

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

Natura Cosméticos S.A.

*Financial Statements for the Years Ended
December 31, 2005 and 2004 and
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Natura Cosméticos S.A. and subsidiaries as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Natura Cosméticos S.A. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial position for the years then ended in conformity with Brazilian accounting practices.
4. The supplementary information contained in Attachments I and II, referring to the statements of cash flows and value added, respectively, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was audited by us in accordance with the auditing procedures mentioned in paragraph 2 and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 21, 2006.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Edimar Facco
Engagement Partner

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

NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>Company</u>		<u>Consolidated</u>		<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and banks	38,882	26,656	56,198	29,592	Loans and financing (Note 14)	44,942	11,879	68,309	62,407
Cash investments (Note 5)	237,084	158,631	330,241	202,020	Domestic suppliers	38,070	17,197	148,045	89,348
Trade accounts receivable (Note 6)	302,688	236,453	316,264	250,066	Foreign suppliers	-	-	4,115	4,172
Inventories (Note 7)	835	1,634	152,307	121,961	Suppliers - related parties (Note 10)	124,241	102,151	-	-
Recoverable taxes (Note 8)	508	3,009	23,967	18,158	Salaries, profit sharing and related charges, net (Note 17)	30,074	28,272	73,122	67,618
Advances to employees	3,312	4,084	5,331	6,949	Taxes payable (Note 15)	75,536	52,776	89,085	62,382
Related parties (Note 10)	4,850	833	-	-	Dividends (Notes 10 and 19.e)	195,070	113,644	195,070	113,644
Deferred income and social contribution taxes (Note 9.a)	16,404	12,198	25,757	21,630	Interest on capital (Notes 10, 19.d and 19.e)	17,699	13,623	17,699	13,623
Other receivables	8,160	358	14,799	6,063	Accrued freight	13,786	10,178	13,786	10,026
Total current assets	<u>612,723</u>	<u>443,856</u>	<u>924,864</u>	<u>656,439</u>	Sundry accruals	8,863	4,802	9,026	4,802
					Related parties (Note 10)	-	94	-	-
					Other payables	12,780	9,934	13,564	12,773
					Allowance for losses on swap and forward contracts (Notes 22.b and 22.d)	<u>2,703</u>	<u>4,544</u>	<u>2,703</u>	<u>6,138</u>
					Total current liabilities	<u>563,764</u>	<u>369,094</u>	<u>634,524</u>	<u>446,933</u>
LONG-TERM ASSETS					LONG-TERM LIABILITIES				
Receivables from shareholders (Notes 10.e and 19.c)	130	172	130	172	Loans and financing (Note 14)	44,290	19,549	119,156	71,982
Advance for future capital increase (Note 10.d)	1,007	770	-	-	Allowance for losses on subsidiaries (Note 11)	4,202	64	-	-
Recoverable taxes (Note 8)	1,432	876	9,574	3,848	Reserve for contingencies (Note 16)	53,843	39,769	90,599	59,559
Deferred income and social contribution taxes (Note 9.a)	17,680	12,624	29,324	21,301	Other payables	<u>1,806</u>	<u>841</u>	<u>3,232</u>	<u>1,885</u>
Escrow deposits (Note 16)	23,590	20,370	29,477	24,256	Total long-term liabilities	<u>104,141</u>	<u>60,223</u>	<u>212,987</u>	<u>133,426</u>
Other receivables	-	1,122	526	2,878					
Cash investments (Notes 5 and 16.i)	-	-	3,968	-	MINORITY INTEREST	-	-	8	7
Total long-term assets	<u>43,839</u>	<u>35,934</u>	<u>72,999</u>	<u>52,455</u>					

(Continues)

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

NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais - R\$)

(Continuation)

ASSETS	<u>Company</u>		<u>Consolidated</u>		LIABILITIES AND SHAREHOLDERS' EQUITY	<u>Consolidated</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
PERMANENT ASSETS					SHAREHOLDERS' EQUITY (Note 19)				
Investments (Note 11)	516,929	373,748	5,761	8,707	Capital (Note 19.b)	230,762	230,762	230,762	230,762
Property, plant and equipment (Note 12)	<u>17,674</u>	<u>13,231</u>	<u>365,284</u>	<u>298,822</u>	Capital reserves (Notes 19.b e 19.g)	120,678	113,122	120,678	113,122
Total permanent assets	534,603	386,979	371,045	307,529	Profit reserves (Note 19.i)	172,589	94,674	170,718	93,279
					Treasury shares (Note 19.f)	<u>(769)</u>	<u>(1,106)</u>	<u>(769)</u>	<u>(1,106)</u>
					Total shareholders' equity	<u>523,260</u>	<u>437,452</u>	<u>521,389</u>	<u>436,057</u>
					TOTAL LIABILITIES AND				
TOTAL ASSETS	<u>1,191,165</u>	<u>866,769</u>	<u>1,368,908</u>	<u>1,016,423</u>	SHAREHOLDERS' EQUITY	<u>1,191,165</u>	<u>866,769</u>	<u>1,368,908</u>	<u>1,016,423</u>

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

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NATURA COSMÉTICOS S.A.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	Company		Consolidated	
	2005	2004	2005	2004
Gross sales to domestic market	3,127,462	2,457,891	3,149,654	2,472,046
Gross sales to foreign market	-	-	92,616	66,782
Other sales	1	5	1,341	829
	3,127,463	2,457,896	3,243,611	2,539,657
Taxes on sales, returns and rebates	(721,114)	(576,564)	(961,447)	(769,993)
	2,406,349	1,881,332	2,282,164	1,769,664
NET OPERATING REVENUES	2,406,349	1,881,332	2,282,164	1,769,664
Cost of sales	(960,012)	(776,170)	(731,134)	(575,260)
	1,446,337	1,105,162	1,551,030	1,194,404
GROSS PROFIT	1,446,337	1,105,162	1,551,030	1,194,404
OPERATING (EXPENSES) INCOME				
Selling	(600,073)	(458,913)	(709,190)	(535,909)
General and administrative	(323,203)	(249,223)	(276,144)	(216,900)
Employee profit sharing (Note 17)	(11,209)	(12,094)	(28,577)	(31,594)
Management compensation (Note 18)	(7,467)	(7,084)	(12,289)	(11,818)
Equity in subsidiaries (Note 11)	(6,741)	2,788	-	-
Other operating expenses, net	(3,640)	-	(3,220)	-
	494,004	380,636	521,610	398,183
INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS	494,004	380,636	521,610	398,183
Financial expenses	(11,800)	(18,301)	(43,453)	(38,156)
Financial income	31,470	21,125	54,714	35,414
	513,674	383,460	532,871	395,441
INCOME FROM OPERATIONS	513,674	383,460	532,871	395,441
Nonoperating (expenses) income, net	(212)	1,098	(1,242)	(868)
	513,462	384,558	531,629	394,573
INCOME BEFORE DEBENTURES PARTICIPATION AND TAXES	513,462	384,558	531,629	394,573
Debentures participation	-	(7,178)	-	(7,178)
	513,462	377,380	531,629	387,395
INCOME BEFORE TAXES ON INCOME	513,462	377,380	531,629	387,395
Income and social contribution taxes (Note 9.b)	(116,105)	(76,969)	(134,747)	(87,102)
	397,357	300,411	396,882	300,293
NET INCOME BEFORE MINORITY INTEREST	397,357	300,411	396,882	300,293
Minority interest	-	-	(1)	1
	397,357	300,411	396,881	300,294
NET INCOME	397,357	300,411	396,881	300,294
EARNINGS PER SHARE - R\$	4.6745	3.5431	4.6689	3.5417

The accompanying notes and Attachments 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 YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais - R\$)

	Capital reserves			Profit reserves		Retained earnings	Total	
	Capital	Treasury shares	Share premium	Investment grants	Legal			Retention
BALANCES AS OF DECEMBER 31, 2003	56,387	-	-	9,998	10,687	45,544	-	122,616
Capital increases:								
Capitalization of debentures (Notes 19.b and 19.g)	138,569	-	100,000	-	-	-	-	238,569
Merger of Natura Empreendimentos S.A. (Notes 1, 19.a and 19.b)	1,415	-	-	-	-	-	-	1,415
Subscription of shares (Note 19.b)	34,391	-	-	-	-	-	-	34,391
Purchase of shares (Note 19.f)	-	(1,415)	-	-	-	-	-	(1,415)
Sale of treasury shares by exercise of stock options (Note 19.f)	-	309	5,177	-	-	-	-	5,486
Receivables from shareholders (Note 19.c)	-	(3,029)	-	-	-	-	-	(3,029)
Payment of receivables from shareholders (Note 19.c)	-	480	496	-	-	-	-	976
Absorption of excess liabilities through merger of Natura Empreendimentos S.A., after the elimination of the merged company's investment in the Company (Notes 1 and 19.a)	-	-	-	-	-	(23,367)	-	(23,367)
Absorption of excess liabilities through merger of Natura Participações S.A., after the elimination of the merged company's investment in the Company (Notes 1 and 19.a)	-	-	-	-	-	(29,235)	6,986	(22,249)
Absorption of reserve (Note 19.b)	-	-	-	-	(7,058)	7,058	-	-
Net income	-	-	-	-	-	-	300,411	300,411
Allocation of net income:								
Legal reserve (Note 19.h)	-	-	-	-	15,021	-	(15,021)	-
Profit retention reserve (Note 19.i)	-	-	-	-	-	76,024	(76,024)	-
Dividends - R\$2.204 per outstanding share (Note 19.e)	-	-	-	-	-	-	(186,910)	(186,910)
Interest on capital - R\$0.347 per outstanding share (Note 19.e)	-	-	-	-	-	-	(29,442)	(29,442)
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 19.f)	-	337	4,537	-	-	-	-	4,874
Payment of receivables from shareholders (Note 19.c)	-	2,053	249	-	-	-	-	2,302
Tax incentives	-	-	-	717	-	-	-	717
Net income	-	-	-	-	-	-	397,357	397,357
Allocation of net income:								
Profit retention reserve (Note 19.i)	-	-	-	-	-	77,915	(77,915)	-
Dividends - R\$3.357 per outstanding share (Note 19.e)	-	-	-	-	-	-	(285,237)	(285,237)
Interest on capital - R\$0.403 per outstanding share (Note 19.e)	-	-	-	-	-	-	(34,205)	(34,205)
BALANCES AS OF DECEMBER 31, 2005	230,762	(1,265)	110,459	10,715	18,650	153,939	-	523,260

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

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NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais - R\$)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
SOURCES OF FUNDS				
From operations:				
Net income	397,357	300,411	396,881	300,294
Items not affecting working capital:				
Depreciation and amortization (Notes 12 and 13)	4,989	3,809	44,035	34,340
Monetary and exchange variations on long-term items, net	4,980	(5,601)	9,234	175
Reserve for contingencies (Note 16)	10,598	16,625	21,638	31,570
Sundry accruals	1,626	1,168	4,255	1,420
Deferred income and social contribution taxes (Note 9.a)	(5,056)	(4,233)	(8,023)	(9,196)
Equity in subsidiaries (Note 11)	6,741	(2,788)	-	-
Proceeds from sale and disposal of permanent assets	559	1,333	3,056	1,828
Minority interest	-	-	1	(1)
	<u>421,794</u>	<u>310,724</u>	<u>471,077</u>	<u>360,430</u>
From shareholders:				
Capitalization of debentures (Note 19.b)	-	107,913	-	107,913
Capital increase through subscription of shares (Note 19.b)	-	34,391	-	34,391
Sale of treasury shares by exercise of stock options (Note 19.f)	4,887	630	4,887	630
Payment of receivables from shareholders (Note 19.c)	2,288	-	2,288	-
From third parties:				
Transfer from long-term to current assets	-	-	-	20,122
Increase in long-term liabilities	25,007	-	121,712	-
Tax incentives	717	-	717	-
Minority interest	-	-	-	37
Total sources	<u>454,693</u>	<u>453,658</u>	<u>600,681</u>	<u>523,523</u>
USES OF FUNDS				
Additions to property, plant and equipment (Note 12)	9,991	7,629	111,636	76,886
Increase in investments (Note 11)	149,425	34,975	-	6,179
Increase in long-term assets	1,639	9,070	9,987	15,289
Decrease in long-term liabilities	-	18,656	-	-
Transfer from long-term to current liabilities	-	11,809	78,783	24,740
Dividends proposed and paid (Note 19.e)	285,237	186,910	285,237	186,910
Interest on capital proposed and paid (Note 19.e)	34,205	29,442	34,205	29,442
Total uses	<u>480,497</u>	<u>298,491</u>	<u>519,848</u>	<u>339,446</u>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets (Notes 1 and 19.a)				
	-	23,393	-	3,383
(DECREASE) INCREASE IN WORKING CAPITAL	<u>(25,804)</u>	<u>131,774</u>	<u>80,833</u>	<u>180,694</u>
REPRESENTED BY				
Increase in current assets	168,867	170,771	268,425	218,908
Increase in current liabilities	194,671	38,997	187,592	38,214
(DECREASE) INCREASE IN WORKING CAPITAL	<u>(25,804)</u>	<u>131,774</u>	<u>80,833</u>	<u>180,694</u>

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

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NATURA COSMÉTICOS S.A.

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

1. OPERATIONS

Natura Cosméticos S.A. (the “Company”) and its subsidiaries are engaged in the development, production, distribution and sale, substantially through direct sales by Natura beauty consultants, of cosmetics, fragrances, hygiene and health products. The Company also holds equity interests in other companies in Brazil and abroad.

The Extraordinary Shareholders’ Meeting held on March 5, 2004 approved the merger of the net assets of Natura Empreendimentos S.A. and Natura Participações S.A. into the Company. The merger was recorded based on an accounting valuation supported by a valuation report issued by independent experts. These mergers did not modify the activities described in the paragraph above.

The net assets of Natura Empreendimentos S.A. and Natura Participações S.A. as of January 31, 2004, the accounting date of the mergers, were R\$104,951 and R\$75,716, respectively.

After eliminations of intercompany receivables and payables and the investment balances, as required by Brazilian accounting practices, the Company recorded net liabilities of Natura Empreendimentos S.A. and Natura Participações S.A. amounting to R\$23,367 and R\$29,235, respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with Brazilian accounting practices and standards established by the Brazilian GAAP and Brazilian Securities Commission (CVM).

Until December 31, 1995, the Brazilian GAAP established a simplified methodology for the recording of inflation effects determined to that date. This methodology, named monetary restatement of the balance sheet, consisted of the restatement of permanent assets (investments, property, plant and equipment, and deferred charges) and shareholders’ equity accounts at the indexes disclosed by the Federal Government. The net effect of the monetary restatement was accounted for in the statements of income in a specific account under the heading “Monetary restatement of the balance sheet”. This monetary restatement was prohibited by Law No. 9,249, of December 26, 1995, effective January 1, 1996.

The terminology and grouping of certain accounts in the balance sheet and in the statements of income, changes in financial position and cash flows have been changed from the prior year for better classification and presentation. Such changes included fiscal year 2004, in order to allow comparability between years. Please note that such changes did not result in any change in the individual account balances and total balances.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Results of operations

Determined on the accrual basis of accounting.

b) Cash investments

Consists of highly liquid temporary investments stated at cost plus income earned through the balance sheet dates.

c) Allowance for doubtful accounts

Recognized based on an analysis of risks on realization of receivables, in an amount considered sufficient to cover possible losses.

d) Inventories

Stated at the average cost of acquisition or production, adjusted to market value and for possible losses, when applicable.

e) Investments

Investments in subsidiaries are accounted for under the equity method, plus goodwill on acquisition of investments, as shown in Note 11.

f) Property, plant and equipment

Recorded at acquisition cost, monetarily restated through December 31, 1995, plus interest capitalized during the construction period, if applicable. Depreciation is calculated under the straight-line method, based on the estimated economic useful lives of the assets, at the rates shown in Note 12.

g) Deferred charges

Represented by goodwill arising from the merger of shares of Natura Empreendimentos S.A., into Natura Participações S.A., less the provision for maintenance of dividend payment capacity, as described in Note 13.

h) Current and long-term liabilities

Stated at known or estimated amounts, plus, if applicable, interest and monetary and exchange variations incurred through the balance sheet dates.

i) Income and social contribution taxes

The provision for income tax was recorded at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution tax was calculated at the rate of 9% of taxable income. Deferred income and social contribution taxes recorded in current and long-term assets result from expenses recorded in income, although temporarily nondeductible for tax purposes. Additionally, deferred income and social contribution taxes were recorded on tax loss carryforwards.

Pursuant to CVM Resolution No. 273/98 and CVM Instruction No. 371/02, deferred taxes are recorded at their probable realizable values, as detailed in Note 9.

j) Loans and financing

Adjusted based on exchange and monetary variations and interest incurred through the balance sheet dates, as provided for by contract and mentioned in Note 14.

k) Reserve for contingencies

Adjusted through the balance sheet dates based on the probable loss amount, according to the nature of each contingency and supported by the opinion of the Company's attorneys. The fundamentals and the nature of reserves are described in Note 16.

l) Swap and forward contracts

The nominal values of swap and forward contracts are not recorded in the balance sheet. Unrealized gains or losses on these transactions are recorded on the accrual basis of accounting, as mentioned in Notes 22.b and 22.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 I) and value added (Attachment II).

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>2005</u>	<u>2004</u>
Direct:		
Indústria e Comércio de Cosméticos Natura Ltda.	99.82	99.76
Natura Cosméticos S.A. - Chile	99.96	99.96
Natura Cosméticos S.A. - Peru	99.93	99.85
Natura Cosméticos S.A. - Argentina	95.00	99.99
Natura Brasil Cosmética Ltda. - Portugal	99.99	99.99
Commodities Trading S.A. - Uruguay	-	100.00
Nova Flora Participações Ltda.	100.00	100.00
Natura Inovação e Tecnologia de Produtos Ltda.	99.99	100.00
Natura Europa SAS	100.00	100.00
Natura Cosméticos S.A. - Mexico	99.99	-
Natura Cosméticos C.A. - Venezuela	99.00	-
Indirect:		
Natura Logística e Serviços Ltda.	99.99	99.99
Flora Medicinal J. Monteiro da Silva Ltda.	100.00	100.00
Ybios S.A. (proportional consolidation - joint control)	33.33	31.93

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 2005, the Company acquired equity interest, per nominal value, in Natura Cosméticos S.A. - Mexico, resumed operations of Natura Cosméticos C.A. - Venezuela, and discontinued operations of Commodities Trading S.A. - Uruguay.

The shareholders' equity balances as of December 31, 2005 and 2004, reported by the Company, differ by R\$1,871 and R\$1,395, 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 December 31, 2005 and 2004 differ by R\$476 and R\$117, respectively, from the balances in the consolidated financial statements.

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Company	397,357	300,411	523,260	437,452
Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with other subsidiaries	<u>(476)</u>	<u>(117)</u>	<u>(1,871)</u>	<u>(1,395)</u>
Consolidated	<u>396,881</u>	<u>300,294</u>	<u>521,389</u>	<u>436,057</u>

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

- Indústria e Comércio de Cosméticos Natura Ltda.: engaged principally in the production and sale of Natura products to Natura Cosméticos S.A. - Brazil, Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos S.A. - Mexico and Natura Europa SAS, whose amounts are mentioned in Note 10.
- Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos C.A. - Venezuela (currently in the preoperating stage), Natura Brasil Cosmética Ltda. - Portugal (this company has no activities currently) and Commodities Trading S.A. - Uruguay (this subsidiary ceased operations in May 2005): their activities are an extension of the activities conducted by the parent company Natura Cosméticos S.A. - Brazil.
- Nova Flora Participações Ltda.: holds equity interest in the subsidiary Flora Medicinal J. Monteiro da Silva Ltda.
- Natura Inovação e Tecnologia de Produtos Ltda.: its activities consist of product and technology development and market research.
- Natura Europa SAS: engaged in the purchase, sale, import, export and distribution of cosmetics, fragrances in general, hygiene and health products.
- Natura Cosméticos S.A. - Mexico: engaged in the purchase, sale, import, export, distribution and storage of cosmetics, fragrances in general, hygiene and health products.
- Natura Logística e Serviços Ltda.: engaged in the provision of administrative and logistics services.
- Flora Medicinal J. Monteiro da Silva Ltda.: engaged in the sale of phytotherapeutic and phytocosmetic products of its own brand. This company has no activities currently.
- Ybios S.A.: engaged in research, management and development of projects, products and services in the biotechnology area, and may also enter into agreements and/or partnerships with universities, foundations, companies, cooperatives, associations, and other public and private entities; provision of services in the biotechnology area; and holding of equity interest in other companies.

5. CASH INVESTMENTS

	Company		Consolidated	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Bank certificates of deposit (CDBs)	228,106	128,841	325,231	165,583
Investment funds	<u>8,978</u>	<u>29,790</u>	<u>8,978</u>	<u>36,437</u>
	<u>237,084</u>	<u>158,631</u>	<u>334,209</u>	<u>202,020</u>
Long term (Note 16.i)	-	-	3,968	-
Current	<u>237,084</u>	<u>158,631</u>	<u>330,241</u>	<u>202,020</u>

As of December 31, 2005, CDBs yield interest rates ranging from 100% to 102.5% (100% to 101.8% as of December 31, 2004) of the interbank deposit rate (CDI), and the share in the total investment portfolio is 97.31% (81.96% as of December 31, 2004). Investments funds yield interest rates ranging from 101.64% to 101.92% of the CDI (99.5% to 105.5% as of December 31, 2004).

6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Trade accounts receivable	322,228	250,246	337,104	265,048
Allowance for doubtful accounts	<u>(19,540)</u>	<u>(13,793)</u>	<u>(20,840)</u>	<u>(14,982)</u>
	<u>302,688</u>	<u>236,453</u>	<u>316,264</u>	<u>250,066</u>

7. INVENTORIES

	Company		Consolidated	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Finished products	811	1,604	88,468	57,105
Raw materials and packaging	3	2	66,165	62,327
Promotional material	21	28	7,976	9,308
Work in process	-	-	6,037	7,617
Allowance for losses	<u>-</u>	<u>-</u>	<u>(16,339)</u>	<u>(14,396)</u>
	<u>835</u>	<u>1,634</u>	<u>152,307</u>	<u>121,961</u>

8. RECOVERABLE TAXES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
ICMS (state VAT) on purchases of fixed assets	1,918	1,182	11,581	5,194
ICMS (state VAT) on purchases of goods	22	2	6,946	935
IRPJ (corporate income tax)	-	2,701	3,580	8,984
CSLL (social contribution tax)	-	-	3,091	1,420
COFINS (tax on revenue)	-	-	2,025	98
PIS/COFINS/CSLL - withheld at source	-	-	860	1,896
PIS (tax on revenue)	-	-	671	-
IRRF (withholding income tax)	-	-	776	-
Other	-	-	4,011	3,479
	<u>1,940</u>	<u>3,885</u>	<u>33,541</u>	<u>22,006</u>
Long term	1,432	876	9,574	3,848
Current	<u>508</u>	<u>3,009</u>	<u>23,967</u>	<u>18,158</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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current:				
Tax loss carryforwards	-	-	1,089	691
Temporary differences:				
Allowance for doubtful accounts (Note 6)	6,952	4,829	6,952	4,829
Allowance for inventory losses (Note 7)	-	-	5,555	4,895
Allowance for losses on swap and forward transactions (Notes 22.b and 22.d)	919	1,545	919	2,087
Other provisions	<u>8,533</u>	<u>5,824</u>	<u>11,242</u>	<u>9,128</u>
Deferred income and social contribution taxes	<u>16,404</u>	<u>12,198</u>	<u>25,757</u>	<u>21,630</u>
Long term:				
Tax loss carryforwards	-	-	375	2,032
Temporary differences:				
Reserve for contingencies (Note 16)	16,847	12,058	27,809	18,399
Other provisions	<u>833</u>	<u>566</u>	<u>1,140</u>	<u>870</u>
Deferred income and social contribution taxes	<u>17,680</u>	<u>12,624</u>	<u>29,324</u>	<u>21,301</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>2005</u>	<u>2004</u>
2006	-	1,644
2007	19,850	3,207
2008	2,146	9,796
2009	5,571	6,654
2010	<u>1,757</u>	-
	<u>29,324</u>	<u>21,301</u>

b) Current expense

Reconciliation of income and social contribution taxes:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Income before taxes on income	513,462	377,380	531,629	387,395
Income and social contribution taxes at the rate of 34%	(174,576)	(128,309)	(180,753)	(131,714)
Reversal of provision for maintenance of dividend payment capacity (Note 13)	49,933	41,611	49,933	41,611
Interest on capital (Note 19.d)	11,630	10,011	11,630	10,011
Tax incentives (donations)	2,147	1,649	2,268	2,089
Equity in subsidiaries and exchange variation on translation of foreign investments (Note 11)	(3,530)	948	-	-
Permanent differences	(1,700)	(2,831)	(1,932)	(3,203)
Losses generated by subsidiaries (Note 11)	-	-	(15,952)	(6,317)
Other	<u>(9)</u>	<u>(48)</u>	<u>59</u>	<u>421</u>
Income and social contribution taxes: net expenses	<u>(116,105)</u>	<u>(76,969)</u>	<u>(134,747)</u>	<u>(87,102)</u>
Income and social contribution taxes: current	(125,367)	(81,497)	(146,897)	(96,736)
Income and social contribution taxes: deferred	<u>9,262</u>	<u>4,528</u>	<u>12,150</u>	<u>9,634</u>
Income and social contribution taxes: net expenses	<u>(116,105)</u>	<u>(76,969)</u>	<u>(134,747)</u>	<u>(87,102)</u>
Effective rate - %	<u>22.6</u>	<u>20.4</u>	<u>25.3</u>	<u>22.5</u>

10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

	Company		Consolidated	
	2005	2004	2005	2004
Current assets:				
Related parties:				
Natura Logística e Serviços Ltda. (a)	2,806	-	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (b)	1,211	-	-	-
Nova Flora Participações Ltda. (c)	<u>833</u>	<u>833</u>	<u>-</u>	<u>-</u>
	<u>4,850</u>	<u>833</u>	<u>-</u>	<u>-</u>
Advance for future capital increase- Nova Flora Participações Ltda. (d)	<u>1,007</u>	<u>770</u>	<u>-</u>	<u>-</u>
Receivables from shareholders (e)	<u>130</u>	<u>172</u>	<u>130</u>	<u>172</u>
Current liabilities:				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. (f)	106,470	85,874	-	-
Natura Logística e Serviços Ltda. (g)	9,259	8,028	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (h)	<u>8,512</u>	<u>8,249</u>	<u>-</u>	<u>-</u>
	<u>124,241</u>	<u>102,151</u>	<u>-</u>	<u>-</u>
Related parties-				
Natura Inovação e Tecnologia de Produtos Ltda.	<u>-</u>	<u>94</u>	<u>-</u>	<u>-</u>
Dividends payable-				
Shareholders	<u>195,070</u>	<u>113,644</u>	<u>195,070</u>	<u>113,644</u>
Interest on capital payable-				
Shareholders	<u>17,699</u>	<u>13,623</u>	<u>17,699</u>	<u>13,623</u>

Transactions with related parties are summarized as follows:

	Product sales		Product purchases	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Natura Cosméticos S.A.	-	-	1,111,577	924,649
Indústria e Comércio de Cosméticos Natura Ltda.	1,144,178	949,674	-	-
Natura Cosméticos S.A. - Argentina	-	-	13,403	13,353
Natura Cosméticos S.A. - Peru	-	-	9,623	6,800
Natura Cosméticos S.A. - Chile	-	-	6,112	4,374
Natura Cosméticos S.A. - Mexico	-	-	1,865	-
Natura Europa SAS	-	-	923	317
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	675	164
Flora Medicinal J. Monteiro da Silva Ltda.	-	-	-	17
	<u>1,144,178</u>	<u>949,674</u>	<u>1,144,178</u>	<u>949,674</u>
	Service sales		Service purchases	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Administrative structure: (i)				
Natura Logística e Serviços Ltda.	172,383	118,749	-	-
Natura Cosméticos S.A.	-	-	124,082	84,297
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	34,264	24,355
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	14,037	10,097
	<u>172,383</u>	<u>118,749</u>	<u>172,383</u>	<u>118,749</u>
Product and technology research and development: (j)				
Natura Inovação e Tecnologia de Produtos Ltda.	113,596	71,914	-	-
Natura Cosméticos S.A.	-	-	113,596	71,865
Ybios S.A.	-	-	-	49
	<u>113,596</u>	<u>71,914</u>	<u>113,596</u>	<u>71,914</u>
Lease of properties and common charges: (k)				
Indústria e Comércio de Cosméticos Natura Ltda.	8,575	8,627	-	116
Natura Logística e Serviços Ltda.	-	-	5,695	5,804
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	1,831	1,753
Natura Cosméticos S.A.	-	136	1,049	1,049
Natura Empreendimentos S.A.	-	-	-	27
Natura Participações S.A.	-	-	-	14
	<u>8,575</u>	<u>8,763</u>	<u>8,575</u>	<u>8,763</u>
Total service sales and purchases	<u>294,554</u>	<u>199,426</u>	<u>294,554</u>	<u>199,426</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\$2,493 as of December 31, 2005 (R\$4,823 as of December 31, 2004), is amortized with dividends and interest on capital paid by the Company to those directors.
- (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 December 31, 2005 and 2004, as well as the intercompany transactions that affected the results for the years, 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Investments in subsidiaries	516,921	373,748	-	-
Goodwill on acquisition of investment - Nova Flora	-	-	8,015	8,015
Amortization of goodwill - Nova Flora	-	-	(8,015)	(5,487)
Goodwill on acquisition of investment - Natura				
Europa	-	-	5,753	6,179
Other	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>
	<u>516,929</u>	<u>373,748</u>	<u>5,761</u>	<u>8,707</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 December 31, 2004 and 2005 is basically due to the effects of the exchange variation for the period.

Natura Cosméticos S.A.

Investments in direct subsidiaries are as follows:

	Indústria e Comércio de Cosméticos Natura Ltda.	Natura Cosméticos S.A. - Chile	Natura Cosméticos S.A. - Peru	Natura Cosméticos S.A. - Argentina	Natura Cosméticos C.A. - Venezuela	Nova Flora Participações Ltda.	Natura Inovação e Tecnologia de Produtos Ltda.	Natura Europa SAS	Natura Cosméticos S.A. - Mexico	Natura Brasil Cosmética Ltda. - Portugal	Commodities Trading S.A. - Uruguay	Total
Shares of subsidiaries	432,500	44,422	2,286	64,486	609	2,413	5,008	30,818	14,576	111	-	
Number of shares (common shares) held	431,705	44,404	2,284	61,262	603	2,413	5,007	30,818	14,575	111	-	
Ownership interest - %	99.82	99.96	99.93	95.00	99.00	100.00	99.99	100.00	99.99	99.99	-	
Capital	432,500	44,422	2,286	64,486	609	2,413	5,008	30,818	14,576	111	-	597,229
Shareholders' equity of subsidiaries	474,699	1,454	948	89	248	(4,202)	22,132	13,400	4,807	28	-	513,603
Share in shareholders' equity	473,827	1,453	947	84	245	(4,202)	22,130	13,400	4,807	28	-	512,719
Net income (loss) of subsidiaries	21,978	(2,819)	(1,991)	(8,224)	(361)	(5,230)	13,917	(14,620)	(9,754)	-	(20)	(7,124)
<u>Book value of Company's investment:</u>												
Balances as of December 31, 2004	348,385	346	2,936	2,965	-	1,028	8,214	9,854	-	-	20	373,748
Equity in subsidiaries	21,933	(2,819)	(1,991)	(7,810)	(337)	(5,230)	13,916	(14,620)	(9,754)	(9)	(20)	(6,741)
Exchange variation on translation of foreign investments	-	(352)	(273)	(610)	1	-	-	(2,653)	238	9	-	(3,640)
Recognition (reversal) of provision for losses	-	-	-	-	-	4,202	-	-	-	(64)	-	4,138
Capital increase	103,509	4,278	275	5,538	581	-	-	20,819	14,324	92	-	149,416
Balances as of December 31, 2005	<u>473,827</u>	<u>1,453</u>	<u>947</u>	<u>83</u>	<u>245</u>	<u>-</u>	<u>22,130</u>	<u>13,400</u>	<u>4,808</u>	<u>28</u>	<u>-</u>	<u>516,921</u>
<u>Provision for losses:</u>												
Balances as of December 31, 2004	-	-	-	-	-	-	-	-	-	(64)	-	(64)
(Recognition) reversal of provision for losses	-	-	-	-	-	(4,202)	-	-	-	64	-	(4,138)
Balances as of December 31, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,202)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,202)</u>
Net balances as of December 31, 2005	<u>473,827</u>	<u>1,453</u>	<u>947</u>	<u>83</u>	<u>245</u>	<u>(4,202)</u>	<u>22,130</u>	<u>13,400</u>	<u>4,808</u>	<u>28</u>	<u>-</u>	<u>512,719</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rate - %	Company					
		2005			2004		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Vehicles	20	16,412	6,022	10,390	13,071	4,788	8,283
Software	20	5,179	1,920	3,259	3,079	1,226	1,853
IT equipment	20	3,832	2,353	1,479	6,868	5,624	1,244
Furniture and fixtures	10	2,403	1,453	950	3,929	3,031	898
Machinery and equipment	10	1,064	191	873	960	610	350
Leasehold improvements	12	900	185	715	756	157	599
Construction in progress	-	8	-	8	-	-	-
Other	10	<u>1</u>	<u>1</u>	<u>-</u>	<u>6</u>	<u>2</u>	<u>4</u>
		<u>29,799</u>	<u>12,125</u>	<u>17,674</u>	<u>28,669</u>	<u>15,438</u>	<u>13,231</u>

	Annual depreciation rate - %	Consolidated					
		2005			2004		
		Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Buildings	4	144,140	24,618	119,522	126,990	19,166	107,824
Machinery and equipment	10	131,819	41,811	90,008	76,549	32,305	44,244
Installations	10	67,884	27,040	40,844	64,486	24,757	39,729
Vehicles	20	24,694	8,325	16,369	19,953	7,816	12,137
Software	20	24,885	8,571	16,314	12,477	5,379	7,098
Land	-	15,910	-	15,910	15,910	-	15,910
Molds	33	36,521	22,428	14,093	26,879	20,703	6,176
IT equipment	20	28,772	15,050	13,722	31,910	19,094	12,816
Furniture and fixtures	10	13,789	5,009	8,780	12,809	6,825	5,984
Leasehold improvements	12	1,028	204	824	774	175	599
Advances to suppliers	-	16,813	-	16,813	19,742	-	19,742
Construction in progress	-	8,569	-	8,569	21,478	-	21,478
Other	10	<u>6,420</u>	<u>2,904</u>	<u>3,516</u>	<u>9,856</u>	<u>4,771</u>	<u>5,085</u>
		<u>521,244</u>	<u>155,960</u>	<u>365,284</u>	<u>439,813</u>	<u>140,991</u>	<u>298,822</u>

13. DEFERRED CHARGES

As mentioned in Note 1, on March 5, 2004, Natura Participações S.A. was merged into the Company. Natura Participações S.A. had recorded goodwill on the investment in Natura Empreendimentos S.A., amounting to R\$1,028,041, and a corresponding provision for maintenance of 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>2005</u>	<u>2004</u>
Goodwill on investments	758,792	905,655
Provision for maintenance of future dividend payment capacity	<u>(758,792)</u>	<u>(905,655)</u>
	<u> -</u>	<u> -</u>

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

14. LOANS AND FINANCING

Type	Company		Consolidated		Maturity	Charges	Guarantees
	2005	2004	2005	2004			
BNDES - PROGEREN (Support Program for Enhancing Employment and Income Capacity)	69,890	-	69,890	-	June 2007	Interest of 3.5% p.y. + TJLP (long-term interest rate)	Bank guarantee and guarantee of Indústria e Comércio de Cosméticos Natura Ltda.
BNDES (Brazilian Bank for Economic and Social Development)	19,342	31,131	34,994	31,131	August 2007 to April 2010	Interest of 4.0% p.y. and 4.5% p.y. + UMBNDES (*)	Mortgage (**) and guarantee of Natura Cosméticos S.A.
FINEP (Financing Agency for Studies and Projects)	-	-	32,050	36,545	December 2008	Interest of 3.0% p.y. + TJLP	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
Export credit note (NCE)	-	-	31,641	-	April 2008	Interest of 104.7% of CDI (interbank deposit rate)	Promissory notes and guarantee of Natura Cosméticos S.A.
BNDES - FINAME (Government Agency for Machinery and Equipment Financing)	-	-	12,115	3,768	January 2006 to April 2010	Interest of 4.5% p.y. + TJLP	Chattel mortgage and guarantee of Natura Cosméticos S.A. and promissory notes
Loans - Argentina	-	-	6,775	6,706	January 2006	Interest of 9.5% p.y. + exchange variation (Argentinean pesos)	Guarantee of Natura Cosméticos S.A.
Loans (onlending - International Finance Corporation - IFC)	-	-	-	26,654	December 2011 (paid in June 2005)	Interest of 6.1% p.y. + semiannual LIBOR + exchange variation (U.S. dollar)	Promissory notes and guarantee of Natura Cosméticos S.A.
Resolution No. 2,770 and overdraft account	-	-	-	27,828	May 2005	Interest of 105% of CDI	Promissory notes and guarantee of Natura Cosméticos S.A.
BNDES - POC (***)	-	297	-	297	February 2005	Interest of 4.5% p.y. + TJLP	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
Loans - Chile	-	-	-	372	July 2005	Interest of 5.0% p.y. + exchange variation (Chilean pesos)	Guarantee of Natura Cosméticos S.A.
Loans - France	-	-	-	1,088	May 2006	Interest of + 3.7% p.y. + exchange variation (euro)	Guarantee of Natura Cosméticos S.A.
Total	<u>89,232</u>	<u>31,428</u>	<u>187,465</u>	<u>134,389</u>			
Current	44,942	11,879	68,309	62,407			
Long term	<u>44,290</u>	<u>19,549</u>	<u>119,156</u>	<u>71,982</u>			

(*) UMBNDES - BNDES monetary unit.

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

(***) POC - Proposal of Credit Operation.

Maturities of long-term debt are as follows:

	<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>
2006	-	25,359
2007	61,895	21,714
2008	49,107	13,470
2009	6,276	3,847
2010	1,878	3,790
2011	-	<u>3,802</u>
	<u>119,156</u>	<u>71,982</u>

15. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
ICMS (state VAT)	58,163	48,640	58,184	48,650
IRPJ (corporate income tax)	10,438	-	12,234	159
CSLL (social contribution tax)	4,118	-	4,718	-
IRRF (withholding income tax)	1,570	2,873	3,048	4,084
COFINS (tax on revenue)	74	382	2,166	4,424
PIS/COFINS/CSLL (Law No. 10,833/03)	1,093	770	1,606	1,095
PIS (tax on revenue)	17	84	826	960
IPI (federal VAT)	-	-	-	431
Other	<u>63</u>	<u>27</u>	<u>6,303</u>	<u>2,579</u>
	<u>75,536</u>	<u>52,776</u>	<u>89,085</u>	<u>62,382</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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Tax	45,837	36,970	76,789	53,190
Labor	3,929	2,198	5,118	3,244
Civil	<u>4,077</u>	<u>601</u>	<u>8,692</u>	<u>3,125</u>
	<u>53,843</u>	<u>39,769</u>	<u>90,599</u>	<u>59,559</u>

Tax contingencies

Accrued tax contingencies are comprised of the following proceedings:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
IPI - zero rate (a)	-	-	15,814	13,604
PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 (b)	12,740	11,039	14,267	12,370
Deductibility of CSLL (social contribution tax) (Law No. 9316/96) (c)	5,901	8,057	5,901	8,057
Late payment fines on federal taxes paid in arrears (d)	4,926	-	5,859	-
IPI tax assessment - attorneys' fees (e)	-	-	5,717	-
Monetary restatement of federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (f)	4,851	4,694	4,976	4,814
Tax assessment - INSS (social security contribution) (g)	4,944	4,371	4,944	4,371
IPI credit on purchases of fixed assets and consumption material (h)	-	-	4,325	-
IPI (federal VAT) - tax collection lawsuit (i)	3,773	3,353	3,773	3,353
Assessment notice - 1990 corporate income tax (j)	2,448	-	2,448	-
Attorneys' fees and other	<u>6,254</u>	<u>5,456</u>	<u>8,765</u>	<u>6,621</u>
	<u>45,837</u>	<u>36,970</u>	<u>76,789</u>	<u>53,190</u>

- (a) Refers to IPI tax credits on raw materials and packing materials purchased at a zero tax rate and with tax exemption. The Company filed for a mandate and was granted an injunction for the right to the credit.
- (b) Refers to the offset of PIS paid as per Decree-laws No. 2,445/88 and No. 2,449/88, in the period from 1988 to 1995, against federal taxes due in 2003 and 2004. The appeal filed by the Company was judged favorably to it on September 12, 2005 by the 1st Panel of the 2nd Board of Tax Appeals that, by a majority of the votes, denied the alleged lapsing of the offset right and unanimously recognized the unconstitutionality of the Decree-laws determining that the calculation basis should be the billing of the sixth month prior to the occurrence of the taxable event, without monetary restatement. The Company is waiting publication and notification of the Decision.
- (c) Refers to CSLL (social contribution tax) that was addressed by a mandate that questions the constitutionality of Law No. 9,316/96, which prohibited the deduction of CSLL from its own tax basis and the IRPJ (corporate income tax) basis. A portion of this contingency, in the amount of R\$3,787 (R\$3,245 as of December 31, 2004), is deposited in escrow.
- (d) Refers to the levy of a late payment fine on the payment of federal taxes in arrears, whose expectation of loss, according to the opinion of the attorneys, was changed to probable, due to a recent decision by the Superior Court of Justice.

- (e) Refers to 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.
- (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 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.
- (h) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through injunctions the right to the IPI (federal VAT) credit on purchases of fixed assets and consumption materials. In view of Federal Regional Courts' former decisions, the attorneys believe that the risk of loss changed to probable.
- (i) Refers to a tax collection lawsuit seeking to collect the IPI (federal VAT) related to July 1989, when wholesale establishments began to be considered equivalent to industrial establishments under Law No. 7,798/89. The lawsuit is in the Federal Regional Court of 3rd Region (SP) for judgment of the appeal filed by the debtor. The amounts involved in this tax collection lawsuit are guaranteed by an affiliate's cash investment in the amount of R\$3,968 (R\$3,337 as of December 31, 2004).
- (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 December 31, 2005, the Company and its subsidiaries are parties to 267 labor lawsuits filed by former employees and third parties (163 as of December 31, 2004), 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Several civil lawsuits (a)	1,811	601	2,043	3,125
Civil lawsuits and attorney's fees - Flora Medicinal (b)	<u>2,266</u>	<u>-</u>	<u>6,649</u>	<u>-</u>
	<u>4,077</u>	<u>601</u>	<u>8,692</u>	<u>3,125</u>

- (a) As of December 31, 2005, the Company and its subsidiaries are parties to 760 lawsuits (571 as of December 31, 2004), 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 December 31, 2005 was R\$29,477 (R\$24,256 as of December 31, 2004) - 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Tax:				
INSS debt annulment action (a)	4,750	4,199	4,750	4,199
Offset of 1/3 of COFINS - Law No. 9,718/98 (b)	3,902	-	3,902	-
Tax assessment - transfer pricing on loan agreements with foreign related company (c)	1,239	1,707	1,239	1,707
IPI credit on purchases of fixed assets and consumption material (d)	-	-	-	9,245
Other	<u>459</u>	<u>2,388</u>	<u>663</u>	<u>2,860</u>
	<u>10,350</u>	<u>8,294</u>	<u>10,554</u>	<u>18,011</u>
Civil	1,542	6,109	9,489	7,799
Labor	<u>2,878</u>	<u>7,933</u>	<u>5,388</u>	<u>19,094</u>
	<u>14,770</u>	<u>22,336</u>	<u>25,431</u>	<u>44,904</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.
- (d) In view of Federal Regional Courts' former decisions, the attorneys reviewed the initial estimates and assessed part of this contingency as probable risk. Thus, a provision has been recorded to cover potential losses (see list of accrued tax contingencies).

17. MANAGEMENT AND EMPLOYEE PROFIT SHARING

The Company and its subsidiaries pay profit sharing to its employees and managers, tied to the achievement of operational targets and specific objectives established and approved at the beginning of each year. As of December 31, 2005, the following amounts were recorded as profit sharing: R\$13,506 (R\$14,084 as of December 31, 2004) and R\$35,171 (R\$36,626 as of December 31, 2004), Company and consolidated, respectively, under the heading "Salaries, profit sharing and related charges" in current liabilities, with contra entry to "Employee profit sharing" and "Management compensation" in the statements of income for those years.

18. COMPENSATION OF MANAGEMENT AND EXECUTIVES

- a) The total compensation of the Board of Directors and Officers of the Company and its subsidiaries is as follows:

	2005				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock Option Balance (Quantity) (**)	Average exercise price (***)
Board of Directors	3,608	-	3,608	-	-
Officers	<u>2,592</u>	<u>1,267</u>	<u>3,859</u>	<u>37,788</u>	<u>31.41</u>
Total	<u>6,200</u>	<u>1,267</u>	<u>7,467</u>	<u>37,788</u>	

	2004				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock Option Balance (Quantity) (**)	Average exercise price (***)
Board of Directors	2,364	-	2,364	-	-
Officers	<u>3,396</u>	<u>1,324</u>	<u>4,720</u>	<u>32,423</u>	<u>22.06</u>
Total	<u>5,760</u>	<u>1,324</u>	<u>7,084</u>	<u>32,423</u>	

- b) The compensation of the executives of the Company and its subsidiaries is as follows:

	2005				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock Option Balance (Quantity) (**)	Average exercise price (***)
Executives	<u>12,423</u>	<u>4,562</u>	<u>16,985</u>	<u>1,044,114</u>	31.43

	2004				
	Compensation			Stock Options Program	
	Fixed	Fixed	Fixed	Stock Option Balance (Quantity) (**)	Average exercise price (***)
Executives	<u>7,405</u>	<u>3,097</u>	<u>10,502</u>	<u>1,105,329</u>	22.42

(*) Refers to profit sharing.

(**) Refers to the balance of unexercised vested and unvested options as of the balance sheet date.

(***) Refers to the weighted average exercise price of the option at the time of the Stock Option Grant, updated by the inflation calculated based on the IPC-A (Extended Consumer Price Index) through the balance sheet date. Note 20 presents the pro forma net income as of December 31, 2005 and 2004, should Company Management opt for recognizing the effects of the plans in the accounting records, considering the vesting period and using the intrinsic value method (difference between the market price obtained on December 31, 2005 and the value of the option updated based on the IPC-A).

19. SHAREHOLDERS' EQUITY

a) Merger of companies

At the Extraordinary Shareholders' Meeting held on March 5, 2004, the Company's shareholders approved the merger of Natura Empreendimentos S.A. and Natura Participações S.A. into the Company based on an accounting valuation supported by a valuation report issued by independent experts, as mentioned in Note 1.

The net assets merged into the Company were R\$104,951 for Natura Empreendimentos S.A. and R\$75,716 for Natura Participações S.A. based on the book values of these companies, as mentioned in Note 1.

b) Capital

As of December 31, 2003, the Company's capital was R\$56,387, divided into 25,000 common shares without par value and 10,955 preferred shares without par value.

On March 2, 2004, the shareholders decided at an Extraordinary Shareholders' Meeting to: (i) capitalize the credits arising from the redemption of the subordinated debentures held by them and from the net yield of debentures through January 31, 2004; and (ii) split the shares issued by the Company in the proportion of 2,099 new shares for each existing share. The total amount of the capitalized credits was R\$238,569, and was allocated to a capital reserve in the amount of R\$100,000 and a capital increase in the amount of R\$138,569, representing 3,299 new common shares at an issuance price of R\$72,3 thousand per share. These shares were subsequently split in the proportion of 2,099 new shares for each existing share, resulting in capital of R\$194,956, divided into 59,399,601 common shares and 22,994,545 preferred shares. In the Extraordinary Shareholders' Meeting held on March 5, 2004, the shareholders approved, among other matters:

b.1) Merging Natura Participações S.A. and Natura Empreendimentos S.A. into the Company.

b.2) Canceling the Company's shares held by the merged parent companies.

b.3) Amending the bylaws to R\$196,371, represented by 83,266,061 shares.

In the first quarter of 2004, the amount of R\$7,058 was deducted from the legal reserve, recognized in prior years, to absorb the net liabilities arising from the merger of the net assets of Natura Empreendimentos S.A. and Natura Participações S.A., which exceeded the reserve for profit retention.

On May 24, 2004, the Board of Directors' Meeting approved an increase in the Company's capital within the limit of authorized capital, due to the exercise of the right to convert the debentures issued by the Company and fully subscribed by BNDES Participações S.A. into common shares of the Company, as allowed by the Private Indenture of Issuance of Registered Debentures Convertible into Common Shares, dated February 23, 2001.

Consequently, 2,172,550 registered common shares without par value, totaling R\$34,391, were subscribed, and the Company's capital was changed from R\$196,371, represented by 83,266,061 common shares, to R\$230,762, represented by 85,438,611 common shares.

As of December 31, 2005 and 2004, the Company's capital is R\$230,762. The subscribed and paid-up capital is represented by 85,438,611 common shares without par value. The Company is authorized to increase the capital up to the limit of 4,995,964 common shares without par value, of which 2,172,550 were subscribed on May 24, 2004 with a remaining balance of 2,823,414 common shares.

c) Receivables from shareholders

In 2004, the amount of R\$3,029 was reclassified from the heading "Receivables from shareholders" to the heading "Treasury shares" until it is paid up. Details are disclosed in Note 10.(e).

d) Interest on capital

At the Board of Directors' meetings on April 28, July 27 and November 23, 2005, the Company's management proposed the payment of interest on capital, according to the terms of the bylaws, CVM Resolution No. 207/96 and Law No. 9,249/95. As of December 31, 2005, the recorded gross amount of interest on capital is R\$34,205 (R\$29,442 as of December 31, 2004) and was calculated within legal limits, including as to the mandatory minimum dividend of 30% according to article 202 of Law No. 6,404/76 and the bylaws.

Withholding income tax in the amount of R\$5,131 (R\$4,416 as of December 31, 2004) was withheld and paid by the Company.

e) Dividend payment policy

The shareholders are entitled to receive every year a mandatory minimum dividend of 30% of net income, considering principally the following adjustments:

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

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

Dividends and interest on capital - gross, relating to income for 2004, in the amounts of R\$186,910 (R\$2.204 per share) and R\$29,442 (R\$0.347 per share), respectively, were approved by Annual Shareholders' Meeting on March 29, 2005 and corresponded to 72.1% of the 2004 consolidated net income.

On February 21, 2006, the Board of Directors' Meetings approved a proposal, to be submitted to the Annual Shareholders' Meeting to be held on March 29, 2006, for the payment of dividends and interest on capital - gross, relating to income for 2005, in the total amounts of R\$285,237 (R\$3.357 per share) and R\$34,205 (R\$0.403 per share), respectively, corresponding to 80.5% of the 2005 consolidated net income. Of these amounts, the Company paid, on August 16, 2005, dividends and interest on capital - gross, related to income for the first half of 2005, in the amounts of R\$90,434 and R\$13,383 (R\$11,390, net of withholding income tax), respectively.

Dividends were calculated as follows:

	<u>Company</u>	
	<u>2005</u>	<u>2004</u>
Net income	397,357	300,411
Profit reserve - legal (h)	<u>-</u>	<u>(15,021)</u>
Calculation basis for minimum dividends	397,357	285,390
Mandatory minimum dividends	30%	30%
Annual minimum dividend	119,207	85,617
Proposed dividends	285,237	186,910
Interest on capital - net of withholding income tax	29,074	25,026
Withholding income tax	<u>5,131</u>	<u>4,416</u>
Total dividends and interest on capital - gross	<u>319,442</u>	<u>216,352</u>
Amount exceeding the mandatory minimum dividend	200,235	130,735
Dividends per share - R\$	3.357	2.204
Interest on capital per share - net - R\$	<u>0.343</u>	<u>0.296</u>
Total dividends and interest on capital, per share - net - R\$	3.700	2.500

f) Treasury shares

As of December 31, 2005, common shares in treasury, which have been used in the exercise of options in the Stock Option Programs for purchase or subscription of shares, totaled 432,015 (651,849 as of December 31, 2004), at a unit average cost of R\$1.7801 (R\$1.6970 as of December 31, 2004).

g) Share premium

Refers to the goodwill generated on the issuance of 3,299 common shares resulting from the capitalization of debentures in the amount of R\$100,000, as further detailed in item b) above.

h) 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.

i) Reserve for profit retention

As of December 31, 2005 and 2004, this reserve was recorded in accordance with article 196 of Law No. 6,404/76 for future investments, in the amounts of R\$77,915 and R\$76,024, respectively, to the Company. The withholding referring to 2005 is based on a capital budget, which will be submitted for approval in the Annual Shareholders' Meeting to be held on March 29, 2006.

20. STOCK OPTION PROGRAM

In 1998, the former Natura Empreendimentos S.A. approved an incentive policy for certain directors and managers of the Group's companies, whereby they could buy and subscribe shares. Subsequently, this Program was also assumed by the former Natura Participações S.A., and the terms of the Program remained unchanged.

On March 5, 2004, the Shareholders' Meeting of Natura Cosméticos S.A. approved the merger of Natura Empreendimentos S.A. and Natura Participações S.A. into the Company, at which time the Company assumed the Program. The Company completed an initial public offering in Brazil and modified the Program to remove the Company's obligation to repurchase the shares subject to the plan and change the basis for determination of the stock option strike price.

Subsequent to the Company's initial public offering, in a meeting held on April 26, 2004, the Company's management changed these Programs, in which the Company no longer has the obligation to repurchase shares acquires within the Program. The Company's management also modified the criteria for determining the exercise price of purchase or subscription of shares, which became the average market price of the Company's common shares on the São Paulo Stock Exchange (BOVESPA) in the last ten trading sessions prior to the option grant date. The exercise price will continue being update based on the IPC-A (Extended Consumer Price Index).

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

The Plan for 2001 had three years for exercising the options, i.e., the option holder had the right to exercise options at the rate of 1/3 per year. The Plans for 2002, 2003, 2004 and 2005 have a four-year time span for exercising the options, and the exercise rights are 50% at the end of the third year and 50% at the end of the fourth year. The deadline for exercising options was two years after the end of the fourth year.

The balance of options as of December 31, 2005 is 1,645,210 (1,795,620 as of December 31, 2004) and is composed by plan as follows:

	Number of call options (in shares)	Amount for the year updated according to the IPCA through <u>December 31, 2005</u>
2001	12,294	19.56
2002	407,260	27.15
2003	680,899	15.21
2004	329,433	37.43
2005	<u>215,324</u>	80.31
Total	<u>1,645,210</u>	

As mentioned above, after its initial public offering, the Company is no longer required to repurchase the shares acquired under the Program and, since the recording of a provision for the Stock Option Program as CVM Official Circular No. 01/04 is no longer mandatory and is not a practice adopted by publicly-traded companies in Brazil, the amount of R\$9,564 related to this provision was reversed as of June 30, 2004 against the “Administrative expenses” account, in the amount of R\$2,578, and “Retained earnings”, in the amount of R\$6,986. The amount of R\$6,986 in the “Retained earnings” account is due to the fact that the provision was derived from Natura Participações S.A. and was received by Natura Cosméticos S.A. as part of the net assets in the merger process of March 2004, as disclosed in Note 1, and, therefore, it had no effect on the income of Natura Cosméticos S.A.

As of December 31, 2005, 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 December 31, 2005 and the option value updated according to the IPCA) recorded over their related vesting period, the pro forma consolidated net income for the year ended December 31, 2005 would have been R\$364,152 (R\$242,981 as of December 31, 2004), as shown below:

	<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>
Net income	396,881	300,294
Effect of programs considering vesting period	<u>(32,729)</u>	<u>(57,313)</u>
Net income - pro forma	<u>364,152</u>	<u>242,981</u>

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

As of December 31, 2005, the market price of the Company’s shares was R\$102.98 (R\$77.50 as of December 31, 2004).

21. 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 year ended December 31, 2005 totaled R\$3,037 (R\$1,313 as of December 31, 2004).

22. 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 2004) 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 December 31, 2005 and 2004, the Company had swap and forward (only for 2004) transactions with financial institutions in the amounts of R\$7,242 and R\$74,007, respectively. These transactions generated liabilities of R\$2,703 and R\$6,138, respectively, recorded in consolidated current liabilities. The exchange exposure is substantially indexed to the U.S. dollar.

The Company and its subsidiaries do not use derivative financial instruments for speculation purposes.

c) Interest rate risk

The Company and its subsidiaries are exposed to fluctuations in the long-term interest rate (TJLP) due to the financing agreements entered into with the BNDES and FINEP.

d) Fair values

As of December 31, 2005 and 2004, 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 (only for 2004) transactions the carrying and fair values are as follows:

	Consolidated			
	2005		2004	
	<u>Carrying</u> <u>value</u>	<u>Fair</u> <u>value</u>	<u>Carrying</u> <u>value</u>	<u>Fair</u> <u>value</u>
Swap and forward transactions	<u>2,703</u>	<u>2,775</u>	<u>6,138</u>	<u>6,494</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.

23. 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 December 31, 2005, the insurance coverage was as follows:

<u>Items</u>	<u>Coverage</u>	<u>Insured amount</u>
Industrial complex/inventories	Any material damages to buildings, installations and machinery and equipment	434,862
Vehicles	Fire, theft and collision for 954 vehicles	25,171
Loss of profits	Nonrealization of profits arising from material damages to installations, buildings and production machinery and equipment	604,241

24. SUBSEQUENT EVENTS

On February 21, 2006, the Board of Directors approved a proposal to be approved at the Extraordinary Shareholders' Meeting, which will be held on March 29, 2006, for the:

- Issuance of 340,450 common shares (1,702,250 common shares, if the proposed stock split is approved as described below), without par value, by the Company, within the limit of authorized capital, to fulfill the exercise of 50% of the options granted to the Company's Management and Employees, as well as to the direct or indirect subsidiaries' Management and Employees, participants in the "Amendment to the Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2003", approved by the Company's Board of Directors on May 17, 2004, excluding the right of preference for subscription by the Company's other shareholders due to the specific purpose described above, pursuant to the last portion of the third paragraph of article 171 of Law No. 6404/76. The price for payment of shares issued and to be subscribed, according to the conditions described above, established according to said "Amendment to the Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2003", currently corresponds to R\$15.30, subject to monetary restatement based on the IPCA, calculated and disclosed by the Brazilian Institute of Geography and Statistics, through the effective subscription date, and must be paid in cash, upon subscription.
- 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 is to adjust the Company's shares 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 number of shares will increase from 85,438,611 to 427,193,055. Likewise, the balance of authorized capital will increase from 2,823,414 to 14,117,070.

In compliance with CVM Regulatory Instruction No. 358, of January 3, 2002, the Company disclosed on the CVM's site (in the Periodic Eventual Information - IPE) significant event notice on February 21, 2006 related to the events described above.

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

NATURA COSMÉTICOS S.A.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Brazilian reais - R\$)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	397,357	300,411	396,881	300,294
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization (Notes 12 and 13)	4,989	3,809	44,035	34,340
Monetary and exchange variations, net	5,550	(1,143)	3,920	8,835
Reserve for losses on swap and forward contracts (Notes 22.b and 22.d)	1,231	2,648	12,064	4,243
Reserve for contingencies (Note 16)	10,598	16,625	21,638	31,570
Allowance for inventory losses (Note 7)	-	-	1,943	7,007
Sundry accruals	5,726	1,171	11,794	1,420
Deferred income and social contribution taxes (Note 9.a)	(9,262)	(4,528)	(12,150)	(9,634)
Proceeds from sale and disposal of permanent assets	(204)	1,333	2,242	1,828
Equity in subsidiaries (Note 11)	6,741	(2,788)	-	-
Debentures participation, net of taxes	-	5,743	-	5,743
Minority interest	-	-	1	(1)
	<u>422,726</u>	<u>323,281</u>	<u>482,368</u>	<u>385,645</u>
(INCREASE) DECREASE IN ASSETS				
Current assets:				
Accounts receivable (Note 6)	(66,235)	(63,193)	(66,198)	(68,455)
Inventories (Note 7)	800	(1,280)	(32,289)	(49,715)
Other receivables	(7,750)	26,193	(212)	532
Long-term assets:				
Escrow deposits (Note 16)	(888)	(7,128)	(2,688)	(9,073)
Other receivables	(4,252)	(654)	(1,615)	115
Subtotal	<u>(78,325)</u>	<u>(46,062)</u>	<u>(103,002)</u>	<u>(126,596)</u>
INCREASE (DECREASE) IN LIABILITIES				
Current liabilities:				
Suppliers	42,816	96,455	51,216	31,476
Salaries, profit sharing and related charges (Note 17)	2,574	5,981	7,122	24,044
Taxes payable, net (Notes 8 and 15)	24,705	(6,662)	14,068	(20,705)
Other payables	9,171	(4,236)	(5,910)	(6,213)
Long-term liabilities-				
Other payables	-	(1,496)	1,346	(1,448)
Subtotal	<u>79,266</u>	<u>90,042</u>	<u>67,842</u>	<u>27,154</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>423,667</u>	<u>367,261</u>	<u>447,208</u>	<u>286,203</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment (Note 12)	(9,991)	(7,629)	(111,636)	(76,886)
Investments (Note 11)	(149,425)	(34,975)	-	(6,179)
NET CASH USED IN INVESTING ACTIVITIES	<u>(159,416)</u>	<u>(42,604)</u>	<u>(111,636)</u>	<u>(83,065)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in short-term loans (Note 14)	(12,907)	(76,963)	(75,104)	(47,898)
Fundings - long-term loans (Note 14)	65,342	-	120,366	38,768
Payment of dividends (Note 19.e)	(203,812)	(130,003)	(203,812)	(130,003)
Payment of interest on capital (Note 19.e)	(30,129)	(11,403)	(30,129)	(11,403)
Other	717	-	717	-
Sale of treasury shares by exercise of stock options (Note 19.f)	4,929	630	4,929	630
Payment of receivables from shareholders (Note 19.c)	2,288	-	2,288	-
NET CASH USED IN FINANCING ACTIVITIES	<u>(173,572)</u>	<u>(217,739)</u>	<u>(180,745)</u>	<u>(149,906)</u>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A. net assets (Notes 1 and 19.a)	-	21,086	-	42,269

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

NATURA COSMÉTICOS S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands of Brazilian reais - R\$)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
NET INCREASE IN CASH AND BANKS	<u>90,679</u>	<u>128,004</u>	<u>154,827</u>	<u>95,501</u>
Cash and banks at beginning of year	185,287	57,283	231,612	136,111
Cash and banks at end of year	275,966	185,287	386,439	231,612
CHANGE IN CASH AND BANKS	<u>90,679</u>	<u>128,004</u>	<u>154,827</u>	<u>95,501</u>
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Income and social contribution taxes paid (Note 9)	103,859	69,183	111,605	84,378
Interest paid on loans and financing (Note 14)	2,484	3,991	6,645	12,061
Payments of swap and forward contracts (Notes 22.b and 22.d)	3,072	7,117	15,499	9,170

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

NATURA COSMÉTICOS S.A.STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands of Brazilian reais - R\$)

	Company		Consolidated					
	2005	2004	2005	2004				
REVENUES	<u>3,088,611</u>	<u>2,432,140</u>	<u>3,201,561</u>	<u>2,509,073</u>				
Sales of goods, products and services	3,119,889	2,453,708	3,234,980	2,533,614				
Allowance for doubtful accounts - recognition	(31,066)	(22,666)	(32,177)	(23,673)				
Nonoperating	(212)	1,098	(1,242)	(868)				
INPUTS PURCHASED FROM THIRD PARTIES	<u>(1,860,261)</u>	<u>(1,485,412)</u>	<u>(1,731,670)</u>	<u>(1,365,906)</u>				
Cost of sales and services	(1,110,075)	(921,613)	(1,046,472)	(852,405)				
Materials, energy, outside services and other	(750,186)	(563,799)	(685,198)	(513,501)				
GROSS VALUE ADDED	<u>1,228,350</u>	<u>946,728</u>	<u>1,469,891</u>	<u>1,143,167</u>				
RETENTIONS	<u>(4,989)</u>	<u>(3,809)</u>	<u>(44,035)</u>	<u>(34,340)</u>				
Depreciation and amortization (Notes 12 and 13)	(4,989)	(3,809)	(44,035)	(34,340)				
VALUE ADDED GENERATED BY THE COMPANY	<u>1,223,361</u>	<u>942,919</u>	<u>1,425,856</u>	<u>1,108,827</u>				
VALUE ADDED RECEIVED IN TRANSFER	<u>24,729</u>	<u>23,913</u>	<u>54,714</u>	<u>35,414</u>				
Equity in subsidiaries (Note 11)	(6,741)	2,788	-	-				
Financial income	31,470	21,125	54,714	35,414				
TOTAL VALUE ADDED TO BE DISTRIBUTED	<u>1,248,090</u>	<u>966,832</u>	<u>1,480,570</u>	<u>1,144,241</u>				
DISTRIBUTION OF VALUE ADDED	(1,248,090)	100%	(966,832)	100%	(1,480,570)	100%	(1,144,241)	100%
Payroll and related charges	(118,907)	10%	(106,100)	11%	(306,416)	21%	(247,291)	21%
Taxes and contributions	(714,503)	57%	(532,934)	55%	(727,181)	49%	(547,804)	48%
Financial expenses and rents - includes exchange variation on translation of foreign investments (Note 11)	(17,323)	1%	(20,209)	2%	(50,091)	3%	(41,675)	4%
Debenture participation	-	0%	(7,178)	1%	-	0%	(7,178)	1%
Dividends (Note 19.e)	(285,237)	23%	(186,910)	19%	(285,237)	19%	(186,910)	17%
Interest on capital (Note 19.e)	(34,205)	3%	(29,442)	3%	(34,205)	2%	(29,442)	2%
Minority interest	-	0%	-	0%	(1)	0%	1	0%
Retained earnings (*)	(77,915)	6%	(84,059)	9%	(77,439)	5%	(83,942)	7%

(*) Unrealized profit from subsidiaries is eliminated.

Additional information on the statements of value added:

Of the amounts recorded under "Taxes and contributions" in 2005 and 2004, the amounts of R\$412,131 and R\$296,892, respectively, refer to ICMS (state VAT) under the taxpayers' substitution regime levied on the estimated profit margin defined by the State Finance Secretariats obtained from sales made by Natura beauty consultants to final consumers.

In order to analyze this tax impact on the statements of value added, these amounts should be deducted from the amounts recorded under "Sales of goods, products and services" and "Taxes and contributions", since sales revenue does not include the estimated profit attributable to Natura beauty consultants upon the sale of products, in the amounts of R\$1,311,672 and R\$1,059,324 in 2005 and 2004, respectively, considering an estimated profit margin of 30%.

* * * * *

NATURA COSMÉTICOS S.A.

Letter from the Board

The year 2005 gave cause for enthusiastic celebration by all who root for Natura's success. We once again achieved superlative earnings as we continue to garner the results from our commitment to sustainable development and to our common future.

For over a decade now, our strategy has been anchored to the belief that a business can be a powerful engine for social transformation and help create a much more just and egalitarian society, sharing the common knowledge and promoting well-being. Well-being of people with themselves, the world around them and the nature we all partake.

The permanent challenge is aligning these principles with our day-to-day business practices. This way of being and doing business constitutes Natura's distinguishing trait and helped our company and our brand to earn the recognition and admiration of the community, much to our pride.

Natura's management style is characterized by a dauntless, visionary disposition to mobilize large social networks and manage, with discipline, the multiple processes that make the business chain, all the way from research and development, production, distribution, to the marketing and communication of products and services, while responding to society's needs and creating value.

The continual exercise of this organic approach, the enthusiastic allegiance of our staff and all those who interact with Natura add on to the consistent results we deliver and reinforce our optimistic vision of the future.

Natura's gross revenues grew 27.7% in 2005, or 129.5% in cumulative terms over the past three years. Earnings were up 32.2% from 2004, amounting to R\$397 million. Our stock appreciated by 38%, above the 27.7% rise in the Bovespa index during the year, creating outstanding returns for our investors and shareholders, ratifying the trust bestowed by the market in our proposition. Besides holding on to the leadership in Brazilian cosmetic industry, we are now the country's largest direct marketing company.

It is also extremely gratifying to confirm that we made a significant social contribution, sharing wealth in the forms of taxes, wages, dividends and income. Our 519,000 Consultants in Brazil and Latin America, for example, shared some R\$1.3 billion in income.

Our Consultants are quickly becoming more the leading agents of the changes in attitudes and behaviors that we work to promote, also spread -- with much enthusiasm -- our social and environmental causes, while marketing 220 million items to our 50 million consumers . Their involvement was a deciding factor, for example, in the Educational Campaign of Young and Adults program and in the dissemination of the use or refills as a way to reduce the environmental impact from product's packaging.

Moved by the prospects of spreading this Natura way of doing business to an ever-greater number of people and markets, we decided to boost investments in the company's international expansion program. We opened the doors, in April 2005, to Casa Natura Paris, in France, the birthplace of modern cosmetics and later, in August, we started operating in Mexico, one of the world's largest and most competitive direct sales markets. The significant growth in operations in Argentina, Chile and Peru, which together achieved a 45.4% gross revenues growth over 2004 reinforces the conviction that we have substantial space to occupy in international markets over the next years.

To prepare for this international expansion, we embraced a sweeping organizational realignment. New corporate structures were rolled into place while the existing ones were reinforced and energized, lending a new burst of support, efficiency and speed to operations in Brazil and abroad. We also took further steps in corporate governance, appointing a CEO who came from outside Natura's controlling group. Under this renewed structure, the founding partners continue active in the formulation of the company's strategy, sharing their expertise and entrepreneurial vision in their new roles in the Board of Directors, working side by side with the executive group.

We are conscious that, by launching a new research platform, anchored in the sustainable use of Brazilian biodiversity and in the combination of traditional knowledge with scientific expertise and technology, we entered into a field where the desire to learn and dialogue must be permanently cultivated. This learning process gave rise, in 2005, to the unveiling of innovative products, such as the Chronos Spilol, which uses jambu, an endemic plant in Brazil's north region, in its formula. Instead of posing a hurdle, this experience reinforces our commitment to dare, besides validating our confidence to tread new paths that open up new business potential.

We are certain of our success because we walk side-by-side with a staff motivated to promote quality human relations in all their actions. For this reason we should develop, with even more commitment, our capacity to find, train and retain leaders who are conscious of their role in the global community. We are conscious that our great challenge will be to face the changes and problems posed by the company's accelerated growth, while continuing to nurture a working environment rich in motivation, fun, quality, coherent with our values – this is the determining condition for our future development.

For all of this years' great achievements, we wish to extend our deepest gratitude and sincere recognition to all those who are part of Natura's largest community: our staff, consultants, shareholders, consumers, suppliers, community partners and the public power. We also take this opportunity to extend an invitation to all those who also believe that it is possible to promote the Well Being Well and together help build a better, just and harmonious common future.

Antonio Luiz da Cunha Seabra
Guilherme Peirão Leal
Pedro Luiz Barreiro Passos
Board of Directors Co-Presidents

Alessandro Giuseppe Carlucci
Chief Executive Officer

MANAGEMENT REPORT - 2005

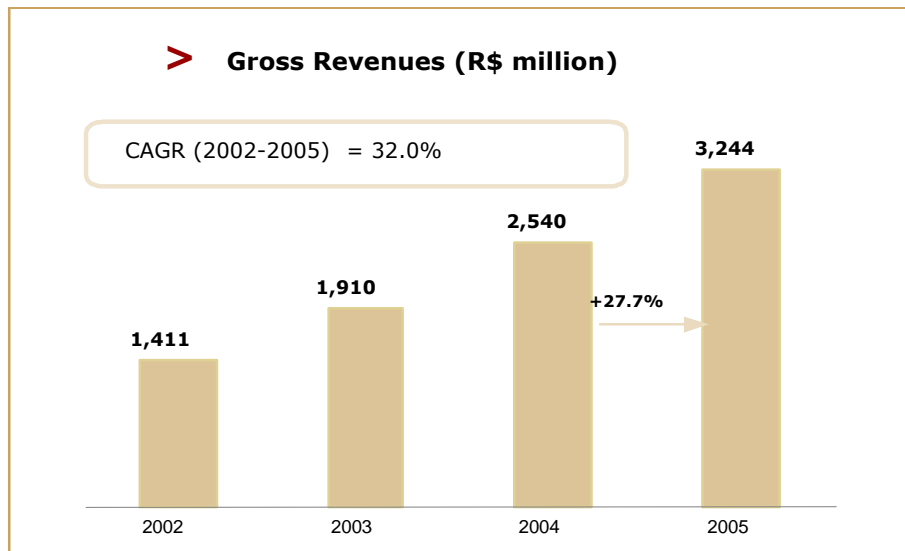
The Brazilian cosmetics, fragrances and toiletries market recorded another strong performance in 2005. According to Abihpec (the industry association), nominal target market growth between January and October 2005 reached 16.5% year-on-year. In real terms, discounting period IPCA (consumer inflation) 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.

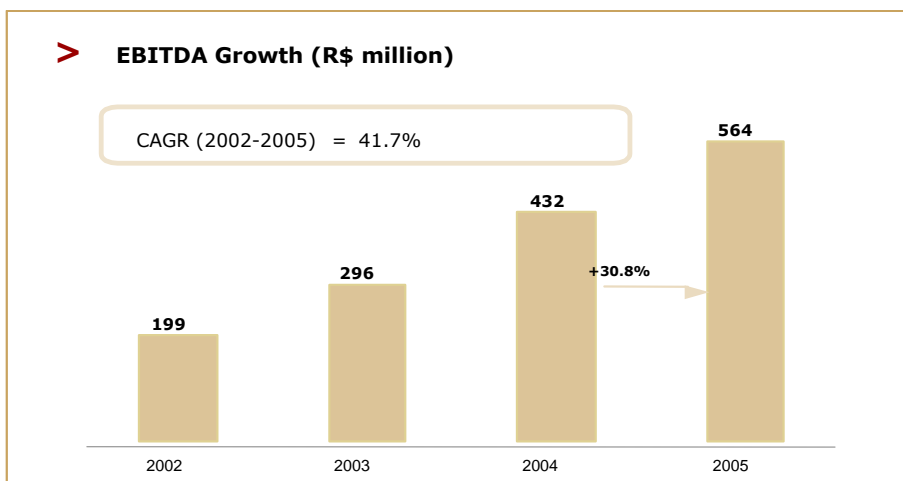
PERFORMANCE

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.



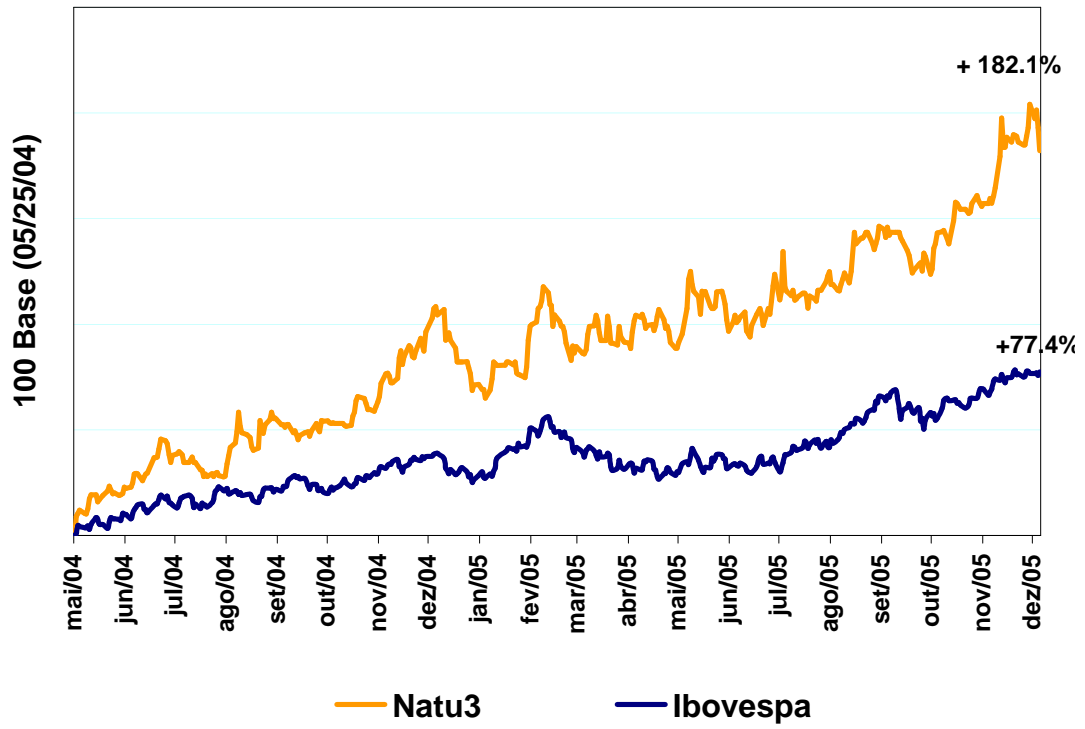
The gross margin (gross profit over net income) widened by close to 0.5 percentage point, chiefly thanks to the reduction in costs resulting from the appreciation of the Real. EBITDA totaled R\$ 564.4 million, 30.8% growth over the year before, and the EBITDA margin (cash generation over net revenues)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



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).

Aprecciación: 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%.

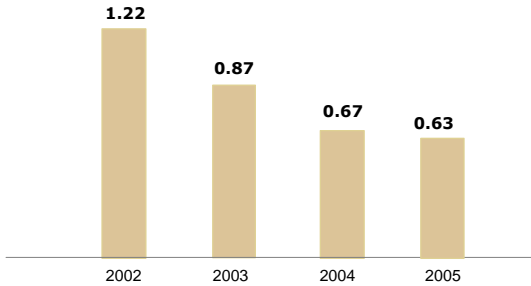
In line with Brazilian Corporate Law, mandatory minimum dividends were fixed by Natura's by-laws at 30% of adjusted annual net income. However, the Board of Directors opted to pay dividends equivalent to at least 45% of adjusted net income. In 2004, we paid out 106.5% of free cash generation¹ and 72.1% 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.

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

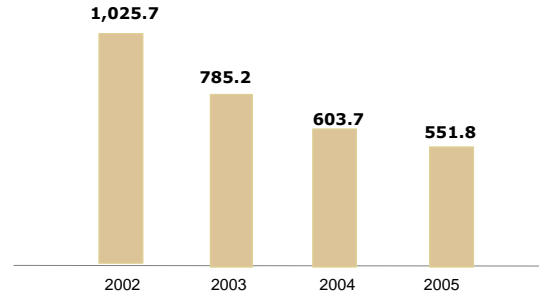
The year's social highlight was the mobilization of consultants (male and female) towards Young and Adult Education (EJA), a Ministry of Education program supported by Natura. As a result, 66,600 individuals above the age of 15 were sent back to primary school nationwide. Consultants were also encouraged 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 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.

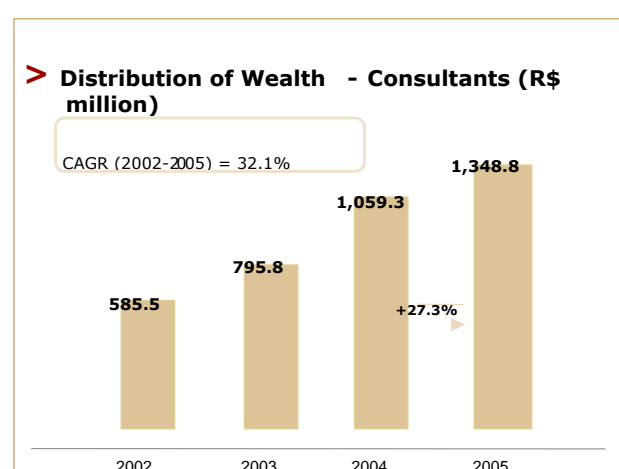
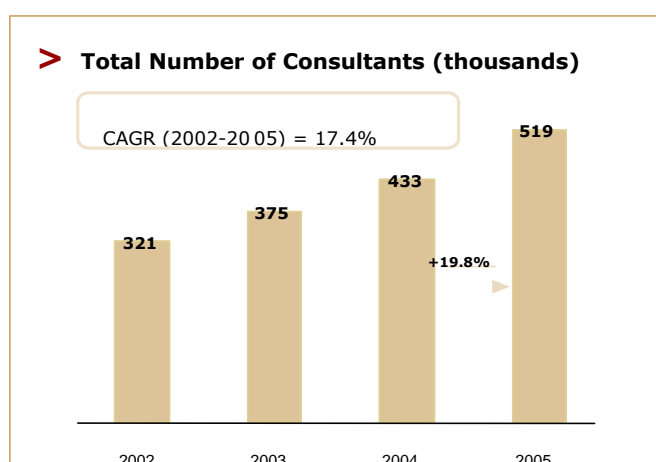
Investments

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



* Consultants in Argentina, Brazil, Chile and Peru.

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.

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.