|-----------------|
| | <u>03/2006</u> | <u>03/2005</u> | <u>03/2006</u> | <u>03/2005</u> |
| Income before taxes on income | 100,373 | 84,748 | 106,437 | 91,247 |
| Income and social contribution taxes at the rate of 34% | (34,127) | (28,814) | (36,188) | (31,024) |
| Reversal of provision for maintenance of dividend payment capacity (Note 13) | 12,483 | 12,483 | 12,483 | 12,483 |
| Technological research and innovation benefit – Law No. 11,196/2005 (*) | 3,670 | - | 3,670 | - |
| Tax incentives (donations) | 284 | 376 | 335 | 338 |
| Equity in subsidiaries and exchange variation on translation of foreign investments (Note 11) | (349) | 1,449 | - | - |
| Permanent differences | (429) | (202) | (650) | (217) |
| Losses generated by subsidiaries | - | - | (4,470) | (3,147) |
| Other | <u>3</u> | <u>-</u> | <u>36</u> | <u>-</u> |
| Income and social contribution taxes: net expenses | <u>(18,465)</u> | <u>(14,708)</u> | <u>(24,784)</u> | <u>(21,567)</u> |
| Income and social contribution taxes: current | 19,220 | 16,654 | 24,126 | 23,527 |
| Income and social contribution taxes: deferred | <u>(755)</u> | <u>(1,946)</u> | <u>658</u> | <u>(1,960)</u> |
| Income and social contribution taxes: net expenses | <u>18,465</u> | <u>14,708</u> | <u>24,784</u> | <u>21,567</u> |
| Effective rate - % | <u>18.4</u> | <u>17.4</u> | <u>23.3</u> | <u>23.6</u> |

(*) Refers to the tax benefit established by Law No. 11,196/2005, which allows for the direct deduction in the calculation of taxable income and the social contribution tax basis from the amount corresponding to 60% of the total expenses on technological research and innovation, observing the rules established in said law.

10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Current assets: | | | | |
| Related parties: | | | | |
| Natura Logística e Serviços Ltda. (a) | 2,659 | 2,806 | - | - |
| Natura Inovação e Tecnologia de Produtos Ltda. (b) | 2,748 | 1,211 | - | - |
| Nova Flora Participações Ltda. (c) | <u>833</u> | <u>833</u> | <u>-</u> | <u>-</u> |
| | <u>6,240</u> | <u>4,850</u> | <u>-</u> | <u>-</u> |
| Advance for future capital increase- | | | | |
| Nova Flora Participações Ltda. (d) | <u>1,017</u> | <u>1,007</u> | <u>-</u> | <u>-</u> |
| Receivables from shareholders (e) | <u>16</u> | <u>130</u> | <u>16</u> | <u>130</u> |
| Current liabilities: | | | | |
| Suppliers: | | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. (f) | 88,580 | 106,470 | - | - |
| Natura Logística e Serviços Ltda. (g) | 10,854 | 9,259 | - | - |
| Natura Inovação e Tecnologia de Produtos Ltda. (h) | <u>8,636</u> | <u>8,512</u> | <u>-</u> | <u>-</u> |
| | <u>108,070</u> | <u>124,241</u> | <u>-</u> | <u>-</u> |
| Dividends payable- | | | | |
| Shareholders | <u>142</u> | <u>195,070</u> | <u>142</u> | <u>195,070</u> |
| Interest on capital payable- | | | | |
| Shareholders | <u>-</u> | <u>17,699</u> | <u>-</u> | <u>17,699</u> |

Transactions with related parties are summarized as follows:

| | Product sales | | Product purchases | |
|---|----------------|----------------|-------------------|----------------|
| | <u>03/2006</u> | <u>03/2005</u> | <u>03/2006</u> | <u>03/2005</u> |
| Natura Cosméticos S.A. | - | - | 255,592 | 215,710 |
| Indústria e Comércio de Cosméticos Natura Ltda. | 264,773 | 222,750 | - | - |
| Natura Cosméticos S.A. - Argentina | - | - | 3,948 | 2,774 |
| Natura Cosméticos S.A. - Peru | - | - | 2,665 | 2,779 |
| Natura Cosméticos S.A. - Chile | - | - | 1,735 | 1,149 |
| Natura Cosméticos S.A. - México | - | - | 636 | - |
| Natura Europa SAS | - | - | 52 | 215 |
| Natura Inovação e Tecnologia de Produtos Ltda. | <u>-</u> | <u>-</u> | <u>145</u> | <u>123</u> |
| | <u>264,773</u> | <u>222,750</u> | <u>264,773</u> | <u>222,750</u> |

| | Product sales | | Product purchases | |
|--|----------------|----------------|-------------------|----------------|
| | <u>03/2006</u> | <u>03/2005</u> | <u>03/2006</u> | <u>03/2005</u> |
| Administrative structure: (i) | | | | |
| Natura Logística e Serviços Ltda. | 47,305 | 45,336 | - | - |
| Natura Cosméticos S.A. | - | - | 33,623 | 34,086 |
| Indústria e Comércio de Cosméticos Natura Ltda. | - | - | 9,849 | 7,740 |
| Natura Inovação e Tecnologia de Produtos Ltda. | - | - | 3,833 | 3,510 |
| | <u>47,305</u> | <u>45,336</u> | <u>47,305</u> | <u>45,336</u> |
| Product and technology research and development: | | | | |
| (j) | | | | |
| Natura Inovação e Tecnologia de Produtos Ltda. | 30,708 | 23,909 | - | - |
| Natura Cosméticos S.A. | - | - | 30,708 | 23,909 |
| | <u>30,708</u> | <u>23,909</u> | <u>30,708</u> | <u>23,909</u> |
| Lease of properties and common charges: (k) | | | | |
| Indústria e Comércio de Cosméticos Natura Ltda. | 1,397 | 1,398 | 434 | 618 |
| Natura Logística e Serviços Ltda. | 340 | 512 | 810 | 810 |
| Natura Inovação e Tecnologia de Produtos Ltda. | 94 | 105 | 325 | 325 |
| Natura Cosméticos S.A. | - | - | 262 | 262 |
| | <u>1,831</u> | <u>2,015</u> | <u>1,831</u> | <u>2,015</u> |
| Total service sales and purchases | <u>344,617</u> | <u>294,010</u> | <u>344,617</u> | <u>294,010</u> |

- (a) Refers to advances granted for provision of logistics and general administrative services.
- (b) Refers to advances granted for provision of product and technology development and market research services.
- (c) Amount receivable due to the capital reduction made on January 30, 2004, approved by the shareholders' meeting held on the same date.
- (d) Cash contributions to Nova Flora Participações Ltda. mainly for maintenance of working capital.
- (e) On September 29, 2000, April 30, 2002, December 30, 2002 and January 5, 2004, under a stock purchase and sale agreement, a 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\$383 as of March 31, 2006 (R\$ 2,493 as of December 31, 2005), is amortized with dividends and interest on capital paid by the Company to those directors, based on the shares acquired by them and which are restricted.

- (f) Payables for the purchase of products. Prices and terms are within normal market conditions.
- (g) Payables for services described in item (i).
- (h) Payables for services described in item (j).
- (i) Logistics and general administrative services.
- (j) Product and technology development and market research services.
- (k) Rental of part of the industrial complex located in Cajamar and buildings located in the municipality of Itapecerica da Serra.

The main intercompany balances as of March 31, 2006 and December 31, 2005, as well as the intercompany transactions that affected the results for the quarters ended as of March 31, 2006 and 2005, refer to transactions between the Company and its subsidiaries, which were substantially carried out under usual market conditions for each type of transaction.

11. INVESTMENTS

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|----------------|---------------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Investments in subsidiaries | 537,964 | 516,921 | - | - |
| Goodwill on acquisition of investment - Nova Flora | - | - | 8,015 | 8,015 |
| Amortization of goodwill - Nova Flora | - | - | (8,015) | (8,015) |
| Goodwill on acquisition of investment - Natura Europa | - | - | 5,469 | 5,753 |
| Other | <u>8</u> | <u>8</u> | <u>8</u> | <u>8</u> |
| | <u>537,972</u> | <u>516,929</u> | <u>5,477</u> | <u>5,761</u> |

The goodwill on the acquisition made by the subsidiary Nova Flora Participações Ltda. was fully amortized in 2005, due to the low expectation of profitability from 2006 onwards. Liabilities related to this subsidiary are properly reflected in the consolidated financial statements.

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. The balance variation between March 31, 2006 and December 31, 2005 is basically due to the effects of the exchange variation for the period.

Natura Cosméticos S.A.

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 Cosméticos C.A. - Venezuela | Nova Flora Participações Ltda. | Natura Inovação e Tecnologia de Produtos Ltda. | Natura Europa SAS | Natura Cosméticos S.A. - México | Natura Brasil Cosmética Ltda. - Portugal | Total |
|--|---|---|-------------------------------------|---|---|--------------------------------------|--|-------------------------|---------------------------------------|--|----------------|
| Shares of subsidiaries | 432,500 | 48,929 | 2,208 | 40,523 | 1,295 | 2,413 | 5,008 | 34,040 | 17,312 | 105 | |
| Number of shares (common shares) held | 432,499 | 48,909 | 2,206 | 38,497 | 1,282 | 2,413 | 5,007 | 34,040 | 17,310 | 105 | |
| Ownership interest - % | 99.99% | 99.96% | 99.93% | 95.00% | 99.00% | 99.99% | 99.99% | 100.00% | 99.99% | 99.99% | |
| Capital | 432,500 | 48,929 | 2,208 | 40,523 | 1,295 | 2,413 | 5,008 | 34,040 | 17,312 | 105 | 584,333 |
| Shareholders' equity of subsidiaries | 483,842 | 2,300 | 1,197 | 5,770 | 612 | (5,182) | 25,049 | 13,725 | 5,748 | 23 | 533,084 |
| Share in shareholders' equity | 483,842 | 2,299 | 1,196 | 5,481 | 605 | (5,182) | 25,046 | 13,725 | 5,747 | 23 | 532,782 |
| Net income (loss) of subsidiaries, net of exchange variation on translation of foreign investments | 9,171 | (1,024) | 469 | (2,276) | (350) | (980) | 2,917 | (3,700) | (2,686) | (4) | 1,537 |
| Book value of Company's investment: | | | | | | | | | | | |
| Balances as of December 31, 2005 | 473,827 | 1,453 | 947 | 83 | 245 | - | 22,130 | 13,400 | 4,808 | 28 | 516,921 |
| Equity in subsidiaries | 9,171 | (1,024) | 469 | (2,161) | (347) | (109) | 2,916 | (3,700) | (2,687) | (4) | 2,524 |
| Changes in ownership interest in affiliates | 871 | - | - | - | - | (871) | - | - | - | - | - |
| Exchange variation and other adjustments on translation of foreign investments | (27) | (271) | (220) | (1,707) | (4) | - | - | (616) | (703) | (1) | (3,549) |
| Recognition (reversal) of provision for losses | - | - | - | - | - | 980 | - | - | - | - | 980 |
| Capital increase | - | 2,141 | - | 9,266 | 711 | - | - | 4,641 | 4,329 | - | 21,088 |
| Balances as of March 31, 2006 | <u>483,842</u> | <u>2,299</u> | <u>1,196</u> | <u>5,481</u> | <u>605</u> | <u>-</u> | <u>25,046</u> | <u>13,725</u> | <u>5,747</u> | <u>23</u> | <u>537,964</u> |
| Provision for losses: | | | | | | | | | | | |
| Balances as of December 31, 2005 | - | - | - | - | - | (4,202) | - | - | - | - | (4,202) |
| (Recognition) reversal of provision for losses | - | - | - | - | - | (980) | - | - | - | - | (980) |
| Balances as of March 31, 2006 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(5,182)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(5,182)</u> |
| Net balances as of March 31, 2006 | <u>483,842</u> | <u>2,299</u> | <u>1,196</u> | <u>5,481</u> | <u>605</u> | <u>(5,182)</u> | <u>25,046</u> | <u>13,725</u> | <u>5,747</u> | <u>23</u> | <u>532,782</u> |

12. PROPERTY, PLANT AND EQUIPMENT

| | Annual depreciation rate - % | Company | | | | | |
|--------------------------|------------------------------------|---------------|-----------------------------|-------------------|---------------|-----------------------------|-------------------|
| | | 03/2006 | | | 12/2005 | | |
| | | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Vehicles | 20 | 16,656 | 6,820 | 9,836 | 16,412 | 6,022 | 10,390 |
| Software | 20 | 5,293 | 2,158 | 3,135 | 5,179 | 1,920 | 3,259 |
| IT equipment | 20 | 3,961 | 2,462 | 1,499 | 3,832 | 2,353 | 1,479 |
| Furniture and fixtures | 10 | 2,391 | 1,498 | 893 | 2,403 | 1,453 | 950 |
| Machinery and equipment | 10 | 1,097 | 221 | 876 | 1,064 | 191 | 873 |
| Leasehold improvements | 12 | 987 | 194 | 793 | 901 | 186 | 715 |
| Construction in progress | - | <u>12</u> | <u>-</u> | <u>12</u> | <u>8</u> | <u>-</u> | <u>8</u> |
| | | <u>30,397</u> | <u>13,353</u> | <u>17,044</u> | <u>29,799</u> | <u>12,125</u> | <u>17,674</u> |

| | Annual depreciation rate - % | Consolidated | | | | | |
|--------------------------|------------------------------------|----------------|-----------------------------|-------------------|----------------|-----------------------------|-------------------|
| | | 03/2006 | | | 12/2005 | | |
| | | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| Buildings | 4 | 144,144 | 26,020 | 118,124 | 144,140 | 24,618 | 119,522 |
| Machinery and equipment | 10 | 143,881 | 46,476 | 97,405 | 131,819 | 41,811 | 90,008 |
| Installations | 10 | 67,369 | 27,380 | 39,989 | 67,884 | 27,040 | 40,844 |
| Vehicles | 20 | 25,003 | 9,184 | 15,819 | 24,694 | 8,325 | 16,369 |
| Software | 20 | 25,965 | 9,793 | 16,172 | 24,885 | 8,571 | 16,314 |
| Land | - | 15,910 | - | 15,910 | 15,910 | - | 15,910 |
| Molds | 33 | 40,352 | 24,795 | 15,557 | 36,521 | 22,428 | 14,093 |
| IT equipment | 20 | 29,048 | 15,784 | 13,264 | 28,772 | 15,050 | 13,722 |
| Furniture and fixtures | 10 | 13,761 | 5,230 | 8,531 | 13,789 | 5,009 | 8,780 |
| Leasehold improvements | 12 | 745 | 212 | 533 | 1,029 | 205 | 824 |
| Advances to suppliers | - | 18,453 | - | 18,453 | 16,813 | - | 16,813 |
| Construction in progress | - | 14,166 | - | 14,166 | 8,569 | - | 8,569 |
| Other | 10 | <u>5,964</u> | <u>2,869</u> | <u>3,095</u> | <u>6,419</u> | <u>2,903</u> | <u>3,516</u> |
| | | <u>544,761</u> | <u>167,743</u> | <u>377,018</u> | <u>521,244</u> | <u>155,960</u> | <u>365,284</u> |

13. DEFERRED CHARGES

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 future 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 | |
|---|------------------|------------------|
| | 03/3006 | 12/2005 |
| Goodwill on investments | 722,076 | 758,792 |
| Provision for maintenance of future dividend payment capacity | <u>(722,076)</u> | <u>(758,792)</u> |
| | <u>-</u> | <u>-</u> |

The provision for maintenance of future dividend payment capacity, as it is in the full amount, 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 | <u>Company</u> | | <u>Consolidated</u> | | Maturity | Charges | Guarantees |
|---|----------------|---------------|---------------------|----------------|-----------------------------|--|---|
| | 03/2006 | 12/2005 | 03/2006 | 12/2005 | | | |
| BNDES - PROGEREN (Support Program for Enhancing Employment and Income Capacity) | 72,098 | 69,890 | 72,098 | 69,890 | June 2007 | Interest of 3.5% p.y. + TJLP (long-term interest rate) | Bank guarantee and guarantee of Indústria e Comércio de Cosméticos Natura Ltda. |
| BNDES (Brazilian Bank for Economic and Social Development) | 16,349 | 19,342 | 31,518 | 34,994 | August 2007 to April 2010 | Interest of 4.0% p.y. and 4.5% p.y. + UMBNDES (*) | Mortgage (**) and guarantee of Natura Cosméticos S.A. |
| FINEP (Financing Agency for Studies and Projects) | - | - | 30,505 | 32,050 | December 2008 | Interest of 3.0% p.y. + TJLP | Guarantee, promissory notes and receivables of Natura Cosméticos S.A. |
| Export credit note (NCE) | - | - | 32,981 | 31,641 | April 2008 | Interest of 104.7% of CDI (interbank deposit rate) | Promissory notes and guarantee of Natura Cosméticos S.A. |
| BNDES - FINAME (Government Agency for Machinery and Equipment Financing) | - | - | 13,407 | 12,115 | April 2006 to December 2010 | Interest of 4.5% p.y. + TJLP | Chattel mortgage and guarantee of Natura Cosméticos S.A. and promissory notes |
| Loans - Argentina | - | - | - | 6,775 | January 2006 | Interest of 9.5% p.y. + exchange variation (Argentinean pesos) | Guarantee of Natura Cosméticos S.A. |
| Resolution No. 2,770 and overdraft account | - | - | 9,523 | - | July 2006 | Interest of 115% of CDI | Promissory notes and guarantee of Natura Cosméticos S.A. |
| Total | <u>88,447</u> | <u>89,232</u> | <u>190,032</u> | <u>187,465</u> | | | |
| Current | 66,637 | 44,942 | 94,871 | 68,309 | | | |
| Long term | <u>21,810</u> | <u>44,290</u> | <u>95,161</u> | <u>119,156</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>03/3006</u> | <u>12/2005</u> |
| 2007 | 35,351 | 61,895 |
| 2008 | 50,929 | 49,107 |
| 2009 | 6,679 | 6,276 |
| 2010 | <u>2,202</u> | <u>1,878</u> |
| | <u>95,161</u> | <u>119,156</u> |

15. TAXES PAYABLE

| | <u>Company</u> | | <u>Consolidated</u> | |
|-------------------------------------|----------------|----------------|---------------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| ICMS (state VAT) | 48,010 | 58,163 | 48,018 | 58,184 |
| IRRF (withholding income tax) | 4,138 | 1,570 | 9,367 | 3,048 |
| IRPJ (corporate income tax) | 7,022 | 10,438 | 8,855 | 12,234 |
| CSLL (social contribution tax) | 3,505 | 4,118 | 4,029 | 4,718 |
| COFINS (tax on revenue) | 193 | 74 | 3,119 | 2,166 |
| PIS/COFINS/CSLL (Law No. 10,833/03) | 1,041 | 1,093 | 1,495 | 1,606 |
| PIS (tax on revenue) | 42 | 17 | 656 | 826 |
| Other | <u>41</u> | <u>63</u> | <u>3,303</u> | <u>6,303</u> |
| | <u>63,992</u> | <u>75,536</u> | <u>78,842</u> | <u>89,085</u> |

16. RESERVE FOR CONTINGENCIES

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

The balances of contingencies are as follows:

| | <u>Company</u> | | <u>Consolidated</u> | |
|-------|----------------|----------------|---------------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Tax | 47,188 | 45,837 | 77,849 | 76,789 |
| Labor | 4,473 | 3,929 | 5,945 | 5,118 |
| Civil | <u>4,294</u> | <u>4,077</u> | <u>8,964</u> | <u>8,692</u> |
| | <u>55,955</u> | <u>53,843</u> | <u>92,758</u> | <u>90,599</u> |

Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

| | Company | | Consolidated | |
|---|---------------|---------------|---------------|---------------|
| | 03/2006 | 12/2005 | 03/2006 | 12/2005 |
| IPI - zero rate (a) | - | - | 16,387 | 15,814 |
| PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 (b) | 13,179 | 12,740 | 14,759 | 14,267 |
| Late payment fines on federal taxes paid in arrears (c) | 5,117 | 4,926 | 6,085 | 5,859 |
| Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (d) | 6,030 | 5,901 | 6,030 | 5,901 |
| Tax assessment - INSS (social security contribution) (e) | 5,076 | 4,944 | 5,076 | 4,944 |
| Monetary restatement of federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (f) | 4,853 | 4,851 | 4,978 | 4,976 |
| IPI tax assessment - attorneys' fees (g) | - | - | 4,532 | 5,717 |
| IPI credit on purchases of fixed assets and consumption material (h) | - | - | 4,450 | 4,325 |
| IPI (federal VAT) - tax collection lawsuit (i) | 3,882 | 3,773 | 3,882 | 3,773 |
| Assessment notice - 1990 corporate income tax (j) | 2,518 | 2,448 | 2,518 | 2,448 |
| Attorneys' fees and other | <u>6,533</u> | <u>6,254</u> | <u>9,152</u> | <u>8,765</u> |
| | <u>47,188</u> | <u>45,837</u> | <u>77,849</u> | <u>76,789</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. 2,445/88 and No. 2,449/88, 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 2nd 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 publication and notification of the decision occurred. The Federal Revenue Service filed a special appeal, which is pending judgment at the Superior Chamber of Tax Appeals.
- (c) 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.
- (d) Refers to CSLL (social contribution tax) that was addressed by a mandate that questions the constitutionality of Law No. 9,316/96, 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\$3,914 (R\$3,787 as of December 31, 2005), is deposited in escrow.

- (e) 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.
- (f) Refers to the monetary restatement of federal taxes (IRPJ/CSLL/ILL) related to 1991 based on the UFIR (fiscal reference unit), discussed in a mandate. An escrow deposit has been made for the amount involved in this contingency.
- (g) Refers to attorneys' fees for the defense in the tax assessment notice issued in November 2005 by the Federal Revenue Service, relating to the tax basis of the IPI (federal VAT) on intercompany transactions. The attorneys are of the opinion that the likelihood of loss is remote.
- (h) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through injunctions the right to the IPI (federal VAT) 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.
- (i) Refers to a tax collection lawsuit seeking to collect the IPI (federal VAT) related to July 1989, when wholesale establishments began to be considered equivalent to industrial establishments under Law No. 7,798/89. 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 updated amount of R\$4,128 (R\$3,968 as of December 31, 2005).
- (j) 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. 7,988, of December 29, 1989) and not 3%, as established by article 1 of Decree-law No. 2,413/88, which supported the Company in its tax payments at that time.

Labor contingencies

As of March 31, 2006, the Company and its subsidiaries are parties to 307 labor lawsuits filed by former employees and third parties (267 as of December 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 lawsuits:

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|----------------|---------------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Several civil lawsuits (a) | 2,031 | 1,811 | 2,256 | 2,043 |
| Civil lawsuits and attorney's fees - Flora Medicinal (b) | <u>2,263</u> | <u>2,266</u> | <u>6,708</u> | <u>6,649</u> |
| | <u>4,294</u> | <u>4,077</u> | <u>8,964</u> | <u>8,692</u> |

- (a) As of March 31, 2006, the Company and its subsidiaries are parties to 824 lawsuits (760 as of December 31, 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 four 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 March 31, 2006 was R\$30,295 (R\$29,477 as of December 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 attorneys. These lawsuits, for which the Company did not record any reserve, are as follows:

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|----------------|---------------------|----------------|
| | <u>03/2006</u> | <u>12/2005</u> | <u>03/2006</u> | <u>12/2005</u> |
| Tax: | | | | |
| INSS debt annulment action (a) | 4,877 | 4,750 | 4,877 | 4,750 |
| Offset of 1/3 of COFINS - Law No. 9,718/98 (b) | 3,997 | 3,902 | 3,997 | 3,902 |
| Tax assessment - transfer pricing on loan agreements with foreign related company (c) | 1,269 | 1,239 | 1,269 | 1,239 |
| Other | <u>1,098</u> | <u>459</u> | <u>1,283</u> | <u>663</u> |
| | <u>11,241</u> | <u>10,350</u> | <u>11,426</u> | <u>10,554</u> |
| Civil | 3,167 | 1,542 | 13,712 | 9,489 |
| Labor | <u>6,340</u> | <u>2,878</u> | <u>8,898</u> | <u>5,388</u> |
| | <u>20,748</u> | <u>14,770</u> | <u>34,036</u> | <u>25,431</u> |

- (a) 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.
- (b) Law No. 9,718/98 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.

- (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.

17. SHAREHOLDERS' EQUITY

a) Capital social

On March 29, 2006, the Shareholders, at the Extraordinary Shareholders' Meeting, approved the split of common shares, without par value, issued by the Company, in the proportion of 5 shares after the split for each existing share. The purpose of this stock split was to adjust the Company's share price to increase individual investor access to the securities market, diversify the shareholder composition and increase liquidity of the Company's shares.

Due to this stock split, the subscribed and paid-up capital represented by 85,438,611 common shares without par value as of December 31, 2005 increased to 427,193,055 common shares without par value as of March 31, 2006. Likewise, the balance of authorized capital represented by 2,823,414 common shares as of December 31, 2005 increased to 14,117,070 common shares as of March 31, 2006. As of March 31, 2006 and December 31, 2005, the Company's capital is R\$230,762

b) 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.(e).

c) Dividend payment policy

The shareholders are entitled to receive every year a mandatory minimum dividend of 30% of net income, 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.

Dividends and interest on capital - gross, relating to income for 2005, in the amounts of R\$285,237 (R\$3.357 per share) and R\$34,205 (R\$0.403 per share), respectively, were approved by Annual Shareholders' Meeting on March 29, 2006 and corresponded to 80.5% of the 2005 consolidated net income. The remaining balances of dividends and interest on capital (net of withholding income tax) relating to income for 2005, in the amounts of R\$194,803 and R\$17,699, respectively, were paid on March 30, 2006.

d) Treasury shares

As of March 31, 2006, common shares in treasury, after the stock split, as described in item a) above, which have been used in the exercise of options in the Stock Option Programs for purchase or subscription of shares, totaled 1,980,065 (432,015, before the split of shares, as of December 31, 2006), at a unit average cost of R\$0.3501 (R\$1.7801, before the stock split, as of December 31, 2005).

e) 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, held on March 2, 2004.

f) Profit reserve - legal

Since the balance of the legal reserve plus capital reserves exceeded 30% of the capital, the Company decided, in accordance with article 193 of corporate law, not to recognize a legal reserve on net income for 2005.

g) Reserve for profit retention

As of December 31, 2005, this reserve was recorded in accordance with article 196 of Law No. 6,404/76 for future investments, in the amount of R\$77,915, in the Company. The withholding referring to 2005 is based on a capital budget, which was approved in the Annual Shareholders' Meeting held on March 29, 2006.

18. STOCK OPTION PROGRAM

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 has three years for exercising the options, i.e., the option holder has the right to exercise options at the rate of 1/3 per year. The Plans for 2002, 2003, 2004, 2005 and 2006 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 March 31, 2006 is 9,172,971 (1,645,210, before the stock split as described in Note 17.a, as of December 31, 2005) and is composed by plan as follows:

| | Number of call options or subscription <u>(in shares) (*)</u> | Amount for the year updated according to the IPCA through March 31, 2006 - <u>R\$ (*)</u> |
|------|--|---|
| 2001 | 61,470 | 3.97 |
| 2002 | 1,856,290 | 5.51 |
| 2003 | 3,404,495 | 3.09 |
| 2004 | 1,647,165 | 7.59 |
| 2005 | 1,049,795 | 16.29 |
| 2006 | <u>1,153,756</u> | 24.28 |
| | <u>9,172,971</u> | |

(*) After the stock split, as described above.

As of March 31, 2006, had the Company's management opted to record the effects of the plans based on the intrinsic value of the options (difference between market price as of March 31, 2006 and the option value updated according to the IPCA) recorded over their related vesting period, the pro forma consolidated net income for the quarter ended March 31, 2006 would have been R\$46,103 (R\$73,122 as of March 31, 2005), as shown below:

| | <u>Consolidated</u> | |
|---|---------------------|----------------|
| | <u>03/2006</u> | <u>03/2005</u> |
| Net income for the quarter – Company | 81,652 | 69,680 |
| Effect of programs considering vesting period | <u>(35,549)</u> | <u>3,442</u> |
| Net income for the quarter - “pro forma” | <u>46,103</u> | <u>73,122</u> |

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

As of March 31, 2006, the market price of the Company's shares, after the stock split, was R\$25.70 (R\$102.98, before the stock split, as of December 31, 2005).

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% to 5% of the employee's compensation. The plan is managed by Brasilprev Seguros e Previdência S.A. and the Company's contributions for the quarter ended March 31, 2006 totaled R\$789 (R\$620 as of March 31, 2005).

20. FINANCIAL INSTRUMENTS

a) General conditions

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

Cash investments are mainly made at negotiated rates of return, since the Company intends 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 (only for March 2005) 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 March 31, 2006 and December 31, 2005, the Company had swap transactions with financial institutions in the amounts of R\$3,656 and R\$7,242, respectively. These transactions generated liabilities of R\$2,824 and R\$2,703, respectively, recorded in consolidated current liabilities. The exchange exposure is substantially indexed to the U.S. dollar.

The Company and its subsidiaries do not use 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

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 the swap transactions the carrying and fair values are as follows:

| | Consolidated | | | |
|-------------------|-----------------------|-------------------|-----------------------|-------------------|
| | 03/3006 | | 12/2005 | |
| | <u>Carrying value</u> | <u>Fair value</u> | <u>Carrying value</u> | <u>Fair value</u> |
| Swap transactions | <u>2,824</u> | <u>2,870</u> | <u>2,703</u> | <u>2,775</u> |

At the balance sheet dates 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. NET FINANCIAL INCOME

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|----------------|---------------------|----------------|
| | <u>03/2006</u> | <u>03/2005</u> | <u>03/2006</u> | <u>03/2005</u> |
| Financial income | | | | |
| Interest on cash investments | 10,319 | 7,941 | 13,703 | 9,816 |
| Gains on monetary and exchange variations | 981 | 1,270 | 1,300 | 3,013 |
| Interest earned | 27 | 48 | 280 | 316 |
| Discounts obtained | 1 | - | 7 | 33 |
| Gains on swap and forward transactions (only for March 2005) | - | 868 | - | 868 |
| Other financial income | <u>366</u> | <u>151</u> | <u>560</u> | <u>191</u> |
| | <u>11,694</u> | <u>10,278</u> | <u>15,850</u> | <u>14,237</u> |
| Financial expenses | | | | |
| Interest on financing | (2,128) | (751) | (4,827) | (2,481) |
| Losses on monetary and exchange variations | (647) | (557) | (2,685) | (1,011) |
| Losses on swap and forward transactions (only for March 2005) | (564) | - | (564) | (4,104) |
| Other financial expenses | <u>(268)</u> | <u>(309)</u> | <u>(1,524)</u> | <u>(1,007)</u> |
| | <u>(3,607)</u> | <u>(1,617)</u> | <u>(9,600)</u> | <u>(8,603)</u> |
| Total financial income, net | <u>8,087</u> | <u>8,661</u> | <u>6,250</u> | <u>5,634</u> |

22. 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 March 31, 2006, 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 | 32,221 |
| 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 QUARTERS ENDED MARCH 31, 2006 AND 2005
(In thousands of Brazilian reais - R\$)

| | Company | | Consolidated | |
|---|------------------|-----------------|------------------|-----------------|
| | 03/2006 | 03/2005 | 03/2006 | 03/2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | 81,908 | 70,040 | 81,652 | 69,680 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization (Notes 12 and 13) | 1,586 | 1,262 | 13,106 | 9,509 |
| Monetary and exchange variations, net, except contingencies | 3,114 | (421) | 235 | (213) |
| Reserve for losses on swap and forward contracts (Notes 20.b and 20.d) | 563 | (868) | 563 | 3,236 |
| Reserve for contingencies (Note 16) | 2,335 | 7,799 | 3,684 | 9,504 |
| Allowance for inventory losses (Note 7) | 197 | - | 1,298 | 2,151 |
| Sundry accruals | 1,894 | - | 5,031 | - |
| Deferred income and social contribution taxes (Note 9.a) | (755) | (1,946) | 672 | (1,960) |
| Proceeds from sale and disposal of permanent assets | 282 | 302 | 402 | 3,040 |
| Equity in subsidiaries (Note 11) | (2,524) | (4,261) | - | - |
| Minority interest | - | - | - | (2) |
| | <u>88,600</u> | <u>71,907</u> | <u>106,643</u> | <u>94,945</u> |
| (INCREASE) DECREASE IN ASSETS | | | | |
| Current assets: | | | | |
| Accounts receivable (Note 6) | 68,224 | 45,212 | 68,410 | 43,189 |
| Inventories (Note 7) | (1,154) | 205 | (38,869) | (21,424) |
| Other receivables | (4,707) | 143 | (2,716) | (130) |
| Long-term assets: | | | | |
| Escrow deposits (Note 16) | 33 | (332) | 60 | (809) |
| Recoverable taxes (Note 8) | (60) | (55) | (1,740) | (773) |
| Other receivables | (1,260) | (65) | (4) | 275 |
| Subtotal | <u>61,076</u> | <u>45,108</u> | <u>25,141</u> | <u>20,328</u> |
| INCREASE (DECREASE) IN LIABILITIES | | | | |
| Current liabilities: | | | | |
| Suppliers | (35,594) | (30,669) | (48,659) | 2,287 |
| Salaries, profit sharing and related charges, net | (10,881) | (12,282) | (23,155) | (26,311) |
| Taxes payable, net (Notes 8 and 15) | (11,440) | 9,917 | (14,541) | 5,490 |
| Other payables | (1,182) | (2,385) | (651) | (13,270) |
| Long-term liabilities: | | | | |
| Other payables | - | 174 | (1,218) | (2) |
| Subtotal | <u>(59,097)</u> | <u>(35,245)</u> | <u>(88,224)</u> | <u>(31,806)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>90,579</u> | <u>81,770</u> | <u>43,560</u> | <u>83,467</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of property, plant and equipment (Note 12) | (1,238) | (418) | (25,621) | (15,083) |
| Investments (Note 11) | (21,088) | - | - | - |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(22,326)</u> | <u>(418)</u> | <u>(25,621)</u> | <u>(15,083)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Decrease in short-term loans (Note 14) | (2,940) | (5,577) | (19,124) | (43,037) |
| Fundings - long-term loans (Note 14) | - | 2,337 | 16,182 | 60,869 |
| Payment of dividends (Note 17.c) | (194,928) | - | (194,928) | - |
| Payment of interest on capital (Note 17.c) | (17,699) | - | (17,699) | - |
| Other | 631 | - | 631 | - |
| Sale of treasury shares by exercise of stock options (Note 17.d) | 1,210 | 182 | 1,210 | 182 |
| Payment of receivables from shareholders (Note 17.b) | 1,998 | - | 1,998 | - |
| NET CASH USED IN FINANCING ACTIVITIES | <u>(211,728)</u> | <u>(3,058)</u> | <u>(211,730)</u> | <u>18,014</u> |
| NET (DECREASE) INCREASE IN CASH AND BANKS | <u>(143,475)</u> | <u>78,294</u> | <u>(193,791)</u> | <u>86,398</u> |
| Cash and banks at beginning of year | 275,966 | 185,287 | 386,439 | 231,612 |
| Cash and banks at end of year | 132,491 | 263,581 | 192,648 | 318,010 |
| CHANGE IN CASH AND BANKS | <u>(143,475)</u> | <u>78,294</u> | <u>(193,791)</u> | <u>86,398</u> |
| SUPPLEMENTARY CASH FLOW DISCLOSURE | | | | |
| Income and social contribution taxes paid (Note 9) | 20,330 | 5,087 | 24,102 | 5,978 |
| Interest paid on loans and financing (Note 14) | 406 | 732 | 1,946 | 823 |
| Payments of swap and forward contracts (Notes 20.b and 20.d) | 442 | 1,792 | 442 | 5,712 |



1Q06 Earnings Release

São Paulo, April 26, 2006. Natura Cosméticos S.A. (São Paulo Stock Exchange: NATU3) announces today its results for the first quarter 2006 (1Q06). 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

> Financial Summary – Consolidated (R\$ million)

| | 1Q06 | 1Q05 | % Change | 1Q04 |
|--|--------------|--------------|-------------|--------------|
| Units sold – items for resale (in millions) - Brazil ¹ | 50.8 | 45.7 | 11.2% | 34.7 |
| Gross Revenues | 722.6 | 611.0 | 18.3% | 475.6 |
| Net Revenues | 511.8 | 427.1 | 19.8% | 329.2 |
| Gross Profit | 352.3 | 282.1 | 24.9% | 220.8 |
| <i>Gross Margin (%)</i> | <i>68.8%</i> | <i>66.1%</i> | - | <i>67.1%</i> |
| Ebitda ² | 113.3 | 95.1 | 19.1% | 82.3 |
| <i>Ebitda Margin (%)</i> | <i>22.1%</i> | <i>22.3%</i> | - | <i>25.0%</i> |
| Net Income | 81.7 | 69.7 | 17.2% | 44.7 |
| <i>Net Margin (%)</i> | <i>16.0%</i> | <i>16.3%</i> | - | <i>13.6%</i> |
| Total consultants ³ in Brazil (in thousands) | 491.7 | 422.4 | 16.4% | 356.2 |
| Total consultants ³ in Latin America ⁴ (in thousands) | 37.7 | 27.2 | 38.5% | 20.0 |

(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 products, among others.

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

(4) Position at the end of the period of the 4th sales cycle.

(5) Argentina, Chile and Peru.

> CONSOLIDATED GROSS REVENUES

Natura's 1Q06 gross revenues amounted R\$722.6 million, up 18.3% over the same period of 2005 (R\$611.0 million).

At the end of March 2006, the number of consultants in Brazil reached 491.7 thousand, a growth of 16.4% over the same period of the previous year. Considering active consultants, the average growth was also very expressive (18.2%), indicating that this channel remains fully activated. However, Brazilian productivity per consultant grew only 0.3% in comparison to last year.

> COST OF SALES

> Composition of Cost of Sales (% Net Revenues)

| Item | 1Q06 | 1Q05 |
|--------------|-------------|-------------|
| RM/PM* | 23.5 | 26.5 |
| Labor | 3.3 | 2.9 |
| Depreciation | 1.5 | 1.2 |
| Others | 2.9 | 3.3 |
| Total | 31.2 | 33.9 |

* Raw material and packaging material

The **cost of sales**, as a percentage of net revenues, decreased due to a combination of the following factors: (i) raw material and packaging material prices, together, remained stable between 1Q05 and 1Q06, especially due to Real appreciation over Dollar; (ii) reduction of the amount of samples to consultants; and (iii) slightly decrease of indirect taxes, as a percentage of gross revenues.

Selling expenses changed from 31.6% in 1Q05 to 32.4% in 1Q06, in relation to net revenues. Main contributors to this increase were the communication expenses growth and sales channel expansion, which was partially offset by productivity gains from internal process reengineering.

Administrative expenses changed from 13.4% in 1Q05 to 15.7% in 1Q06. This evolution was due to the increase of the following expenses: (i) internationalization; (ii) innovation; and (iii) IT.

> EBITDA AND NET INCOME

1Q06 **EBITDA** amounted to R\$113.3 million, up 19.1% compared to 1Q05 (R\$95.1 million). EBITDA margin remained at the same level of 1Q05, from 22.3% to 22.1% in 1Q06.

1Q06 **NET INCOME** totaled R\$81.7 million, 17.2% growth over 1Q05 (R\$69.7 million). Net margin remained stable, from 16.3% in 1Q05 to 16.0% in 1Q06.

> INVESTMENTS

1Q06 additions to fixed assets (CAPEX) totaled R\$25.6 million with special highlight on the machine acquisitions aiming at the increase of manufacturing capacity. 2006 estimated investments total R\$180 million.

> INTERNATIONAL OPERATIONS

>> Argentina, Chile and Peru

> Financial Highlights – Argentina, Chile and Peru (US\$ million)

| | 1Q06 | 1Q05 | % change |
|--|---------------|---------------|----------|
| Units sold – items for resale (in millions) | 2.1 | 1.3 | 55.9% |
| Gross Revenues | 9.7 | 6.4 | 51.2% |
| Net Revenues | 7.5 | 5.0 | 50.9% |
| Income (loss) from operations | -1.5 | -1.2 | - |
| <i>Operating margin</i> | <i>-19.5%</i> | <i>-24.0%</i> | - |

The results of Argentina, Chile and Peru operations continue growing at the same pace stated in previous periods, as observed in the gross revenues evolution (growth of 51.2% in dollar and 52.8% in local currency weighted) and in the operational loss reduction in relation to net revenues.

The number of consultants grew 38.5%, from 27.2 thousand in 1Q05 to 37.7 thousand in 1Q06.

>> International expansion process

In 1Q06, the international expansion process generated investments of R\$10.2 million (1Q05: R\$5.2 million). This increase was fundamentally due to Mexico operation started in August, 2005. For the year we estimate investments amounting R\$35.0 million in this process.

> CASH FLOW

1Q06 gross cash generation¹ reached R\$106.6 million, up 12.3% over the same period last year. Out of this, R\$63.1 million were allocated to working capital, long-term assets and liabilities and R\$25.6 million to CAPEX.

The working capital increase was superior than expected for the period due to: (1) increased balance on the supplier account in December, 2005, as a result of sundry material and service volume purchases concentration; and (2) increase in the inventories in March 2006, when compared to March, 2005; this balance was higher than sales increase between the periods due to: (i) amendments to the inventories policy in 1Q06 when compared to 1Q05; and (ii) 5.0% surplus up the aforementioned policy.

The free cash generation² reached R\$17.9 million in 1Q06.

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 investments activities).

This press release contains forward-looking statements. Such statements are not statements of historical fact, and reflect the beliefs and expectations of the Natura's management. The words "anticipates", "wishes", "expects", "estimates", "intends", "forecasts", "plans", "predicts", "projects", "targets" and similar words are intended to identify these statements, which necessarily involve known and unknown risks and uncertainties. Known risks and uncertainties include, but are not limited to, the impact of competitive products and pricing, market acceptance of products, product transitions by the Company and its competitors, regulatory approval, currency fluctuations, production and supply difficulties, changes in product sales mix, and other risks. This press release also includes pro-forma information prepared by the Company for information and reference purposes only, which has not been audited. Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them in light of new information or future developments.



> ANNEX 1 - STATEMENT OF INCOME (CONSOLIDATED)

| (in R\$ million) | 1Q06 | %NR | 1Q05 | %NR | % Change |
|--|--------------|---------------|--------------|---------------|--------------|
| Gross sales to domestic market | 698.8 | 96.7% | 592.7 | 97.0% | 17.9% |
| Gross sales to foreign market | 23.5 | 3.3% | 18.1 | 3.0% | 29.9% |
| Other sales | 0.3 | 0.0% | 0.2 | 0.0% | 44.2% |
| GROSS OPERATING REVENUES | 722.6 | 100.0% | 611.0 | 100.0% | 18.3% |
| Taxes on sales, returns and rebates | (210.8) | -29.2% | (183.9) | -30.1% | 14.6% |
| NET OPERATING REVENUES | 511.8 | 100.0% | 427.1 | 100.0% | 19.8% |
| Cost of sales | (159.5) | -31.2% | (145.0) | -33.9% | 10.0% |
| GROSS PROFIT | 352.3 | 68.8% | 282.1 | 66.1% | 24.9% |
| OPERATING (EXPENSES) INCOME | | | | | |
| Selling | (166.0) | -32.4% | (134.8) | -31.6% | 23.1% |
| General and administrative | (80.3) | -15.7% | (57.1) | -13.4% | 40.6% |
| Management compensation | (2.4) | -0.5% | (2.4) | -0.6% | 3.3% |
| Other operating expenses, net | (3.5) | -0.7% | (1.1) | -0.3% | 213.2% |
| | - | | - | | |
| INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS | 100.0 | 19.5% | 86.7 | 20.3% | 15.4% |
| Financial expenses | (9.6) | -1.9% | (8.6) | -2.0% | 11.6% |
| Financial income | 15.9 | 3.1% | 14.2 | 3.3% | 11.3% |
| | - | | - | | |
| INCOME FROM OPERATIONS | 106.3 | 20.8% | 92.3 | 21.6% | 15.1% |
| Nonoperating income, net | 0.1 | 0.0% | (1.1) | -0.3% | -113.0% |
| | - | | - | | |
| INCOME BEFORE TAXES ON INCOME | 106.4 | 20.8% | 91.2 | 21.4% | 16.6% |
| Income and social contribution taxes | (24.8) | -4.8% | (21.6) | -5.0% | 14.9% |
| | - | | - | | |
| NET INCOME BEFORE MINORITY INTEREST | 81.7 | 16.0% | 69.7 | 16.3% | 17.2% |
| Minority interest | (0.0) | 0.0% | - | 0.0% | |
| | - | | - | | |
| NET INCOME | 81.7 | 16.0% | 69.7 | 16.3% | 17.2% |
| EARNINGS PER SHARE - R\$ (*) | 0.1920 | | 0.1643 | | 16.9% |
| Depreciation | 13.1 | 2.6% | 9.5 | 2.2% | 37.8% |
| EBITDA | 113.3 | 22.1% | 95.1 | 22.3% | 19.1% |

(*) Net earnings per share adjusted by the split approved by the extraordinary shareholders' meeting held on March 29, 2006

> ANNEX 2 - BALANCE SHEET (31/12/05 AND 31/12/2004)

| ASSETS | Mar/06 | Dec/05 | LIABILITIES | Mar/06 | Dec/05 |
|---|----------------|----------------|--------------------------------------|----------------|----------------|
| CURRENT ASSETS | | | CURRENT LIABILITIES | | |
| Cash and Banks | 12.1 | 56.2 | Loans and financing | 94.9 | 68.3 |
| Cash Investments | 180.5 | 330.2 | Domestic suppliers | 103.5 | 148.0 |
| Trade accounts receivables | 247.9 | 316.3 | Foreign suppliers | 6.5 | 4.1 |
| Inventories | 189.9 | 152.3 | Payroll and related charges | 50.7 | 73.1 |
| Recoverable taxes | 28.6 | 24.0 | Tax payable | 78.8 | 89.1 |
| Advances to employees | 6.1 | 5.3 | Dividends | 0.1 | 195.1 |
| Deferred income & social contribution taxes | 24.3 | 25.8 | Interest on capital | - | 17.7 |
| Other receivables | 23.7 | 14.8 | Freights payable | 11.4 | 13.8 |
| Total current assets | 713.0 | 924.9 | Other provisions | 9.3 | 9.0 |
| | | | Other payables | 15.5 | 13.6 |
| | | | Reserve for losses on swap contracts | 2.8 | 2.7 |
| | | | Total current liabilities | 373.6 | 634.5 |
| LONG-TERM ASSETS | | | LONG TERM LIABILITIES | | |
| Receivables from shareholders | 0.0 | 0.1 | Loans and financing | 95.2 | 119.2 |
| Recoverable taxes | 11.3 | 9.6 | Reserve for contingences | 92.8 | 90.6 |
| Deferred income & social contribution taxes | 30.1 | 29.3 | Other payables | 3.5 | 3.2 |
| Escrow deposits | 30.3 | 29.5 | Total long-term liabilities | 191.5 | 213.0 |
| Other receivables | 0.5 | 0.5 | | | |
| Cash investments | 4.1 | 4.0 | MINORITY INTEREST | 0.0 | 0.0 |
| Total long-term assets | 76.4 | 73.0 | | | |
| | | | SHAREHOLDER'S EQUITY | | |
| | | | Capital | 230.8 | 230.8 |
| PERMANENT ASSETS | | | Capital reserves | 124.4 | 120.7 |
| Investments | 5.5 | 5.8 | Profit reserves | 252.4 | 170.7 |
| Property, plant and equipment | 377.0 | 365.3 | Treasury shares | (0.7) | (0.8) |
| Total permanent assets | 382.5 | 371.0 | Total shareholders' equity | 606.9 | 521.4 |
| | | | | | |
| TOTAL ASSETS | 1,171.9 | 1,368.9 | TOTAL LIABILITIES | 1,171.9 | 1,368.9 |

ANNEX 3 - STATEMENT OF CASH FLOW (CONSOLIDATED)

| (in R\$ million) | 1Q06 | 1Q05 |
|---|-----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | 81.7 | 69.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortisation | 13.1 | 9.5 |
| Monetary and exchange variations, net | 0.2 | (0.2) |
| Reserve for losses on swap and forward transactions | 0.6 | 3.2 |
| Reserve for contingencies | 3.7 | 9.5 |
| Reserve for obsolete inventories | 1.3 | 2.2 |
| Other reserves | 5.0 | - |
| Deferred income and social contribution taxes | 0.7 | (2.0) |
| Proceeds from sale and disposal of permanent assets | 0.4 | 3.0 |
| Minority interest | | (0.0) |
| | <u>106.6</u> | <u>94.9</u> |
| (INCREASE) DECREASE IN ASSETS | | |
| Current assets: | | |
| Accounts receivable | 68.4 | 43.2 |
| Inventories | (38.9) | (21.4) |
| Other receivables | (2.7) | (0.1) |
| Long-term assets: | | |
| Escrow deposits | 0.1 | (0.8) |
| Recoverable taxes | (1.7) | (0.8) |
| Others receivables | (0.0) | 0.3 |
| Subtotal | <u>25.1</u> | <u>20.3</u> |
| INCREASE (DECREASE) IN LIABILITIES | | |
| Current liabilities: | | |
| Suppliers | (48.7) | 2.3 |
| Payroll and related charges | (23.2) | (26.3) |
| Taxes payable | (14.5) | 5.5 |
| Other payables | (0.7) | (13.3) |
| Long-term liabilities: | | |
| Other payables | (1.2) | (0.0) |
| Subtotal | <u>(88.2)</u> | <u>(31.8)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>43.6</u> | <u>83.5</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (25.6) | (15.1) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(25.6)</u> | <u>(15.1)</u> |
| FINANCING ACTIVITIES | | |
| Decrease - short-term loans | (19.1) | (43.0) |
| Increase - long-term loans | 16.2 | 60.9 |
| Payment of dividends | (194.9) | - |
| Payment of interest on capital | (17.7) | - |
| Others | 0.6 | - |
| Sale of treasury share | 1.2 | 0.2 |
| Payment of receivables from shareholders | 2.0 | - |
| NET CASH USED IN FINANCING ACTIVITIES | <u>(211.7)</u> | <u>18.0</u> |
| NET INCREASE IN CASH AND BANKS | <u>(193.8)</u> | <u>86.4</u> |
| Cash and banks at the beginning of quarter | 386.4 | 231.6 |
| Cash and banks at the end of quarter | 192.6 | 318.0 |
| CHANGE IN CASH AND BANKS | <u>(193.8)</u> | <u>86.4</u> |
| SUPPLEMENTARY CASH FLOW DISCLOSURE: | | |
| Income and social contribution taxes paid | 24.1 | 6.0 |
| Interest on paid on loans and financing | 1.9 | 0.8 |
| Swap and forward contracts paid | 0.4 | 5.7 |