



## Management Report

The Brazilian cosmetics, fragrances and toiletries market recorded another strong performance in 2005. According to Abihpec (the industry association), nominal target market growth between January and October 2005 reached 16.5% year-on-year. In real terms, discounting period IPCA (consumer inflation) of 6.4%, the figure stood at 9.5%, higher than the average for all economic sectors.

In the direct sales segment, the numbers are even more impressive. While registered jobs have been exceptionally meager in recent years, the direct sales have offered employment and income for more than 1.5 million people. In 2005, according to Abevd (Brazilian Association of Direct Sales Companies), they turned over R\$ 12.3 billion – 18.3% up compared to 2004 and 51.8% more than in 2003.

### Performance

#### Main results

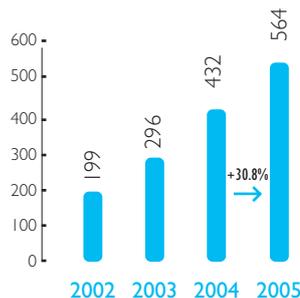
Natura recorded annual gross revenues of R\$ 3,243.6 million, up 27.7% over 2004, consolidating the strong growth registered in the previous two years and once again exceeding the cosmetics, fragrances and toiletries target public growth of 16.5% (between January and October). Annual net income climbed 32%, from R\$ 300.3 million, in 2004, to R\$ 396.9 million.

#### Gross Revenues (R\$ million)



The gross margin (gross profit over net income) widened by close to 0.5 percentage point, chiefly thanks to the reduction in costs resulting from the appreciation of the Real. EBITDA totaled R\$ 564.4 million, 30.8% growth over the year before, and the EBITDA margin (cash generation over net revenues) remained flat – 24.7% in 2005, versus 24.4% in 2004.

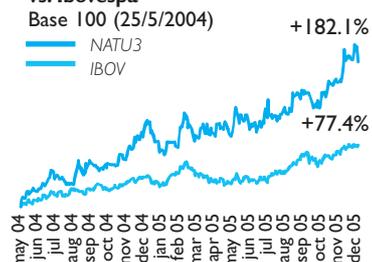
#### EBITDA Growth (R\$ million)



Natura closed 2005 with consolidated gross debt of R\$ 187.5 million, versus R\$ 134.4 million in 2004. In order to meet storage and logistics expansion needs, as well as those of working capital, we received additional financing from the BNDES (National Economic and Social Development Bank), raising that portion of the total debt pegged to the Long Term Interest Rate (TJLP) from 47%, in 2004, to 76%. The remaining balance is indexed to the Interbank Deposit Certificate (CDI). We also have financing from FINEP (Studies and Projects Funding Agency), whose resources go to the Research and Development area. This is currently being amortized.

A listed company since May 2004, Natura shares (NATU3) are part of the Novo Mercado (New Market), the highest corporate governance level of the Bovespa (São Paulo Stock Exchange). In 2005, our shares appreciated by 38%, versus 27.7% for the Bovespa Index. Since listing up to December 2005, they have appreciated by 182.1%, against 77.4% for the Bovespa Index (Ibovespa).

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



In 2005, our shares were included in the Bovespa's IBrX100, an index comprising the 100 most liquid shares on the spot market. They were also included in three Morgan Stanley Capital International (MSCI) indices created to accompany global stock market performance: MSCI Brazil, with a share of 0.53%; MSCI Emerging Markets (EM) Latin America, with a share of 0.27%; and MSCI EM, with a share of 0.05%.

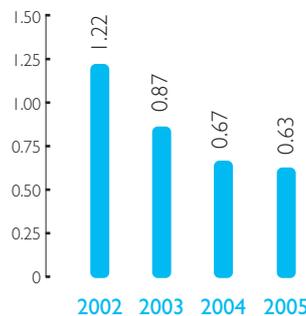
In line with Brazilian Corporate Law, mandatory minimum dividends were fixed by Natura's by-laws at 30% of adjusted annual net income. However, the Board of Directors opted to pay dividends equivalent to at least 45% of adjusted net income. In 2004, we paid out 106.5% of free cash generation I and 72.1% of consolidated net income. For 2005, the proposed payout, sent to the Annual General Meeting comprises 80.5% of annual net income and 95.2% of free cash generation. This is equivalent to a net amount of R\$ 3.70 per share in dividends and interest on capital, 48% growth year-on-year.

The year's social highlight was the mobilization of consultants (male and female) towards Young and Adult Education (EJA), a Ministry of Education program supported by Natura. As a result, 66,600 individuals above the age of 15 were sent back to primary school nationwide. Consultants were also encouraged to persuade their clients to purchase product refills, thus reusing the original packaging. As a result, refill volume increased from 15.3% of total products, in 2004, to 17.4%, reducing the average environmental impact of packaging in Brazil. Another important event was the official installation of the Cajamar Agenda 21 Permanent Forum following joint efforts by company representatives, the local community and the municipal government.

As holders of the ISO 14001 Certificate, we are permanently concerned with and constantly channel resources into improving environmental conditions in our production procedures. In 2005 we

exceeded several environmental targets. Water consumption per product unit sold fell by 5.6% over 2004; the average water re-use index increased from 39.5% to 55.0%; and energy consumption per unit sold dropped 8.5%. The share of incinerated to total waste fell from 5.4% to 2.8%; the ratio of waste sent to a landfill dropped from 21.2% to 16.1%; and the recycled percentage climbed from 73.4% to 81.1%. Total waste generated per unit sold grew by 8.2%, due to increased use of the Cajamar site and, especially, the increase in scrap volume.

**Water Consumption per Unit Sold (liters/unit)**



**Total Energy Consumption (Energy Matrix) per Unit Sold (kjoules/unit)**



As a consequence of our constant pursuit of excellence, we were also granted the NBR ISO 9001 Certificate in 2005. Yet another major achievement was Natura's official recognition as a "renowned trademark" by INPI (National Institute of Industrial Property). Such trademarks are of unquestioned marketplace authority and prestige and have achieved household-name status thanks to their tradition, proven quality and the trust they inspire. As a result, our trademark is protected throughout every area of economic activity, not only in the cosmetics sector.

Natura was also considered to be the country's 4th most valuable brand name and first among non-financial entities by the Instituto InterBrand and the magazine IstoÉ Dinheiro.

**International expansion**

We expanded our international presence even further in 2005, encouraged by healthy results in Argentina, Chile and Peru, where we closed the year with more than 36,000 consultants and recorded annual consolidated growth of 45.4%, year-on-year, in weighted local currency terms. In April, we began operations in France, the global cosmetics center and made our first inroads into the strategic Mexican market in August. The results of both initiatives were in line with our expectations.

We invested R\$ 31.8 million in globalization, versus R\$7.5 million in 2004. The increase was justified not only by the strong upturn in business in the foreign markets in which Natura was already present, but particularly by the enormous growth potential in Latin America and throughout the world, given that we are now experienced international operations and that our business model and values have met with great acceptance. In 2006, we shall begin operations in Venezuela and, in the following year, Colombia.

**Research and Development (R&D)**

Annual R&D investments moved up

1. (Net cash provided by operating activities) – (net cash used in investing activities).

41.5% over 2004 to R\$ 67.1 million, equivalent to 2.9% of net revenues. We launched 156 new products and the innovation index, which measures the proportion of revenues from products launched in the last 24 months, stood at 69.8%, versus 63.2% in 2004.

As part of our strategy of investing in Brazilian biodiversity as a technological platform for developing new products, in 2005 we launched Chronos Spilol, the first high-tech anti-aging cream made from an active ingredient derived from a sustainable organic source – jambu. Another highlight last year was the conversion of our soap ingredients to vegetable oils. Now all our soaps are produced from palm-fruit oil instead of animal fat.

**Investments**

In order to cope with increased production in Cajamar, which amounted to 209 million units in 2005, up 24.5% versus 2004, we invested heavily in infrastructure. Most of these resources, totaling R\$ 111.6 million, went to third automatic separation line, a second vertical warehouse, factory equipment and information technology (IT).

In 2006, we expect to invest R\$ 180 million in property, plant and equipment, mostly in expanding and upgrading existing separation lines, increasing production and logistics capacity, building a new R&D center, and new IT projects.

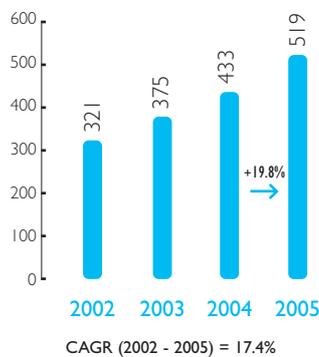
**Relationships**

**Consultants**

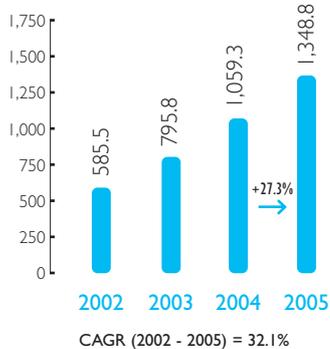
We began 2005 with 433,000 consultants and added a further 86,000 during the year, 10,000 of which abroad, closing the year with

519,000. Consolidated business volume grew by 27.3% over 2004 and productivity per consultant in Brazil moved up 6.6% to R\$ 12,300.

**Total Number of Consultants<sup>(1)</sup>**  
(thousands)



**Distribution of Wealth – Consultants<sup>(1)</sup>** (R\$ million)



1. Consultoras na Argentina, Brasil, Chile e Peru.

We invested strongly in training and strengthening contacts. As a result of a series of meetings, workshops and launch events, we succeeded in reducing consultant turnover and

increasing their permanence. The Internet also played an important role in forging closer relationships and at the end of the year 100,000 consultants were registered, all with active e-mail.

**Staff**

Thanks to business growth in Brazil and abroad, we hired 573 professionals in 2005, increasing the workforce by 16% to 4,128 at year-end, of which 3,575 in Brazil and 553 abroad.

We also effected certain changes in our organizational structure, to prepare the company for the new demands arising from business expansion and the intensification of the international expansion process. As a result, the executive group closed the year with 292 professionals, 25.5% more than at the end of 2004. In order to align these new professionals with Natura's culture and equip everybody with the international expansion process challenge, we undertook 365,264 hours of training, an average of 101 hours per professional, including trainees.

Expansion also brought with it certain other challenges. We recorded a slight fall in our employee approval index in the Organizational Climate Survey carried out by an independent company – from 73%, in 2004, to 70%. Although we are still a market reference, this decline is a signal that we need to improve employee relations. Nevertheless, we maintained our capacity to retain and attract talent. Proof of this comes from the stability of our turnover rate, which dipped from 7.81%, in 2004, to 7.64% in 2005, and the increase in the number of applicants for our Intern and Trainee Program, which had 44,884 subscribers, 16.9% more than in 2004.

### Suppliers

As a means of strengthening our relations with suppliers, we expanded and improved our certification process in such aspects as quality, logistics, innovation, contracts, service and trackability. The aim was to recognize their efforts to improve the quality of the products or services they supply. In 2005, the number of certified suppliers increased by 60% over the year before. At the same time, the number of suppliers registered to work with Natura tripled, after obtaining sufficient points in areas that included, in addition to product and service quality, social and environmental responsibility.

Among these suppliers, there is one particular group with whom we maintain a special relationship – the communities who extract the Brazilian biodiversity assets used in our products. The company in association with the communities themselves, NGOs and the government, is

constructing a model that will ensure sustainable extraction. Despite the progress we achieved in 2005, there is still much to do, including identifying the needs of both sides and defining the best way to improve relations. One highlight was that Natura was the first sector company in Brazil to be granted Ministry of Environment authorization to access the country's genetic biodiversity heritage (the active ingredient, breu branco resin).

### Recognition

Throughout 2005, the quality of our relations with our various constituencies was recognized by various sectors of society. Natura confirmed its position as the best company for women to work for; it remained among the country's most admired companies and was also among those who contributed most to improving good corporate citizenship. We also received awards for our Investor Relations area and our Annual Report.

The company's greatest intangible asset, the Natura brand name, is playing a major role in our international expansion strategy and we are therefore giving special attention to strengthening it. In recognition of this effort, Natura was elected as one of Brazil's most admired and desired brands by various research institutes and communications vehicles.

### Relations with Independent Auditors

In line with CVM Instruction 381, we hereby declare that the company's independent auditors, Deloitte Touche Tohmatsu, did not supply any non-auditing services during 2005.

The company's policy of not hiring such services from the independent auditors prevents any conflict of interest and loss of independence or objectivity.