



## **FREE TRANSLATION**

### **Management Report for 2004**

The year of Natura's 35<sup>th</sup> anniversary was rich in achievements that, in retrospect, arouse the sincerest feelings of joy.

Among these achievements, the IPO on May 26 deserves the greatest attention. With this, we concluded a project begun around seven years ago, with important measures for the institutionalization of Natura. The success achieved in this move, proven both by the participation of over 5,000 investors and the subsequent evolution of the shares, was absolutely surprising.

The IPO, in a period of adverse external conditions, was perceived as a paradigm of a new moment in the Brazilian capital market. We are very pleased with this surprise, but also have the corresponding feeling of responsibility. We believe that this recognition represents an unmistakable demonstration of confidence in the Company's management and in its capacity to continuously generate value. It also reveals investors' great affinity with the vision, beliefs and values that have guided us, and will guide us in building our Company, our brand, our country and our world.

The reasons for enthusiasm have also been great from an operational point of view. Sales in 2004 grew 33%, accumulating 117% growth over the last three years. Net income, totaling R\$ 300.3 million, represented 17% of net revenues. Operations in the rest of Latin America also evolved consistently, with growth, in dollars, of 52% for the year and 107% over the last three years. One of the reasons for this vitality was the 15.6% increase in the number of consultants and independent consultants, totaling 407,000 people in Brazil and 26,000 abroad.

With this public, so fundamental in our operation, we have sought to increasingly enhance our relationship and offer broad opportunities for personal and professional development. For this community, an estimated income of R\$ 1 billion was estimated this year.

In 2004, 63% of sales was from products launched or relaunched in the last two years. We invested 2.7% of net revenues in research and development, and for coming years, we intend to maintain a level of more than 3%. We will also maintain our strategy of innovation in its various dimensions: in the sustainable use of Brazilian biodiversity, in technological advances, in the communication of our concepts, and in the enhancement of our relationship.

In the continuous incorporation of the principles of sustainable development in the Company's everyday operations, there has been considerable evolution in environmental management systems and corporate responsibility. We defined strategic priorities based on economic, financial, social and environmental aspects, culminating in the structuring of action plans for the entire Company. Major advances were the ISO 14001 certification and the expansion of the analysis of products' life cycle. Consistent steps have also been taken in the relationship with communities supplying biodiversity assets and surrounding communities, notably, Natura's active participation with local government and civil society in actions to implement the Agenda 21 in Cajamar.

The universality of our beliefs, values and reason for being is the framework for the growing recognition we have obtained in building the Natura brand, both in Brazil and abroad. This recognition gives us confidence in the possibility of accelerated international expansion in coming years. We will seek new markets in Latin America, where we have already consolidated the direct sales model, and will study new formulas to take Natura's proposal of value to other regions.

On this path, the main challenge is to develop entrepreneurial leadership in tune with our values. Internationalization also translates into a more complex operation, revealing the need to join growth with the maintenance of strategic discipline, the culture and the management style that are characteristic of Natura. Another major challenge is the evolution of the relationship with traditional communities.

The decision to contribute to the creation of a development model that combines economic prosperity, social justice and environmental conservation will continue to require an enormous effort in learning and innovation. From this perspective, it is our full conviction that business participation in building a better world will be increasingly associated with the evidence that all of us – individuals, companies, NGOs and governments – are co-responsible for the present and future quality of life on Earth. In this context, we reaffirm our support for the United Nations Global Pact and the effort to promote the principles proposed by the UN.

We express our gratitude and recognition for everyone who has contributed to the construction of Natura. To our consumers, who have privileged us in their choices. To our consultants, for sharing their beliefs, passions and causes with us. To our employees, for being expressions of continuous enhancement transforming both individuals and organizations. To our suppliers, with which we have shared the search for creating value for consumers and society. To our other partners in civil society and public authorities, aware that our network of relationships strengthens the network of life. To everyone, our profound appreciation for everything we have achieved and now celebrate, with vigorous determination to increasingly live out our beliefs, passions and responsibilities. They are the seeds of Natura that are sprouting, and of a world of which we have always dreamed.

**Antonio Luiz da Cunha Seabra**  
**Co-Chairman of the Board of Directors – Founder**

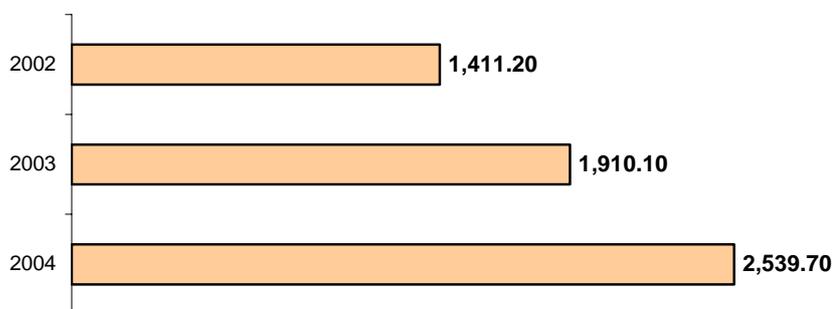
**Guilherme Peirão Leal**  
**Co-Chairman of the Board of Directors**

**Pedro Luiz Barreiros Passos**  
**CEO**

### **Analysis of Economic, Financial, Social and Environmental Results**

Natura's gross revenues reached R\$ 2.5 billion in 2004, with 33% growth in relation to the prior year. The volume of units sold<sup>1</sup> grew 36.3%, going from 127.2 million in 2003 to 173.4 million in 2004. The Company's share of the Brazilian cosmetics, fragrances and personal hygiene market, in the segments in which it is present, went from 17.1% in 2003 to 18.9% in 2004. Net income, of R\$ 300.3 million, represented 17% of net revenues.

#### **Gross revenues (R\$ million)**



<sup>(1)</sup> Units resold by beauty consultants in Brazil (excluding samples, gifts, resale support material, "See It When You Believe It" line products, among others).

A major driving force in sales growth was the investment of R\$ 47.4 million in research and development. The number of product launches increased from 117 in 2003 to 182 in 2004. Highlights include an internationally patented component – Elastinol+R – in the Chronos line.

The cost of sales in relation to net revenues fell from 34.5% in 2003 to 32.5% in 2004. Gains of efficiency and scale, better management of margins, the appreciation of the Brazilian real in relation to the dollar, and a slight reduction

in the tax burden, resulting from changes in legislation on PIS and COFINS (federal taxes on revenue) and ICMS (state VAT), all contributed to this result.

Due to the dilution of costs provided by the increase in sales, operating expenses in relation to net revenues decreased from 45.9% to 44.5%, not considering extraordinary costs on the IPO.

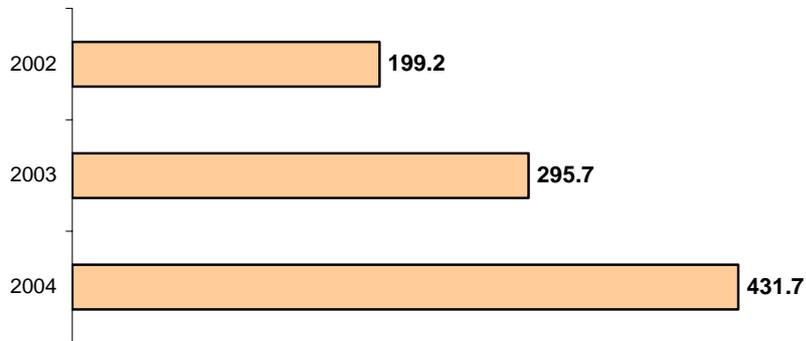
The combination of these factors allowed the Company to end the year with EBITDA of R\$ 431.7 million, 46.0% greater than in 2003. Gross cash generation for 2004 was R\$ 385.6 million, 60.6% higher than in the prior year. Of this total, R\$ 99.4 million was used in working capital and long-term assets and liabilities and R\$ 83,1 million was invested in fixed assets.

The volume used in working capital was primarily due to the increase in trade accounts receivable and inventories, a direct consequence of the increase in sales. The Company ended 2004 with free cash generation of R\$ 203.1 million.

Over the course of 2004, Natura paid the gross amount of R\$ 143.5 million in dividends and interest on capital, of which R\$ 56.7 million referred to the results of 2003 and R\$ 86.8 million referred to the results of the first half of 2004. In relation to the results of the second half of 2004, the Board of Directors, in a meeting held on February 23, 2005, proposed the payment of the gross amount of R\$ 216.3 million for 2004. Deducting from this amount the portion of R\$ 86.8 million, the additional gross amount is R\$ 129.6 million, to be paid on April 5, 2005, after approval by the Annual Shareholders' Meeting.

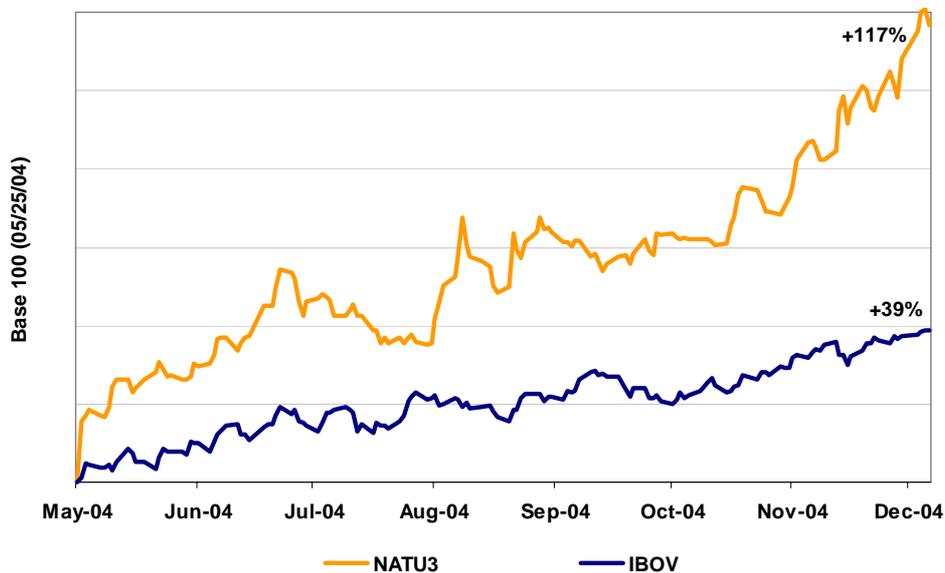
Natura closed 2004 with net cash of R\$ 91.1 million. The Company invested R\$ 21 million in the construction of a new warehouse in order to expand materials storage and handling capacity by 120% in early 2005. A major investment will also be made in expanding production capacity. With this, the Company will increase its flexibility to better face demand peaks and overcome operational imbalances – factors that, in the 4Q04, led to a small portion of demand not being met.

### EBITDA (R\$ million)



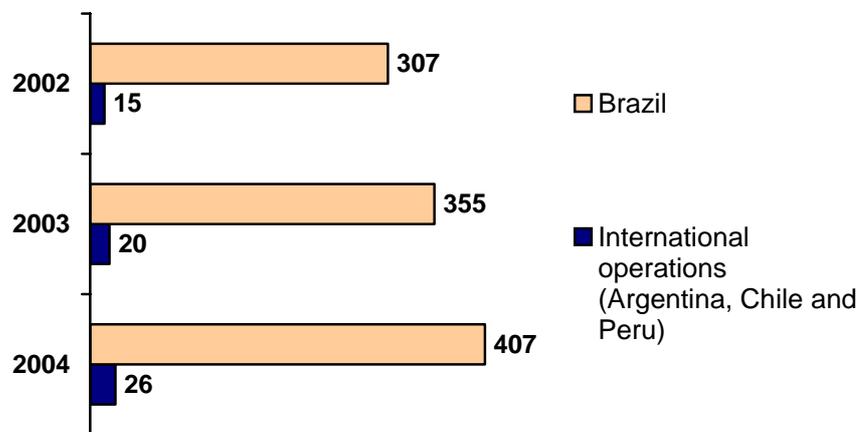
With the IPO and the listing of its shares on the Novo Mercado of the São Paulo Stock Exchange (Bovespa) on May 26, 2004, Natura reaffirmed its commitment to transparency, ethics and enhanced corporate governance. Up to the last trading session of the year, Natura shares appreciated 117%, compared to a 39% rise in the Bovespa Index (Ibovespa) over the same period.

### Appreciation: Natura (Natu3) vs. Ibovespa

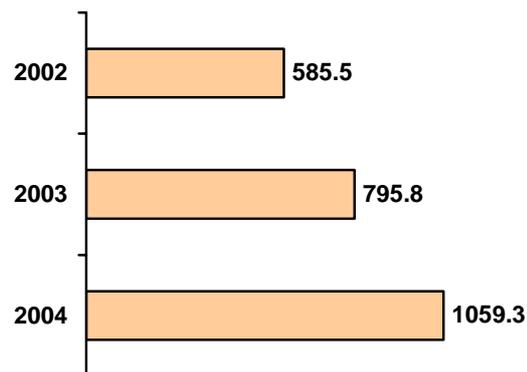


The importance of the Company's main relationship groups for its business success is undeniable. In this context, the highlights are the growth in the number of Natura consultants and their productivity. At the end of 2004, there were 407,000 consultants in Brazil and 26,000 in the international operations. Revenue per consultant, the main indicator of direct sales, grew 10.2% in Brazil, as a result of more frequent contacts and investments in training. Growth in productivity abroad in dollars was approximately 10.7%. For this particular group, an estimated income of R\$ 1.06 billion was allocated in 2004 – 33.1% higher than in 2003.

#### Natura Consultants (thousands)



#### Generation of Wealth <sup>(1)</sup> – Independent consultants (R\$ million)



<sup>(1)</sup> Added value distributed to beauty consultants, estimated based on suggested retail prices.

An equally significant response came from employees, who, for the second year in a row, took Natura to the position of Best Company for Women to Work For in Brazil, according to a survey published by Exame magazine's Guide to the Best Companies to Work For, in partnership with the Great Place to Work

Institute. Investments in training and education, profit sharing and the launch of the “Building the Future” program – which deals with quality of life, extension of career and financial planning, with the offer of a pension plan – brought Natura even closer to its employees.

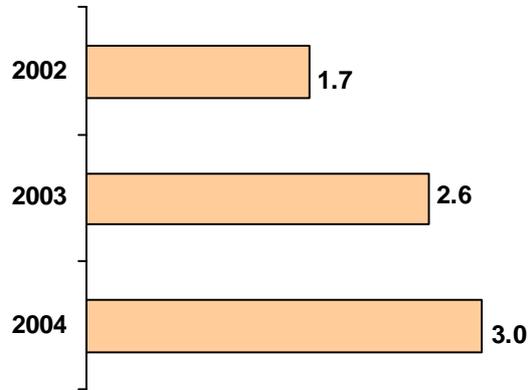
Consumers responded positively to Natura’s proposal of value, as shown in sales results. The brand was also widely recognized by society: in 2004, Natura was indicated as top of mind in the cosmetics category, in a survey by the newspaper Folha de S.Paulo, and as Brazil’s Most Admired Company by the magazine Carta Capital and the consulting firm InterScience.

In 2004, Natura continued its process of growing closer to its suppliers, with which it has sought to increasingly share its search for excellence, innovation and learning for sustainability. In relationships with communities supplying Brazilian biodiversity assets, the highlight was the experience with the Mixed Cooperative of Extraction Producers of the Iratapuru River, in the state of Amapá. The community’s three products – nuts, copaíba and breu branco – were certified by the Forest Stewardship Council. In addition to the sales value of raw materials, the cooperative began receiving a portion of the revenue from the products derived from these ingredients.

One of the noteworthy initiatives in the relationship with society was, once again, the “Crer para Ver” program, maintained in partnership with Fundação Abrinq. In its nine-year history, the “Crer para Ver” program has raised R\$ 17.9 million and supported 148 projects in 3,638 schools. In 2004, fund raising reached a record level and the program began support for literacy courses for youth and adults, also in partnership with the Ministry of Education. With the expansion of the program’s scope, in addition to participating in fund raising, Natura consultants will have the role of sending youth and adults back to school.

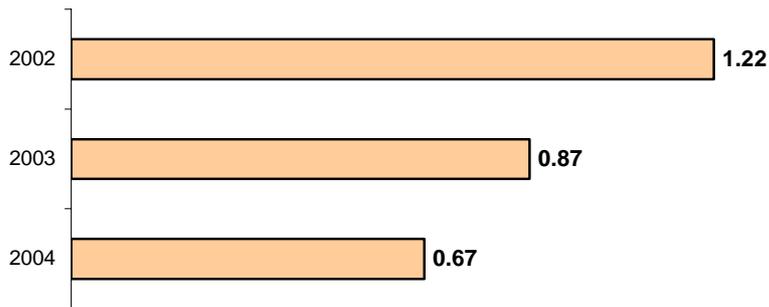
Natura’s management of corporate responsibility and its high standards for transparency in disclosing economic, financial, social and environmental results have earned it important recognition in 2004. The Company was cited for the fifth year in a row as a model of corporate social responsibility by Exame magazine’s Guide of Good Corporate Citizenship. In addition, Natura’s annual report was voted the 16<sup>th</sup> best in a international survey coordinated by the British consulting firm Sustainability with the rating agency Standard & Poor’s and the United Nations Environment Programme.

**“Crer para Ver” Program – net funds raised (R\$ million)**

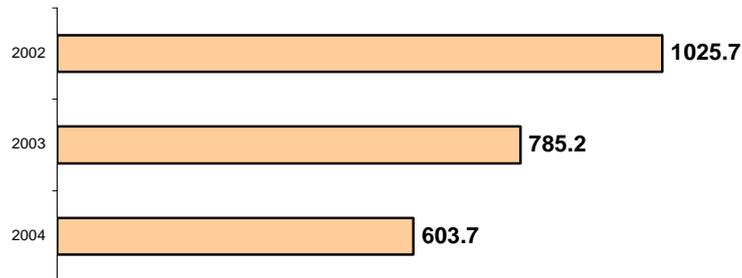


The enhancement of the environmental management system – including the obtaining of ISO 14001 certification, in May – allowed Natura, even with the expansion of its business, to promote more efficient use of water and energy. Water consumption per unit was reduced by 23%. Energy consumption per unit was also reduced by 23%. The percentage of reuse of water treated in the Effluent Treatment Station went from 29% in 2003 to 39.5% in 2004. The generation of waste per unit was reduced by 12.3%. The incineration of waste, which was 6.4%, decreased to 5.4%, and disposal in landfills decreased from 24.4% to 21.2%. Finally, the percentage of recycled waste rose from 69.2% to 73.4%.

**Water consumption per unit sold (liters/unit)**



**Total energy consumption (energy matrix) <sup>(1)</sup> per unit sold (Tjoules/unit)**



<sup>(1)</sup> The energy matrix comprises the total energy that Natura uses, from various sources (electricity, diesel and LPG).

Backed by the results obtained in 2004, Natura will continue seeking expansion in the Brazilian market, with the expansion of the number of consultants and investments in innovation, and will strive to increase its international presence. In Latin America, the Company has made progress in the consolidation of the direct sales model, and in 2005 should extend it to other markets, such as Mexico. In addition, Natura will invest in building a new operating model in Europe, with the opening, in Paris, of Maison Natura Brasil, located in a privileged location in the French capital.

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