

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

# ***Natura Cosméticos S.A.***

*Interim Financial Statements for the  
Quarter and Six-Month Period Ended June 30,  
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 June 30, 2006, and the related statements of income for the quarter and six-month period then ended and the performance report, all expressed in Brazilian reais and prepared in accordance with Brazilian accounting practices under the responsibility of the Company's management.
2. We conducted our review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, which consisted principally of: (a) inquiries of and discussions with persons responsible for the accounting, financial and operating areas as to the criteria adopted in preparing the interim financial statements, and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material modifications that should be made to the interim 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 the Attachment, for the six-month periods ended June 30, 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 six-month periods ended June 30, 2006 and 2005 taken as a whole.
5. We have previously reviewed the individual and consolidated balance sheets as of March 31, 2006, and the statements of income for the quarter and six-month period ended June 30, 2005, and the supplemental statement of cash flows for the six-month period ended June 30, 2005, presented for comparative purposes, and issued unqualified review reports thereon, dated April 20, 2006 and July 21, 2005, respectively.

Deloitte Touche Tohmatsu

6. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, July 20, 2006

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Edimar Facco  
Engagement Partner

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NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF JUNE 30, 2006 AND MARCH 31, 2006

(In thousands of Brazilian reais - R\$)

ASSETS	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Company		Consolidated	
	06/2006	03/2006	06/2006	03/2006		06/2006	03/2006	06/2006	03/2006
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and banks	33,105	4,804	53,783	12,115	Loans and financing (Note 14)	85,362	66,637	108,028	94,871
Cash investments (Note 5)	179,021	127,687	261,836	180,533	Domestic suppliers	29,008	18,672	136,945	103,529
Trade accounts receivable (Note 6)	272,855	234,464	287,289	247,854	Foreign suppliers	-	-	3,075	6,495
Inventories (Note 7)	952	1,792	184,411	189,878	Suppliers - related parties (Note 10)	106,345	108,070	-	-
Recoverable taxes (Note 8)	567	404	28,270	28,625	Salaries, profit sharing and related charges, net	29,405	19,112	73,580	50,701
Advances to employees and suppliers	3,420	3,231	7,733	6,065	Taxes payable (Note 15)	59,746	63,992	73,420	78,842
Related parties (Note 10)	7,088	6,240	-	-	Dividends (Notes 10 and 17.c)	112,155	142	112,155	142
Deferred income and social contribution taxes (Note 9.a)	24,312	16,324	33,249	24,261	Accrued freight	11,715	11,380	11,715	11,380
Other receivables	13,335	12,892	22,607	23,678	Sundry accruals	7,165	9,110	7,330	9,274
Total current assets	<u>534,655</u>	<u>407,838</u>	<u>879,178</u>	<u>713,009</u>	Other payables	16,455	14,239	19,749	15,513
					Allowance for losses on swap contracts (Notes 20.b and 20.d)	2,630	2,824	3,886	2,824
					Total current liabilities	<u>459,986</u>	<u>314,178</u>	<u>549,883</u>	<u>373,571</u>
<b>LONG-TERM ASSETS</b>					<b>LONG-TERM LIABILITIES</b>				
Receivables from shareholders (Notes 10.e and 17.b)	30	16	30	16	Loans and financing (Note 14)	2,275	21,810	78,882	95,161
Advance for future capital increase (Note 10.d)	1,037	1,017	-	-	Allowance for losses on subsidiaries (Note 11)	5,207	5,182	-	-
Recoverable taxes (Note 8)	1,630	1,492	10,489	11,314	Reserve for contingencies (Note 16)	57,460	55,955	100,342	92,758
Deferred income and social contribution taxes (Note 9.a)	19,137	18,515	32,184	30,148	Other payables	2,122	1,990	3,750	3,539
Escrow deposits (Note 16)	25,068	24,227	31,576	30,295	Total long-term liabilities	<u>67,064</u>	<u>84,937</u>	<u>182,974</u>	<u>191,458</u>
Other receivables	-	-	532	511	<b>MINORITY INTEREST</b>	-	-	8	8
Cash investments (Notes 5 and 16.i)	-	-	4,061	4,128	<b>SHAREHOLDERS' EQUITY (Note 17)</b>				
Total long-term assets	<u>46,902</u>	<u>45,267</u>	<u>78,872</u>	<u>76,412</u>	Capital (Note 17.a)	232,237	230,762	232,237	230,762
					Capital reserves (Notes 17.a, 17.b and 17.e)	128,018	124,441	128,018	124,441
<b>PERMANENT ASSETS</b>					Profit reserves (Notes 17.f and 17.g)	271,649	254,497	269,514	252,370
Investments (Note 11)	556,329	537,972	5,751	5,477	Treasury shares (Note 17.d)	(524)	(694)	(524)	(694)
Property, plant and equipment (Note 12)	20,544	17,044	398,309	377,018	Total shareholders' equity	631,380	609,006	629,245	606,879
Total permanent assets	<u>576,873</u>	<u>555,016</u>	<u>404,060</u>	<u>382,495</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>1,158,430</u>	<u>1,008,121</u>	<u>1,362,110</u>	<u>1,171,916</u>
<b>TOTAL ASSETS</b>	<u>1,158,430</u>	<u>1,008,121</u>	<u>1,362,110</u>	<u>1,171,916</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.

STATEMENTS OF INCOME  
FOR THE QUARTER AND SIX-MONTH PERIOD ENDED JUNE 30, 2006 AND 2005  
(In thousands of Brazilian reais - R\$, except for earnings per share)

	Company				Consolidated			
	04/01/2006	04/01/2005	01/01/2006	01/01/2005	04/01/2006	04/01/2005	01/01/2006	01/01/2005
	a	a	a	a	a	a	a	a
	06/30/2006	06/30/2005	06/30/2006	06/30/2005	06/30/2006	06/30/2005	06/30/2006	06/30/2005
Gross sales to domestic market	943,212	764,308	1,636,439	1,351,816	948,264	770,191	1,647,088	1,362,872
Gross sales to foreign market	-	-	-	-	32,196	22,522	55,687	40,602
Other sales	1	-	1	-	365	454	688	678
<b>GROSS OPERATING REVENUES</b>	<b>943,213</b>	<b>764,308</b>	<b>1,636,440</b>	<b>1,351,816</b>	<b>980,825</b>	<b>793,167</b>	<b>1,703,463</b>	<b>1,404,152</b>
Taxes on sales, returns and rebates	(211,272)	(176,958)	(366,802)	(311,963)	(284,411)	(235,423)	(495,222)	(419,299)
<b>NET OPERATING REVENUES</b>	<b>731,941</b>	<b>587,350</b>	<b>1,269,638</b>	<b>1,039,853</b>	<b>696,414</b>	<b>557,744</b>	<b>1,208,241</b>	<b>984,853</b>
Cost of sales	(295,928)	(234,316)	(510,994)	(421,099)	(223,425)	(174,548)	(382,932)	(319,541)
<b>GROSS PROFIT</b>	<b>436,013</b>	<b>353,034</b>	<b>758,644</b>	<b>618,754</b>	<b>472,989</b>	<b>383,196</b>	<b>825,309</b>	<b>665,312</b>
<b>OPERATING (EXPENSES) INCOME</b>								
Selling	(180,555)	(149,951)	(319,797)	(261,362)	(210,855)	(175,398)	(376,832)	(310,194)
General and administrative	(109,995)	(86,161)	(197,992)	(166,979)	(91,807)	(84,377)	(171,346)	(141,166)
Management compensation	(1,829)	(1,908)	(4,103)	(3,609)	(2,998)	(2,649)	(6,206)	(5,349)
Equity in subsidiaries (Note 11)	11,041	(3,122)	13,565	1,139	-	-	-	-
Other operating expenses, net	(665)	(2,973)	(4,214)	(2,973)	(665)	(1,605)	(4,214)	(2,738)
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>154,010</b>	<b>108,919</b>	<b>246,103</b>	<b>184,970</b>	<b>166,664</b>	<b>119,167</b>	<b>266,711</b>	<b>205,865</b>
Financial expenses (Note 20)	(3,461)	(1,893)	(7,068)	(3,510)	(8,884)	(14,854)	(18,484)	(23,457)
Financial income (Note 20)	6,194	4,790	17,888	15,068	9,896	12,194	25,746	26,431
<b>INCOME FROM OPERATIONS</b>	<b>156,743</b>	<b>111,816</b>	<b>256,923</b>	<b>196,528</b>	<b>167,676</b>	<b>116,507</b>	<b>273,973</b>	<b>208,839</b>
Nonoperating (expenses) income, net	287	(1,098)	480	(1,062)	287	(1,094)	427	(2,179)
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>157,030</b>	<b>110,718</b>	<b>257,403</b>	<b>195,466</b>	<b>167,963</b>	<b>115,413</b>	<b>274,400</b>	<b>206,660</b>
Income and social contribution taxes (Note 9.b)	(27,768)	(23,138)	(46,233)	(37,846)	(38,710)	(27,539)	(63,494)	(49,106)
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>129,262</b>	<b>87,580</b>	<b>211,170</b>	<b>157,620</b>	<b>129,253</b>	<b>87,874</b>	<b>210,906</b>	<b>157,554</b>
Minority interest	-	-	-	-	-	(2)	(1)	(2)
<b>NET INCOME</b>	<b>129,262</b>	<b>87,580</b>	<b>211,170</b>	<b>157,620</b>	<b>129,253</b>	<b>87,872</b>	<b>210,905</b>	<b>157,552</b>
<b>EARNINGS PER SHARE - R\$ (Note 17.a) (*)</b>	<b>0.3033</b>	<b>0.2064</b>	<b>0.4955</b>	<b>0.3715</b>	<b>0.3033</b>	<b>0.2071</b>	<b>0.4949</b>	<b>0.3713</b>

(\*) O lucro líquido por ação referente ao 2o trimestre e 1o semestre de 2005 foi calculado contemplando o efeito do desdobramento das ações ocorrido em março de 2006, para permitir a comparação com o 2o trimestre e 1o semestre de 2006.

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

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NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)

FOR THE QUARTER ENDED MARCH 31, 2006 AND JUNE 30, 2006

(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	230,762	(1,265)	110,459	10,715	18,650	153,939	-	523,260
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	230,762	(1,189)	113,590	11,346	18,650	153,939	81,908	609,006
Sale of treasury shares by exercise of stock options (Note 17.d)	-	170	2,629	-	-	-	-	2,799
Payment of receivables from shareholders (Note 17.b)	-	-	56	-	-	-	-	56
Payment of capital	1,475	-	-	-	-	-	-	1,475
Tax incentives	-	-	-	892	-	-	-	892
Net income	-	-	-	-	-	-	129,262	129,262
Allocation of net income:								
Dividends - R\$0.263 per outstanding shares (Note 17.c)	-	-	-	-	-	-	(112,110)	(112,110)
BALANCES AS OF JUNE 30, 2006	<u>232,237</u>	<u>(1,019)</u>	<u>116,275</u>	<u>12,238</u>	<u>18,650</u>	<u>153,939</u>	<u>99,060</u>	<u>631,380</u>

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NATURA COSMÉTICOS S.A.

NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE QUARTER AND SIX-MONTH PERIOD ENDED JUNE 30, 2006  
(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.

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 periods. Please note that such changes did not result in any change in the individual account balances and total balances, except for the cash flow for the first half of 2005 in which payments of swap and forward contracts were reclassified from financing activities, changing the disclosed subtotals, although without affecting the total change in cash and banks.

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>06/2006</u>	<u>03/2006</u>	<u>06/2005</u>
Direct:			
Indústria e Comércio de Cosméticos Natura Ltda.	99.99	99.99	99.82
Natura Cosméticos S.A. - Chile	99.99	99.96	99.96
Natura Cosméticos S.A. - Peru	99.94	99.93	99.93
Natura Cosméticos S.A. - Argentina	99.82	95.00	95.00
Natura Brasil Cosmética Ltda. - Portugal	98.00	99.99	99.99
Nova Flora Participações Ltda.	100.00	99.99	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	99.99	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 period of 2005, the Company resumed operations of Natura Cosméticos C.A. - Venezuela (currently in preoperating stage).

The shareholders' equity balances as of June 30, 2006 and March 31, 2006, reported by the Company, differ by R\$2,135 and 2,127, 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 June 30, 2006 and 2005 differ by R\$265 e R\$68, respectively, from the balances in the consolidated financial statements.

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<u>06/2006</u>	<u>06/2005</u>	<u>06/2006</u>	<u>03/2006</u>
Company	211,170	157,620	631,380	609,006
Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries	<u>(265)</u>	<u>(68)</u>	<u>(2,135)</u>	<u>(2,127)</u>
Consolidated	<u>210,905</u>	<u>157,552</u>	<u>629,245</u>	<u>606,879</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): 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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Bank certificates of deposit (CDBs)	168,775	119,160	255,652	176,134
Investment funds	<u>10,246</u>	<u>8,527</u>	<u>10,245</u>	<u>8,527</u>
	<u>179,021</u>	<u>127,687</u>	<u>265,897</u>	<u>184,661</u>
Long term (Note 16.i)	-	-	4,061	4,128
Current	<u>179,021</u>	<u>127,687</u>	<u>261,836</u>	<u>180,533</u>

As of June 30, 2006, CDBs yield interest rates ranging from 100% to 109.5% (100% to 102,5% as of March 31, 2006) of the interbank deposit rate (CDI), and the share in the total investment portfolio is 96,2% (95,4% as of March 31, 2006). Investments funds yield interest rates ranging from 92,2% to 103,1% of CDI (100,7% to 101,6% as of March 31, 2006).

6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	<u>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Trade accounts receivable	294,176	253,563	309,914	268,217
Allowance for doubtful accounts	<u>(21,321)</u>	<u>(19,099)</u>	<u>(22,625)</u>	<u>(20,363)</u>
	<u>272,855</u>	<u>234,464</u>	<u>287,289</u>	<u>247,854</u>

7. INVENTORIES

	Company		Consolidated	
	<u>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Finished products	1,111	1,718	120,299	116,714
Raw materials and packaging	-	-	62,681	66,925
Promotional material	38	74	9,842	14,279
Work in process	-	-	7,352	7,002
Allowance for losses	<u>(197)</u>	<u>-</u>	<u>(15,763)</u>	<u>(15,042)</u>
	<u>952</u>	<u>1,792</u>	<u>184,411</u>	<u>189,878</u>

8. RECOVERABLE TAXES

	Company		Consolidated	
	<u>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
ICMS (state VAT) on purchases of fixed assets	2,174	1,894	13,305	12,701
ICMS (state VAT) on purchases of goods	2	2	10,258	12,160
IVA - value-added tax (foreign operations)	-	-	4,365	3,384
IRPJ (corporate income tax)	-	-	3,933	5,096
CSLL (social contribution tax)	-	-	3,527	3,636
PIS/COFINS/CSLL - withheld at source	-	-	1,208	943
COFINS (tax on revenue)	11	-	431	495
PIS (tax on revenue)	2	-	93	339
Other	8	-	1,639	1,185
	<u>2,197</u>	<u>1,896</u>	<u>38,759</u>	<u>39,939</u>
Long term	1,630	1,492	10,489	11,314
Current	<u>567</u>	<u>404</u>	<u>28,270</u>	<u>28,625</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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Current:				
Tax loss carryforwards	-	-	40	1,100
Temporary differences:				
Allowance for doubtful accounts (Note 6)	7,249	6,891	7,249	6,891
Allowance for inventory losses (Note 7)	67	-	5,359	5,047
Allowance for losses on swap and forward transactions (Notes 20.b and 20.d)	894	960	1,321	960
Other provisions	<u>16,102</u>	<u>8,473</u>	<u>19,280</u>	<u>10,263</u>
Deferred income and social contribution taxes	<u>24,312</u>	<u>16,324</u>	<u>33,249</u>	<u>24,261</u>
Long term:				
Tax loss carryforwards	-	-	-	375
Temporary differences:				
Reserve for contingencies (Note 16)	18,077	17,565	31,087	28,515
Other provisions	<u>1,060</u>	<u>950</u>	<u>1,097</u>	<u>1,258</u>
Deferred income and social contribution taxes	<u>19,137</u>	<u>18,515</u>	<u>32,184</u>	<u>30,148</u>

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

	Consolidated	
	<u>06/2006</u>	<u>03/3006</u>
2007	22,466	20,284
2008	2,439	2,315
2009	5,530	5,357
2010	<u>1,749</u>	<u>2,192</u>
	<u>32,184</u>	<u>30,148</u>

b) Current expense

Reconciliation of income and social contribution taxes:

	Company		Consolidated	
	06/2006	06/2005	06/2006	06/2005
Income before taxes on income	<u>257,403</u>	<u>195,466</u>	<u>274,400</u>	<u>206,660</u>
Income and social contribution taxes at the rate of 34%	(87,517)	(66,458)	(93,296)	(70,265)
Reversal of provision for maintenance of dividend payment capacity (Note 13)	24,967	24,967	24,967	24,967
Technological research and innovation benefit - Law No. 11,196/2005 (*)	6,982	-	6,982	-
Tax incentives (donations)	847	217	970	238
Equity in subsidiaries and exchange variation on translation of foreign investments (Note 11)	3,179	(624)	-	-
Permanent differences	(1,036)	(446)	(1,321)	(511)
Losses generated by subsidiaries	-	-	(7,870)	(8,124)
Interest on capital	7,328	4,550	7,328	4,550
Other	<u>(983)</u>	<u>(52)</u>	<u>(1,254)</u>	<u>39</u>
Income and social contribution taxes: net expenses	<u>(46,233)</u>	<u>(37,846)</u>	<u>(63,494)</u>	<u>(49,106)</u>
Income and social contribution taxes: current	(55,598)	(43,600)	(73,860)	(53,333)
Income and social contribution taxes: deferred	<u>9,365</u>	<u>5,754</u>	<u>10,366</u>	<u>(4,227)</u>
Income and social contribution taxes: net expenses	<u>(46,233)</u>	<u>(37,846)</u>	<u>(63,494)</u>	<u>(49,106)</u>
Effective rate - %	<u>18.0</u>	<u>19.4</u>	<u>23.1</u>	<u>23.8</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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Current assets:				
Related parties:				
Natura Logística e Serviços Ltda. (a)	2,924	2,659	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (b)	3,331	2,748	-	-
Nova Flora Participações Ltda. (c)	<u>833</u>	<u>833</u>	<u>-</u>	<u>-</u>
	<u>7,088</u>	<u>6,240</u>	<u>-</u>	<u>-</u>
Advance for future capital increase-				
Nova Flora Participações Ltda. (d)	<u>1,037</u>	<u>1,017</u>	<u>-</u>	<u>-</u>
Receivables from shareholders (e)	<u>30</u>	<u>16</u>	<u>30</u>	<u>16</u>
Current liabilities:				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. (f)	81,225	88,580	-	-
Natura Logística e Serviços Ltda. (g)	13,104	10,854	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (h)	<u>12,016</u>	<u>8,636</u>	<u>-</u>	<u>-</u>
	<u>106,345</u>	<u>108,070</u>	<u>-</u>	<u>-</u>
Dividends payable:				
Shareholders	<u>112,155</u>	<u>142</u>	<u>112,155</u>	<u>142</u>

Transactions with related parties are summarized as follows:

	Product sales		Product purchases	
	<u>06/2006</u>	<u>06/2005</u>	<u>06/2006</u>	<u>06/2005</u>
Natura Cosméticos S.A.	-	-	597,578	484,962
Indústria e Comércio de Cosméticos Natura Ltda.	618,000	499,098		
Natura Cosméticos S.A. - Argentina	-	-	8,782	5,665
Natura Cosméticos S.A. - Peru	-	-	5,940	4,293
Natura Cosméticos S.A. - Chile	-	-	3,290	3,315
Natura Cosméticos S.A. - México	-	-	1,876	103
Natura Europa SAS	-	-	149	502
Natura Inovação e Tecnologia de Produtos Ltda.	<u>-</u>	<u>-</u>	<u>385</u>	<u>258</u>
	<u>618,000</u>	<u>499,098</u>	<u>618,000</u>	<u>499,098</u>



	Product sales		Product purchases	
	06/2006	06/2005	06/2006	06/2005
Administrative structure: (i)				
Natura Logística e Serviços Ltda.	112,525	86,909	-	-
Natura Cosméticos S.A.	-	-	79,368	63,303
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	23,618	16,608
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	9,539	6,998
	<u>112,525</u>	<u>86,909</u>	<u>112,525</u>	<u>86,909</u>
Product and technology research and development: (j)				
Natura Inovação e Tecnologia de Produtos Ltda.	66,992	55,157	-	-
Natura Cosméticos S.A.	-	-	66,992	55,157
	<u>66,992</u>	<u>55,157</u>	<u>66,992</u>	<u>55,157</u>
Lease of properties and common charges: (k)				
Indústria e Comércio de Cosméticos Natura Ltda.	2,794	2,794	-	-
Natura Logística e Serviços Ltda.	-	-	1,619	1,619
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	651	651
Natura Cosméticos S.A.	-	-	524	524
	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>
Total service sales and purchases	<u>800,311</u>	<u>643,958</u>	<u>800,311</u>	<u>643,958</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\$341 as of June 30, 2006 (R\$383 as of March 31, 2006), 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 Itapeçerica da Serra.

The main intercompany balances as of June 30, 2006 and March 31, 2006, as well as the intercompany transactions that affected the results for the period ended as of June 30, 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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Investments in subsidiaries	556,329	537,964	-	-
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	-	-	5,751	5,469
Other	-	8	-	8
	<u>556,329</u>	<u>537,972</u>	<u>5,751</u>	<u>5,477</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 June 30, 2006 and March 31, 2006 is basically due to the effects of the exchange variation for the quarter.

Natura Cosméticos S.A.

Investments in direct subsidiaries are as follows:

	Indústria e Comércio de Cosméticos Natura Ltda.	Natura Cosmético 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	47,728	2,254	8,881	2,216	2,413	5,008	38,144	20,624	111	
Number of shares (common shares) held	432,457	47,723	2,253	8,865	2,216	2,413	5,007	38,144	20,622	109	
Ownership interest - %	99.99%	99.99%	99.94%	99.82%	99.99%	100.00%	99.99%	100.00%	99.99%	98.00%	
Capital	432,500	47,728	2,254	8,881	2,216	2,413	5,008	38,144	20,624	111	559,879
Shareholders' equity of subsidiaries	500,014	1,732	1,529	4,186	979	(5,207)	28,803	12,392	6,683	23	551,134
Share in shareholders' equity	500,014	1,732	1,528	4,178	979	(5,207)	28,801	12,392	6,682	23	551,122
Net income (loss) of subsidiaries, net of exchange variation on translation of foreign investments	16,173	(479)	508	(912)	(563)	(25)	3,755	(4,369)	(2,913)	(1)	11,174
<b>Book value of Company's investment:</b>											
Balances as of March 31, 2006	483,842	2,299	1,196	5,481	605	-	25,046	13,725	5,747	23	537,964
Equity in subsidiaries	16,038	(479)	508	(910)	(563)	(25)	3,755	(4,369)	(2,913)	(1)	11,041
Changes in ownership interest in affiliates	134	-	-	(134)	-	-	-	-	-	-	-
Exchange variation and other adjustments on translation of foreign investments	-	(333)	(176)	(259)	(30)	-	-	662	(530)	1	(665)
Recognition (reversal) of provision for losses	-	-	-	-	-	25	-	-	-	-	25
Capital increase	-	245	-	-	967	-	-	2,374	4,378	-	7,964
Balances as of June 30, 2006	<u>500,014</u>	<u>1,732</u>	<u>1,528</u>	<u>4,178</u>	<u>979</u>	<u>-</u>	<u>28,801</u>	<u>12,392</u>	<u>6,682</u>	<u>23</u>	<u>556,329</u>
<b>Provision for losses:</b>											
Balances as of March 31, 2006	-	-	-	-	-	(5,182)	-	-	-	-	(5,182)
(Recognition) reversal of provision for losses	-	-	-	-	-	(25)	-	-	-	-	(25)
Balances as of June 30, 2006	-	-	-	-	-	(5,207)	-	-	-	-	(5,207)
Net balances as of June 30, 2006	<u>500,014</u>	<u>1,732</u>	<u>1,528</u>	<u>4,178</u>	<u>979</u>	<u>(5,207)</u>	<u>28,801</u>	<u>12,392</u>	<u>6,682</u>	<u>23</u>	<u>551,122</u>

## 12. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate - %	Company					
		06/2006			03/2006		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Vehicles	20	19,913	7,862	12,051	16,656	6,820	9,836
Software	20	5,875	2,413	3,462	5,293	2,158	3,135
IT equipment	20	4,204	2,581	1,623	3,961	2,462	1,499
Furniture and fixtures	10	2,420	1,543	877	2,391	1,498	893
Machinery and equipment	10	1,099	248	851	1,097	221	876
Leasehold improvements	20 to 33	1,039	209	830	987	194	793
Advances to suppliers	-	610	-	610	-	-	-
Construction in progress	-	<u>240</u>	<u>-</u>	<u>240</u>	<u>12</u>	<u>-</u>	<u>12</u>
		<u>35,400</u>	<u>14,856</u>	<u>20,544</u>	<u>30,397</u>	<u>13,353</u>	<u>17,044</u>

  

	Annual depreciation rate - %	Consolidated					
		06/2006			03/2006		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Buildings	4	144,144	27,438	116,706	144,144	26,020	118,124
Machinery and equipment	10	149,978	49,845	100,133	143,881	46,476	97,405
Installations	10	69,228	29,086	40,142	67,369	27,380	39,989
Vehicles	20	29,143	10,431	18,712	25,003	9,184	15,819
Software	20	27,127	11,048	16,079	25,965	9,793	16,172
Molds	33	42,846	26,854	15,992	40,352	24,795	15,557
Land	-	15,910	-	15,910	15,910	-	15,910
IT equipment	20	31,658	17,006	14,652	29,048	15,784	13,264
Furniture and fixtures	10	14,926	5,513	9,413	13,761	5,230	8,531
Leasehold improvements	20 to 33	5,219	343	4,876	745	212	533
Advances to suppliers	-	19,528	-	19,528	18,453	-	18,453
Construction in progress	-	23,038	-	23,038	14,166	-	14,166
Other	10	<u>6,058</u>	<u>2,930</u>	<u>3,128</u>	<u>5,964</u>	<u>2,869</u>	<u>3,095</u>
		<u>578,803</u>	<u>180,494</u>	<u>398,309</u>	<u>544,761</u>	<u>167,743</u>	<u>377,018</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:

	<u>Company</u>	
	<u>06/2006</u>	<u>03/3006</u>
Goodwill on investments	685,360	722,076
Provision for maintenance of future dividend payment capacity	<u>(685,360)</u>	<u>(722,076)</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

<u>Type</u>	<u>Company</u>		<u>Consolidated</u>		<u>Maturity</u>	<u>Charges</u>	<u>Guarantees</u>
	<u>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>			
BNDES - PROGEREN (Support Program for Enhancing Employment and Income Capacity)	74,032	72,098	74,032	72,098	June 2007	Interest of 3.5% p.y. + TJLP (long-term interest rate)	Bank guarantee.
BNDES (Brazilian Bank for Economic and Social Development)	13,605	16,349	27,885	31,518	October 2007 and April 2010	Interest of 4.0% p.y. and 4.5% p.y. + UMBNDES (*) or TJLP (long-term interest rate)	Mortgage (**) and guarantee of Indústria e Comércio de Cosméticos Natura Ltda.
FINEP (Financing Agency for Studies and Projects)	-	-	27,029	30,505	December 2008	Interest of 3.0% p.y. + TJLP	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
FINEP II (Financing Agency for Studies and Projects)	-	-	5,219	-	March 2013	TJLP (long-term interest rate)	Guarantee of Natura Cosméticos S.A. and bank guarantee.
BNDES - FINAME (Government Agency for Machinery and Equipment Financing)	-	-	14,329	13,407	July 2006 to March 2011	Interest of 4.5% p.y. + TJLP	Chattel mortgage and guarantee of Natura Cosméticos S.A. and promissory notes.
Resolution No. 2,770 and overdraft account	-	-	4,198	9,523	July 2006	Interest between 106.5% and 115% of CDI	Promissory notes and guarantee of Natura Cosméticos S.A.
NCE (Export Credit Note)	-	-	34,218	32,981	April 2008	Interest of 104.7% of CDI	Promissory notes and guarantee of Natura Cosméticos S.A.
Total	<u>87.637</u>	<u>88.447</u>	<u>186.910</u>	<u>190.032</u>			
Current	85,362	66,637	108,028	94,871			
Long term	<u>2.275</u>	<u>21.810</u>	<u>78.882</u>	<u>95.161</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>06/2006</u>	<u>03/2006</u>
2007	11,446	35,351
2008	52,553	50,929
2009	8,092	6,679
2010	3,882	2,202
2011	1,319	-
2012	1,272	-
2013	318	-
	<u>78,882</u>	<u>95,161</u>

#### 15. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
ICMS (state VAT)	48,983	48,010	48,988	48,018
IRPJ (corporate income tax)	5,127	7,022	7,177	8,993
COFINS (tax on revenue)	215	193	3,730	3,119
IRRF (withholding income tax)	2,024	4,138	3,881	9,769
CSLL (social contribution tax)	1,916	3,505	2,482	4,029
PIS/COFINS/CSLL (Law No. 10,833/03)	1,385	1,041	1,942	1,495
IVA - value-added tax (foreign operations)	-	-	1,411	1,303
IPI (tax on revenue)	-	-	1,108	489
PIS (tax on revenue)	44	42	785	656
ISS (tax on service)	52	41	765	568
Other	-	-	1,151	403
	<u>59,746</u>	<u>63,992</u>	<u>73,420</u>	<u>78,842</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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Tax	48,011	47,188	84,715	77,849
Labor	4,774	4,473	6,289	5,945
Civil	4,675	4,294	9,338	8,964
	<u>57,460</u>	<u>55,955</u>	<u>100,342</u>	<u>92,758</u>

Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

	Company		Consolidated	
	<u>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
IPI - zero rate (a)	-	-	22,130	16,387
PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 (b)	13,555	13,179	15,178	14,759
Late payment fines on federal taxes paid in arrears (c)	5,280	5,117	6,278	6,085
Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (d)	6,140	6,030	6,140	6,030
Tax assessment - INSS (social security contribution) (e)	5,200	5,076	5,200	5,076
Monetary restatement of federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (f)	4,877	4,853	5,002	4,978
IPI tax assessment - attorneys' fees (g)	-	-	4,550	4,532
IPI credit on purchases of fixed assets and consumption material (h)	-	-	4,557	4,450
IPI (federal VAT) - tax collection lawsuit (i)	3,975	3,882	3,976	3,882
Assessment notice - 1990 corporate income tax (j)	2,577	2,518	2,577	2,518
Attorneys' fees and other	<u>6,407</u>	<u>6,533</u>	<u>9,127</u>	<u>9,152</u>
	<u>48,011</u>	<u>47,188</u>	<u>84,715</u>	<u>77,849</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 1<sup>st</sup> 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 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\$4,032 (R\$3,914 as of March 31, 2006), 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 3<sup>rd</sup> 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\$4,061 (R\$4,128 as of March 31, 2006).
- (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 June 30, 2006, the Company and its subsidiaries are parties to 255 labor lawsuits filed by former employees and third parties (307 as of March 31, 2006), 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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Several civil lawsuits (a)	2,396	2,031	2,552	2,256
Civil lawsuits and attorney's fees - Flora Medicinal (b)	<u>2,279</u>	<u>2,263</u>	<u>6,786</u>	<u>6,708</u>
	<u>4,675</u>	<u>4,294</u>	<u>9,338</u>	<u>8,964</u>

- (a) As of June 30, 2006, the Company and its subsidiaries are parties to 913 lawsuits (824 as of March 31, 2006), 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 June 30, 2006 was R\$31,576 (R\$30,295 as of March 31, 2006) - 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>06/2006</u>	<u>03/2006</u>	<u>06/2006</u>	<u>03/2006</u>
Tax:				
INSS debt annulment action (a)	4,996	4,877	4,996	4,877
Offset of 1/3 of COFINS - Law No. 9,718/98				
(b)	4,078	3,997	4,078	3,997
Tax assessment - transfer pricing on loan				
agreements with foreign related company (c)	1,295	1,269	1,295	1,269
Other	<u>1,118</u>	<u>1,098</u>	<u>1,305</u>	<u>1,283</u>
	<u>11,487</u>	<u>11,241</u>	<u>11,674</u>	<u>11,426</u>
Civil	3,783	3,167	13,951	13,712
Labor	<u>8,579</u>	<u>6,340</u>	<u>11,525</u>	<u>8,898</u>
	<u>23,849</u>	<u>20,748</u>	<u>37,150</u>	<u>34,036</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.

According to a resolution of the Board of Directors in a meeting held on February 21, 2006 for exercise of options granted to management and employees of the Company and its direct and indirect subsidiaries, which have adhered to the "Amendment to the stock option plan for purchase or subscription of common shares related to calendar year 2003", in May and June 2006, 477,377 common shares were subscribed, of the 1,702,250 common shares issued, with average price of R\$3.09. Accordingly, the number of common shares subscribed and paid up was changed from 427,193,055 as of March 31, 2006 to 427,670,432 as of June 30, 2006, and the authorized capital was changed from 14,117,070 common shares to 13,639,693 common shares on the same date.

As of June 30, 2006, the Company's capital is R\$232,237 (R\$ 230,762 as of March 31, 2006).

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.

On March 30, 2006, the Company paid dividends and interest on capital in the total amount of R\$194,803 and R\$17,699, respectively, related to the remaining balances of 2005, as approved in the Annual Shareholders’ Meeting held on March 29, 2006.

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

Interim dividends were calculated as follows:

	Company	
	<u>06/2006</u>	<u>06/2005</u>
Net income	211,170	157,620
Profit reserve - legal (to be recorded at the end of the year)	<u>(10,559)</u>	<u>(7,881)</u>
Calculation basis for mandatory minimum annual dividend	200,611	149,739
Mandatory minimum annual dividend	30%	30%
Minimum annual dividend	60,183	44,922
Proposed interim dividends	112,110	90,434
Interest on capital, net of withholding income tax -interim	-	11,389
Withholding income tax - interest on capital	-	1,994
Total dividends and interest on capital	<u>112,110</u>	<u>103,817</u>
Amount exceeding the mandatory minimum annual dividend	51,927	58,895
Dividends per share - R\$	0.263	0.213
Interest on capital per share - R\$	-	0.031

Dividends and interest on capital per share - gross related to June 2005 are adjusted according to the stock split occurred on March 29, 2006.

d) Treasury shares

As of June 30, 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 1,480,850 (1,980,065 as of March 31, 2006), at a unit average cost of R\$0.3535 (R\$0.3501 as of March 31, 2006).

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 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 June 30, 2006 is 8,161,983 (9.172.971 as of March 31, 2006) and is composed by plan as follows:

	Number of call options or subscription (in shares)	Amount for the year updated according to the IPCA through June 30, 2006 - R\$
2002	1,418,545	5.51
2003	2,927,118	3.09
2004	1,647,165	7.60
2005	1,032,455	16.31
2006	<u>1,136,700</u>	24.30
	<u>8,161,983</u>	

As of June 30, 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 June 30, 2006 and the option value updated according to the IPCA) recorded over their related vesting period, the pro forma consolidated net income for the semester ended June 30, 2006 would have been R\$206,287 (R\$168,828 as of June 30, 2005), as shown below:

	<u>Consolidated</u>	
	<u>06/2006</u>	<u>06/2005</u>
Net income for the period - Company	210,905	157,552
Effect of programs considering vesting period	<u>(4,618)</u>	<u>11,276</u>
Net income for the period - "pro forma"	<u>206,287</u>	<u>168,828</u>

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

As of June 30, 2006, the market price of the Company's shares, after the stock split, was R\$22,70 (R\$20,59 as of December 31, 2005, already reflecting the effect of the stock split occurred on March 29, 2006, to allow comparability between periods).

## 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 six-month period ended June 30, 2006 totaled R\$1,648 (R\$1,231 as of June 30, 2005).

## 20. FINANCIAL INSTRUMENTS

### a) General conditions

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

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 June 30, 2006 and March 31, 2006, the Company had swap transactions with financial institutions in the amounts of R\$50,858 ("swaps" and "forwards") and R\$3,656 ("swaps"), respectively. The increase in the volume of transactions contracted between March and June 2006 is due to the Company's decision to contract transactions for coverage of equipment import, purchase of inputs linked to exchange variation, and investments in foreign operations. These transactions resulted in a liability balance of R\$3,886 and R\$2,824, respectively, recorded in consolidated current liabilities. The exchange exposure is mainly indexed to the US dollar and euro.

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 and forward transactions ("forward" only in June 2006) the carrying and fair values are as follows:

	Consolidated			
	06/2006		03/2006	
	Carrying value	Fair value	Carrying value	Fair value
Swap transactions	<u>3.886</u>	<u>3.505</u>	<u>2.824</u>	<u>2.870</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

	Company		Consolidated	
	<u>06/2006</u>	<u>06/2005</u>	<u>06/2006</u>	<u>06/2005</u>
Financial income				
Interest on cash investments	15,305	12,101	21,088	16,561
Gains on monetary and exchange variations	1,837	2,212	2,520	7,861
Interest earned	45	99	525	728
Discounts obtained	1	4	42	54
Other financial income	<u>700</u>	<u>652</u>	<u>1,571</u>	<u>1,227</u>
	<u>17,888</u>	<u>15,068</u>	<u>25,746</u>	<u>26,431</u>
Financial expenses				
Interest on financing	(4,184)	(1,672)	(9,658)	(7,835)
Losses on monetary and exchange variations	(1,362)	(492)	(4,377)	(2,117)
Losses on swap and forward transactions	(962)	(274)	(2,265)	(11,103)
Other financial expenses	<u>(560)</u>	<u>(1,072)</u>	<u>(2,184)</u>	<u>(2,402)</u>
	<u>(7,068)</u>	<u>(3,510)</u>	<u>(18,484)</u>	<u>(23,457)</u>
Total financial income, net	<u>10,820</u>	<u>11,558</u>	<u>7,262</u>	<u>2,974</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 June 30, 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	578,397
Vehicles	Fire, theft and collision for 954 vehicles	32,782
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 JUNE 30, 2006 AND 2005  
(In thousands of Brazilian reais - R\$)

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/2006</u>	<u>06/2005</u>	<u>06/2006</u>	<u>06/2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	211,170	157,620	210,905	157,552
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization (Notes 12 and 13)	3,235	2,513	26,519	20,137
Monetary and exchange variations, net, except contingencies	7,772	1,248	8,981	(6,619)
Reserve for losses on swap and forward contracts (Notes 20.b and 20.d)	962	274	2,265	11,103
Reserve for contingencies (Note 16)	3,841	12,510	6,064	17,066
Allowance for inventory losses (Note 7)	197	-	576	(1,526)
Sundry accruals	-	187	-	1,137
Deferred income and social contribution taxes (Note 9.a)	(9,366)	(5,754)	(10,352)	(4,227)
Proceeds from sale and disposal of permanent assets	467	286	1,206	4,434
Equity in subsidiaries (Note 11)	(13,565)	(1,139)	-	-
Minority interest	-	-	1	-
	<u>204,713</u>	<u>167,745</u>	<u>246,165</u>	<u>199,057</u>
<b>(INCREASE) DECREASE IN ASSETS</b>				
Current assets:				
Accounts receivable (Note 6)	29,833	7,484	28,975	8,131
Inventories (Note 7)	(314)	800	(32,681)	(45,172)
Other receivables	(7,380)	(4,892)	(2,788)	(373)
Long-term assets:				
Escrow deposits (Note 16)	(297)	(395)	(559)	(1,488)
Recoverable taxes (Note 8)	(198)	(339)	(915)	(3,348)
Other receivables	115	(3,079)	44	800
Subtotal	<u>21,759</u>	<u>(421)</u>	<u>(7,924)</u>	<u>(41,450)</u>
<b>INCREASE (DECREASE) IN LIABILITIES</b>				
Current liabilities:				
Suppliers	(26,991)	(7,931)	(17,420)	15,720
Salaries, profit sharing and related charges, net	(776)	(3,040)	(1,944)	(8,536)
Taxes payable, net (Notes 8 and 15)	(15,850)	1,324	(19,707)	(12,670)
Other payables	(315)	1,149	2,417	2,505
Long-term liabilities:				
Other payables	315	-	4,199	3,903
Subtotal	<u>(43,617)</u>	<u>(8,498)</u>	<u>(32,455)</u>	<u>922</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
	<u>182,855</u>	<u>158,826</u>	<u>205,786</u>	<u>158,529</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment (Note 12)	(6,572)	(1,460)	(60,648)	(53,139)
Investments (Note 11)	(29,044)	(121,003)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>				
	<u>(35,616)</u>	<u>(122,463)</u>	<u>(60,648)</u>	<u>(53,139)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Decrease in short-term loans (Note 14)	(6,381)	(8,641)	(33,002)	(162,938)
Fundings - long-term loans (Note 14)	-	67,949	21,789	209,394
Payments of swap and forward contracts (Notes 20.b and 20.d)	(1,035)	(2,043)	(1,082)	(14,123)
Payment of dividends (Note 17.c)	(195,024)	(112,229)	(195,024)	(112,229)
Payment of interest on capital (Note 17.c)	(17,699)	(15,617)	(17,699)	(15,617)
Payment of capital	1,475	-	1,475	-
Other	1,523	-	1,523	-
Sale of treasury shares by exercise of stock options (Note 17.d)	4,007	1,233	4,007	1,233
Payment of receivables from shareholders (Note 17.b)	2,055	113	2,055	113
<b>NET CASH USED IN FINANCING ACTIVITIES</b>				
	<u>(211,079)</u>	<u>(69,235)</u>	<u>(215,958)</u>	<u>(94,167)</u>
<b>NET (DECREASE) INCREASE IN CASH AND BANKS</b>				
	<u>(63,840)</u>	<u>(32,872)</u>	<u>(70,820)</u>	<u>11,223</u>
Cash and banks at beginning of year	275,966	185,287	386,439	231,612
Cash and banks at end of year	212,126	152,415	315,619	242,835
<b>CHANGE IN CASH AND BANKS</b>				
	<u>(63,840)</u>	<u>(32,872)</u>	<u>(70,820)</u>	<u>11,223</u>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE</b>				
Income and social contribution taxes paid (Note 9)	59,988	36,545	72,143	36,549
Interest paid on loans and financing (Note 14)	828	1,390	3,758	3,263



## 2Q06 Earnings Release

**São Paulo, Brazil, June 26, 2006.** Natura Cosméticos S.A. (São Paulo Stock Exchange - Bovespa: NATU3) announces today its results for the second quarter 2006 (2Q06). The financial and operating information included in this report, except where otherwise indicated, is presented on a **consolidated basis**, according to the Brazilian Corporate Law.

### > FINANCIAL SUMMARY - CONSOLIDATED

#### > Financial Summary – Consolidated (R\$ million)

	2Q06	2Q05	% Change	1H06	1H05	% Change
Units sold – items for resale (in millions) - Brazil <sup>1</sup>	57.5	48.7	18.1%	108.3	94.4	14.8%
Gross Revenues	980.8	793.2	23.7%	1,703.5	1,404.2	21.3%
Net Revenues	696.4	557.5	24.9%	1,208.2	984.9	22.7%
Gross Profit	473.0	383.2	23.4%	825.3	665.3	24.0%
<i>Gross Margin (%)</i>	<i>67.9%</i>	<i>68.7%</i>	-	<i>68.3%</i>	<i>67.6%</i>	-
Ebitda <sup>2</sup>	180.4	128.7	40.2%	293.7	223.8	31.2%
<i>Ebitda Margin (%)</i>	<i>25.9%</i>	<i>23.1%</i>	-	<i>24.3%</i>	<i>22.7%</i>	-
Net Income	129.3	87.9	47.1%	210.9	157.6	33.9%
<i>Net Margin (%)</i>	<i>18.6%</i>	<i>15.8%</i>	-	<i>17.5%</i>	<i>16.0%</i>	-
Total consultants <sup>3</sup> in Brazil (in thousands)	525.2	454.0	15.7%	525.2	454.0	15.7%
Total consultants <sup>3</sup> in Latin America <sup>4</sup> (in thousands)	42.1	29.9	40.7%	42.1	29.9	40.7%

(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.

(3) Position at the end of the period of the 9<sup>th</sup> sales cycle.

(4) Argentina, Chile and Peru.

**> COSMETICS, FRAGRANCE AND TOILETRIES (CF&T) SECTOR IN BRAZIL - NATURA'S TARGET MARKET FIGURES (1<sup>st</sup> four months 06 X 1<sup>st</sup> four months 05)**

Based on available information for the period from January to April 2006, the nominal growth of the sector was 11.0%, according to information of Sipatesp/Abhipec<sup>1</sup>. In real terms, excluding the 5.5% IPCA (Amplified Consumer Price Index) for the period, the growth reached 5.2%.

The table below shows the breakdown of the target market <sup>2</sup> in two segments: Cosmetics and Fragrances, and Toiletries in one side, and Natura's market share in these segments in the other side.

**> CF&T Target Market Net Revenues Breakdown and Natura's Market Share in Brazil**

	Target Market (R\$ million)			Natura's Market Share (%)		
	1 <sup>st</sup> four months 06	1 <sup>st</sup> four months 05	% growth	1 <sup>st</sup> four months 06	1 <sup>st</sup> four months 05	% points percentage
Cosmetics & Fragrances	1,318	1,124	17.3%	38.8%	36.8%	2.0
Personal Hygiene	1,878	1,756	6.9%	11.1%	10.3%	0.8
<b>Total</b>	<b>3,196</b>	<b>2,881</b>	<b>11.0%</b>	<b>22.5%</b>	<b>20.6%</b>	<b>1.9</b>

Source: Sipatesp/Abhipec

Natura increased its market share in the target market in 1.9 p.p., from 20.6% in the first four months of 2005 to 22.5% in the first four months of 2006.

(1) Sipatesp/Abhipec – Brazilian Association of the Cosmetic, Toiletry & Fragrance Industry

(2) Target Market – Cosmetics and Fragrances (Skincare, Make up, Fragrances and Sun Protection) and Toiletries (Soaps, Hair care, Deodorants and Shaving products)

**> CONSOLIDATED GROSS REVENUES**

Natura's 2Q06 gross revenues were R\$980.8 million, up 23.7% over the same period 2005 (R\$793.2 million). This growth was driven by the successful launchings of products, good promotional campaigns and good results provided by the sale of commemorative sets (Mother's Day and Valentine's Day).

By the end of 2Q06, the number of consultants in Brazil reached 525.5 thousand, a growth of 15.7% over the same period of previous year. Considering active consultants, the average growth was 17.3% over the same

period. Brazilian productivity per active consultant in 2Q06 reached R\$3,259.00 <sup>(1)</sup>, a 5.6% growth compared to 2Q05.

This quarter, the former sales catalogue – Vitrine – was replaced by Revista Natura, a magazine-catalogue aligned with the strategic objective to work not only as an efficient instrument of sales support, but also as a brand builder element. This shift, which was firstly implemented in Brazilian operations, is now being replicated in Latin American operations.

1H06 consolidated gross revenues were R\$1,703.5 million, recording a growth of 21.3% when compared to the same period of 2005 (1H05: R\$1,404.2 million).

(1) Estimated end-price sale per consultant.

## > COST & EXPENSES

**Cost of goods sold (COGS)** – COGS went from 31.3% of the net revenue in 2Q05 to 32.1% in 2Q06. The main drivers that contributed to such increase were: (i) larger participation of promotional sets in sales; and (ii) the intensification of promotional efforts of sales in 2Q06. These increases were partially offset by the favorable effect of the Real appreciation in the cost of materials occurred in the quarters under comparison.

### > Composition of Cost of Sales (% Net Revenues)

Item	2Q06	2Q05	1H06	1H05
RM/PM*	25.5	25.0	24.7	25.7
Labor	2.6	2.4	2.9	2.6
Depreciation	1.1	1.0	1.3	1.1
Others	2.9	2.9	2.9	3.1
<b>Total</b>	<b>32.1</b>	<b>31.3</b>	<b>31.7</b>	<b>32.4</b>

\* Raw material and packaging material

In 1H06, on the other hand, COGS declined from 32.4% in 1H05 to 31.7%. This decrease was driven by the stability in the prices of materials in 1H06 compared to 1H05, due to the Real appreciation over the USD between the periods.

**Selling expenses**, which represented 31.4% of net revenue in 2Q05, decreased to 30.3% in 2Q06. This decrease was primarily driven by the adjustment of the logistics process related to services provided to consultants (order, picking and order delivery).

In spite of the decrease in 2Q06, when analyzing 1H06, selling expenses remained virtually stable. In sum, the gains of efficiency in the logistics process were offset by the increase in expenses related to communication and relationship with the sales channel occurred in 1Q06.

**Administrative expenses** declined from 15.1% in 2Q05 to 13.2% in 2Q06. This decrease was due to the smaller impact of expenses with provisions. In the first half, these factors offset the increase in expenses with IT, as previously informed, making administrative expenses remain virtually stable (14.4% in 1H06 and 14.2% in 1H05).

## > EBITDA AND NET INCOME

2Q06 **EBITDA** amounted to R\$180.4 million, up 40.2% compared to 2Q05 (R\$128.7 million). EBITDA margin climbed from 23.1% to 25.9% in 2Q06. In the first half 2006, EBITDA amounted to R\$293.7 million, up 31.2% compared to 1H05 (R\$223.8 million). EBITDA margin increased from 22.7% in 1H05 to 24.3% in 1H06.

2Q06 **net income** posted a 47.1% growth, from R\$87.9 million in 2Q05 to R\$129.3 million in 2Q06. Net margin also increased, from 15.8% in 2Q05 to 18.6% in 2Q06. In 1H06, net income amounted to R\$210.9 million, up 33.9% over the same period last year. Net margin grew from 16.0% in 1H05 to 17.5% in 1H06.

## > CAPEX

1H06 capital expenditures (CAPEX) totaled R\$60.6 million, led by machine purchases aiming at increasing the Company's manufacturing capacity. Total investments estimated for 2006 increased from R\$180 million to R\$210 million. Most part of this increase derives from higher investments planned for both the innovation process and the new Natura research center, as well as the enhancement of investments planned for IT.

## > INTERNATIONAL OPERATIONS

### >> Argentina, Chile and Peru

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

	2Q06	2Q05	% Change	1H06	1H05	% Change
Units sold – items for resale (in millions)	2.4	1.6	47.4%	4.5	3.0	51.2%
Gross Revenues	13.2	8.6	53.8%	23.0	15.0	52.7%
Net Revenues	10.1	6.6	53.2%	17.6	11.6	52.2%
Income (loss) from operations	-0.8	-0.6	27.5%	-2.2	-1.8	24.3%
<i>Operating margin</i>	<i>-7.7%</i>	<i>-9.3%</i>		<i>-12.7%</i>	<i>-15.6%</i>	

Note: Mexican and Venezuelan operations are not included in the above table.

The results from Argentinean, Chilean and Peruvian operations continue to grow at the same pace of last quarters, as evidenced by gross revenue evolution (growth of 53.8% in USD in the quarter and 55.1% in weighted local currency) and operational loss reduction when compared to net revenue.

The number of consultants grew 40.7%, from 29.9 thousand in 1H05 to 42.1 thousand in 1H06.

### >> International expansion process

In 1H06, investments in the international expansion process, represented by negative operational results, totaled R\$17.2 million (1H05: R\$ 17.0 million). For 2006, we estimate total investments of R\$35.0 million in this process.

## > CASH FLOW

1H06 gross cash generation reached R\$246.2 million, up 23.7% over the same period of last year. Out of this total, R\$40.4 million were used for working capital, long-term assets and liabilities and R\$60.6 million for fixed assets acquisition.

The use of working capital focused basically on the payment to suppliers as a result of the concentration of material and service purchases that took place in the end of 2005 and payment of taxes over December 2005 sales. Free cash generation in 1H06 reached R\$145.1 million, up 37.7% over the same period 2005.

## > DIVIDENDS AND INTEREST ON CAPITAL

On July 26, 2006, the Company's Board of Directors approved the proposal to be submitted to the Ordinary General Shareholder's Meeting, to be held in March 2007, for the payment, on August 10, 2006, of dividends and interest on capital, related to profits recorded in the first half of 2006, in the amount of R\$112.1 million and R\$33.6 million (R\$28.5 million – net) respectively, representing 96.9% of free cash generation in the first half and 66.7% of the net income in the same period.

These payments added up will result in a net yield of R\$0.33 per share (R\$0.24 in 1H05). It is worth noting that the accounting of interest on capital will be carried out on 07/31/06.

*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.*

