Natura Cosméticos S.A.

Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheets of Natura Cosméticos S.A. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity 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 generally accepted in Brazil. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements referred to in paragraph 1 present fairly, in all material respects, the consolidated financial position of Natura Cosméticos S.A. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in shareholders' equity, and the changes in their financial position for the years then ended, in conformity with Brazilian accounting practices.

4. Brazilian accounting practices vary in certain respects from generally accepted accounting principles in the United States of America. Application of generally accepted accounting principles in the United States of America would have affected shareholders' equity as of December 31, 2006 and 2005 and results of operations for the years then ended, to the extent summarized in Note 26 of the consolidated financial statements.

5. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated statements of cash flows for the years ended December 31, 2006 and 2005 (Appendix) are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements prepared in accordance with Brazilian accounting practices. Such information has been subjected to the same auditing procedures applied in the audit of the basic consolidated financial statements described in paragraph 2 and, in our opinion, is fairly presented in all material respects in relation to the basic consolidated financial statements taken as a whole.

February 28, 2007

NATURA COSMÉTICOS S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$)

ASSETS	2006	2005
CURRENT ASSETS		
Cash and banks	65,293	56,198
Cash investments (Note 5)	209,863	330,241
Trade accounts receivable (Note 6)	374,168	316,264
Inventories (Note 7)	237,091	152,307
Recoverable taxes (Note 8)	38,687	23,967
Advances to employees and suppliers	12,705	5,331
Deferred income and social contribution taxes (Note 9.a.)	32,236	25,757
Other receivables	20,535	14,799
Total current assets	990,578	924,864
NONCURRENT ASSETS		
Long-term assets:		
Receivables from shareholders (Notes 10.f. and 19.b.)	20	130
Recoverable taxes (Note 8)	20,981	9,574
Deferred income and social contribution taxes (Note 9.a.)	35,809	29,324
Escrow deposits (Note 16)	250	-
Advances to suppliers	2,715	-
Other receivables	557	526
Cash investments (Notes 5 and 16.i.)	4,336	3,968
Permanent assets:		
Investments	630	8
Property, plant and equipment (Note 11)	471,901	348,911
Intangible assets (Note 12)	25,034	22,126
Total noncurrent assets	562,233	414,567
TOTAL ASSETS	1,552,811	1,339,431

LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005
CURRENT LIABILITIES		
Loans and financing (Note 14)	75,888	68,309
Domestic suppliers	208,739	148,045
Foreign suppliers	5,518	4,869
Salaries, profit sharing and related charges, net (Note 17)	88,718	72,328
Taxes payable (Note 15)	95,672	89,125
Dividends (Notes 10 and 19.d.)	213,813	195,070
Interest on capital (Notes 10, 19.c. and 19.d.)	-	17,699
Accrued freight	18,944	13,786
Sundry accruals	3,739	9,026
Other payables	18,522	13,564
Allowance for losses on swap and forward transactions (Notes 22.b. and 22.d.)	2,185	2,703
Total current liabilities	731,738	634,524
NONCURRENT LIABILITIES		
Loans and financing (Note 14)	127,077	119,156
Reserve for tax, civil and labor contingencies (Note 16)	49,093	61,122
Other payables	4,348	3,232
Total noncurrent liabilities	180,518	183,510
MINORITY INTEREST	4	8
SHAREHOLDERS' EQUITY (Note 19)		
Capital (Note 19.a.)	233,862	230,762
Capital reserves (Notes 19.b. and 19.f.)	134,867	120,678
Profit reserves (Notes19.g. and 19.h.)	272,056	170,718
Treasury shares (Note 19.e.)	(234)	(769)
Total shareholders' equity	640,551	521,389
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,552,811	1,339,431

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

NATURA COSMÉTICOS S.A.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$, except for earnings per share)

	2006	2005
Gross sales to domestic market	3,754,968	3,149,654
Gross dslrd to foreign market	133,604	92,616
Other sales	1,388	1,341
GROSS OPERATING REVENUES	3,889,960	3,243,611
Taxes on sales, returns and rebates	(1,132,973)	(961,447)
NET OPERATING REVENUES	2,756,987	2,282,164
Cost of sales	(891,317)	(731,134)
GROSS PROFIT	1,865,670	1,551,030
RECEIVABLES FROM SHAREHOLDERS (Notes 10.f. and 19.b.)		
Selling	(885,749)	(722,474)
General and administrative	(330,845)	(260,545)
Employee profit sharing (Note 17)	(37,353)	(28,577)
Management compensation	(12,385)	(12,289)
Other operating expenses, net	(388)	(5,535)
INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS	598,950	521,610
Financial income (Note 23)	43,391	54,714
Financial expenses (Note 23)	(33,453)	(43,453)
INCOME FROM OPERATIONS	608,888	532,871
Nonoperating income (expenses), net	909	(1,242)
INCOME BEFORE TAXES ON INCOME	609,797	531,629
Income and social contribution taxes (Note 9.b.)	(149,023)	(134,747)
NET INCOME BEFORE MINORITY INTEREST	460,774	396,882
Minority interest	(1)	(1)
NET INCOME	460,773	396,881
EARNINGS PER SHARE - R$ (*)	1.0778	0.9338

(*) Earnings per share for the year ended December 31, 2005 were calculated considering the effect of the stock split occurred on March 29, 2006, as detailed in Note 19.a.

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

NATURA COSMÉTICOS S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$, except for the dividends and interest on capital per share)

		Capital reserves			Profit reserves			
	Capital	Treasury shares	Share premium	Investment grants	Legal	Retention	Retained earnings	Total
BALANCES AS OF DECEMBER 31, 2004	230,762	(3,655)	105,673	9,998	18,533	74,746	-	436,057
Sale of treasury shares by exercise of stock options (Note 19.e.)	-	337	4,537	-	-	-	-	4,874
Payment of receivables from shareholders (Note 19.b.)	-	2,053	249	-	-	-	-	2,302
Tax incentives	-	-	-	717	-	-	-	717
Net income	-	-	-	-	-	-	396,881	396,881
Allocation of net income:								
Dividends - R$0.6714 per outstanding share (Note 19.d.) (*)	-	-	-	-	-	-	(285,237)	(285,237)
Interest on capital - R$0.0801 per outstanding share (Notes 19.c. and 19.d.) (*)	-	-	-	-	-	-	(34,205)	(34,205)
Profit retention reserve (Note 19.h.)	-	-	-	-	-	77,439	(77,439)	-
BALANCES AS OF DECEMBER 31, 2005	230,762	(1,265)	110,459	10,715	18,533	152,185	-	521,389
Sale of treasury shares by exercise of stock options (Note 19.d.)	-	541	8,039	-	-	-	-	8,580
Payment of receivables from shareholders (Note 19.b.)	-	-	2,272	-	-	-	-	2,272
Capital increase through subscription of shares (Note 19.a.)	3,100	-	-	-	-	-	-	3,100
Tax incentives	-	-	-	3,872	-	-	-	3,872
Net income	-	-	-	-	-	-	460,773	460,773
Allocation of net income:								
Dividends - R$0.7630 per outstanding share (Note 19.d.)	-	-	-	-	-	-	(325,866)	(325,866)
Interest on capital - R$0.0787 per outstanding share (Notes 19.c. and 19.d.)	-	-	-	-	-	-	(33,569)	(33,569)
Profit retention reserve (Note 19.h.)	-	-	-	-	-	109,891	(109,891)	-
BALANCES AS OF DECEMBER 31, 2006	233,862	(724)	120,770	14,587	18,533	262,076	(8,553)	640,551

(*) The dividends and interest on capital - gross per share for the year ended December 31, 2005 are adjusted according to the stock split on March 29, 2006, to allow the comparison with the year ended December 31, 2006, as detailed in Note 19.a.

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

NATURA COSMÉTICOS S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$)

	2006	2005
SOURCES OF FUNDS		
From operations:		
Net income	460,773	396,881
Items not affecting working capital:		
Depreciation and amortization (Notes 11 and 12)	54,601	44,035
Monetary and exchange variations, net, except those referring to tax, civil and labor contingencies	(73)	4,087
Reserves for tax, civil and labor contingencies, including monetary variation on those reserves (Note 16)	12,998	31,040
Deferred income and social contribution taxes (Note 9.a.)	(6,485)	(8,023)
Proceeds from sale and disposal of property, plant and equipment and intangible assets	3,881	3,056
Minority interest	(4)	1
	525,691	471,077
From shareholders:		
Capital increase through subscription of shares (Note 19.a.)	3,100	-
Sale of treasury shares by exercise of stock options (Note 19.e.)	8,581	4,887
Receivables from shareholders (Notes 10.f. and 19.b.)	2,272	2,288
From third parties:		
Reclassification of recoverable taxes from property, plant and equipment to current and noncurrent assets	10,536	-
Increase in noncurrent liabilities	31,570	119,016
Tax incentives	3,872	717
Total sources	585,622	597,985
USES OF FUNDS		
Acquisition of property, plant and equipment and intangible assets (Note 12)	193,596	111,636
Increase in noncurrent assets (long-term assets)	14,232	7,291
Decrease in noncurrent liabilities	29,119	-
Transfer from noncurrent to current liabilities	20,740	78,783
Dividends proposed and paid (Note 19.d.)	325,866	285,237
Interest on capital proposed and paid (Notes 19.c. and 19.d.)	33,569	34,205
Total uses	617,122	517,152
(DECREASE) INCREASE IN WORKING CAPITAL	(31,500)	80,833
REPRESENTED BY		
Increase in current assets	65,714	268,425
Increase in current liabilities	97,214	187,592
(DECREASE) INCREASE IN WORKING CAPITAL	(31,500)	80,833

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

1. OPERATIONS

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

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM). These financial statements reflect the changes introduced by the following accounting standards: (i) Accounting Standards and Procedures - NPC No. 27 - "Presentation and Disclosures", issued by the IBRACON - Brazilian Institute of Independent Auditors on October 3, 2005, approved by CVM Resolution No. 488 on the same date; and (ii) NPC No. 22 - "Provisions, Liabilities, Contingent Liabilities and Contingent Assets", issued by IBRACON on October 3, 2005, approved by CVM Resolution No. 489 on the same date. Certain reclassifications have been made to the financial statements for the year ended December 31, 2005, presented for comparative purposes, to conform them to the aforementioned Resolutions and allow comparison with the year of 2006. The main changes resulting from applying these Resolutions are as follows:

- Presentation of the group "Noncurrent" in assets and liabilities.
- Presentation of "Intangible Assets" in the "Noncurrent" group.
- Reclassification of escrow deposits, previously classified in assets, to liabilities as a reduction of the account "reserve for tax, civil and labor contingencies", where applicable.

For local reporting purposes, the Company also prepares its consolidated financial statements in accordance with Brazilian generally accepted accounting principles ("Brazilian GAAP").

The accompanying consolidated financial statements are a translation and adaptation from those originally issued in Brazil, based on Brazilian GAAP. Certain reclassifications, modifications and changes in terminology have been made in order to conform more closely to reporting practices prevailing pursuant to generally accepted accounting principles in the United States of America ("U.S. GAAP").

Certain account captions and groups in the statements of income, changes in financial position and cash flows have been changed in relation to the prior year, for better classification and presentation. In the statement of income, administrative expenses were reclassified to selling expenses, although without changing total operating expenses. The changes made include the 2005 information to allow comparability between years. These changes did not affect the group balances or the grand totals, except for the cash flows for the year ended December 31, 2005, in which payments of swap and forward contracts were reclassified from operating activities to financing activities, changing the subtotals previously disclosed, although without changing the total variation in cash and cash equivalents.

The information presented referring to 2005 is already adjusted to reflect the effects of the stock split on March 29, 2006. The details are disclosed in Note 19.a.

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.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Results of operations

Determined on the accrual basis of accounting.

b) Cash investments

Consists of highly liquid temporary investments, except for the long-term 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

Represented by investments accounted for under the acquisition cost.

f) Property, plant and equipment and intangible assets

Recorded at acquisition cost, monetarily restated through December 31, 1995, plus interest capitalized during the construction period, if applicable and goodwill and business lease on investments. The Company records the purchase of an equity interest of another company at book value. The difference between the Company's proportional interest in the book value of net assets acquired and the purchase price is recorded as goodwill in the intangible assets group. Depreciation and amortization on property, plant and equipment and intangible assets are calculated under the straight-line method, based on the estimated economic useful lives of the assets and for the goodwill on the estimated future profitability of the acquired company, when applicable, at the rates shown in Note 11 and 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 noncurrent 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 noncurrent 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) Reserves for tax, civil and labor contingencies

Updated through the balance sheet dates based on the probable amount of loss, according to their nature and supported by the opinion of the Company's attorneys. For purposes of the financial statements, they are presented net of related escrow deposits. The grounding and nature of the reserves for tax, civil and labor contingencies are described in Note 16.

l) Swap and forward transactions

The nominal values of swap and forward transactions 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 and swap and forward contracts as mentioned in Note 23.

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) 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 - %	
	2006	2005
Direct:		
Indústria e Comércio de Cosméticos Natura Ltda.	99.99	99.82
Natura Cosméticos S.A. - Chile	99.99	99.96
Natura Cosméticos S.A. - Peru	99.94	99.93
Natura Cosméticos S.A. - Argentina	99.91	95.00
Natura Brasil Cosmética Ltda. - Portugal	98.00	99.99
Nova Flora Participações Ltda.	99.99	100.00
Natura Inovação e Tecnologia de Produtos Ltda.	99.99	99.99
Natura Europa SAS	100.00	100.00
Natura Cosméticos S.A. - Mexico	99.99	99.99
Natura Cosméticos C.A. - Venezuela	99.99	99.00
Natura Cosméticos Ltda. - Colombia	99.99	-
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	33.33

The consolidated financial statements have been prepared based on the financial statements as of the same date and consistent with the accounting practices described in Note 3. Investments in subsidiaries were proportionally eliminated against shareholders' equity and net income of the respective subsidiaries. Intercompany balances and transactions and unrealized profits were also eliminated. The minority interest in the Company's subsidiaries was shown separately. The financial statements of foreign subsidiaries were translated into Brazilian reais at the exchange rates in effect on the date of the related financial statements.

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 Brasil Cosmética Ltda. - Portugal (as of December 31, 2006 this company has no activities currently), Natura Cosméticos C.A. - Venezuela (as of December 31, 2006 it was currently in the preoperating stage) and Natura Cosméticos Ltda. - Colombia (as of December 31, 2006 it was currently in the preoperating stage): 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 phytotherapic and phytocosmetic products of its own brand. Since 2005 this company has had no activities.

- 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

	2006	2005
Bank certificates of deposit (CDBs)	203,351	325,231
Investment funds	10,848	8,978
	214,199	334,209
Noncurrent (Note 16. i.)	4,336	3,968
Current	209,863	330,241

As of December 31, 2006, CDBs yield interest rates ranging from 100.0% to 102.0% (100.0% to 102.5% as of December 31, 2005) of the interbank deposit rate (CDI), and the share in the total investment portfolio is 94.9% (97.3% as of December 31, 2005). Weighted-average yield of investment fund investments is 98.3% of the CDI (101.3% as of December 31, 2005).

6. TRADE ACCOUNTS RECEIVABLE

	2006	2005
Trade accounts receivable	399,209	337,104
Allowance for doubtful accounts	(25,041)	(20,840)
	374,168	316,264

The changes in the allowance for doubtful accounts for the year ended December 31, 2006 are as follows:

	2005	Additions (*)	Reversals	Write-offs (**)	2006
Allowance for doubtful accounts	(20,840)	(40,990)	1,286	35,503	(25,041)

(*) Provision recognized according to Note 3.c.

(**) Refers to notes more than 180 days past due, written off due to nonreceipt.

7. INVENTORIES

	2006	2005
Finished products	155,733	88,471
Raw materials and packaging	77,176	66,162
Promotional material	14,847	7,976
Work in process	7,300	6,037
Allowance for losses	(17,965)	(16,339)
	237,091	152,307

The changes in the allowance for inventory losses for the year ended December 31, 2006 are as follows:

	2005	Additions, net (*)	Write-offs (**)	2006
Total of allowance for inventory losses	(16,339)	(17,942)	16,316	(17,965)

(*) Refers mainly to the recognition of the reserve for discontinuance, expiration and quality losses, according to actual need and the policy established by the Company.

(**) Refers to write-offs of products discarded by the Company.

8. RECOVERABLE TAXES

	2006	2005
ICMS (State VAT) on purchases of fixed assets	16,838	11,581
ICMS (State VAT) on purchases of goods	13,382	6,946
IVA - value-added tax (foreign operations)	8,089	2,914
COFINS (tax on revenue) on fixed asset acquisitions	10,858	420
PIS (tax on revenue) and COFINS on purchases of goods	325	2,185
IRPJ (corporate income tax)	1,868	3,580
PIS/COFINS/CSLL - withheld at source	1,782	860
PIS on fixed asset acquisitions	2,357	91
IPI (Federal VAT)	895	-
CSLL (social contribution tax)	725	3,091
Recoverable INSS (social security contribution)	170	72
IRRF (withholding income tax)	-	776
Other	2,379	1,025
	59,668	33,541
Noncurrent	20,981	9,574
Current	38,687	23,967

The Company recorded in 2006 PIS and COFINS credits on fixed assets acquisitions made between December 2002 and December 2006, previously classified in property, plant and equipment. The net effect on consolidated property, plant and equipment, net of depreciation, arising from the recognition of these credits, was a decrease of R$13,825.

ICMS, PIS and COFINS credits on fixed asset acquisitions are offset at the rate of 1/48 per month, pursuant to rules established in 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 noncurrent 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:

	2006	2005
Current:		
Tax loss carryforwards	-	1,089
Temporary differences:		
Allowance for doubtful accounts (Note 6)	7,766	6,644
Allowance for inventory losses (Note 7)	6,108	5,555
Effects of unrealized profits in the inventories of the Company (Note 4)	5,370	-
Allowance for losses on swap and forward contracts (Notes 22.b. and 22.d.)	743	919
Other provisions	12,249	11,550
Deferred income and social contribution taxes	32,236	25,757
Noncurrent:		
Tax loss carryforwards	-	375
Temporary differences:		
Reserves for tax, civil and labor contingencies (Note 16)	34,635	27,809
Other provisions	1,174	1,140
Deferred income and social contribution taxes	35,809	29,324

The amounts recorded in noncurrent assets will be realized as follows:

	2006	2005
2007	-	19,850
2008	26,774	2,146
2009	6,168	5,571
2010	2,867	1,757
	35,809	29,324

b) Current expense

Reconciliation of income and social contribution taxes

	2006	2005
Income before taxes on income	609,797	531,629
Income and social contribution taxes at the rate of 34%	(207,331)	(180,753)
Reversal of provision for maintenance of dividend payment capacity (Note 13)	49,933	49,933
Technological research and innovation benefit - Law No. 11,196/05 (*)	15,370	-
Interest on capital (Notes 19.c. and 19.d.)	11,413	11,630
Tax incentives (donations)	2,957	2,268
Equity in subsidiaries and exchange variation on translation of foreign investments (Note 11)	-	-
Permanent differences	(2,843)	(1,932)
Losses generated by subsidiaries	(23,091)	(15,952)
Other	4,569	59
Income and social contribution taxes - net expenses	(149,023)	(134,747)
Income and social contribution taxes - current	(161,387)	(146,897)
Income and social contribution taxes - deferred	12,364	12,150
Income and social contribution taxes - net expenses	(149,023)	(134,747)
Effective rate - %	24.4	25.3

(*) Refers to the tax benefit established by Law No. 11,196/05, which allows for the direct deduction in the calculation of taxable income and the social contribution tax basis from the amount corresponding to 60% of the total expenses on technological research and innovation, observing the rules established in said Law.

10. RECEIVABLES FROM SHAREHOLDERS

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$112 as of December 31, 2006 (R$2,493 as of December 31, 2005), is amortized with dividends and interest on capital paid by the Company to those directors. On December 31, 2006 the balance of receivables from shareholders outstanding in the long--term assets is R$20 (R$130 as of December 31, 2005).

11. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	Annual depreciation rate - %	2006 Cost	2006 Accumulated depreciation	2006 Net book value	2005 Cost	2005 Accumulated depreciation	2005 Net book value
Machinery and equipment	10	181,046	56,563	124,483	131,819	41,811	90,008
Buildings	4	144,684	30,309	114,375	144,140	24,618	119,522
Installations	10	79,547	33,065	46,482	67,884	27,040	40,844
Lands	-	33,662	-	33,662	15,910	-	15,910
IT equipment	20	38,763	19,516	19,247	28,772	15,050	13,722
Vehicles	20 a 33	30,196	11,124	19,072	24,694	8,325	16,369
Molds	33	47,868	30,637	17,231	36,521	22,428	14,093
Furniture and fixtures	10	18,876	6,313	12,563	13,789	5,009	8,780
Leasehold improvements	12	12,694	1,380	11,314	1,028	204	824
Construction in progress	-	42,652	-	42,652	8,569	-	8,569
Advances to suppliers	-	26,764	-	26,764	16,813	-	16,813
Others	10	6,463	2,407	4,056	5,364	1,907	3,457
		663,215	191,314	471,901	495,303	146,392	348,911

12. INTANGIBLE ASSETS

INTANGIBLE ASSETS	Annual amortization Rate - %	2006 Cost	2006 Accumulated amortization	2006 Net book value	2005 Cost	2005 Accumulated amortization	2005 Net book value
Software	20	32,735	13,561	19,174	24,885	8,571	16,314
Patents	10 a 25	941	941	-	1,056	997	59
Goodwill on acquisition of investment - Nova Flora (a)	10	8,015	8,015	-	8,015	8,015	-
Business lease - Natura Europa (b)	-	5,860	-	5,860	5,753	-	5,753
		47,551	22,417	25,034	39,709	17,583	22,126

(a) 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.

(b) The business lease 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, 2005 and 2006 is basically due to the effects of the exchange variation for the period.

13. DEFERRED CHARGES

On March 5, 2004, Natura Participações S.A. was merged into the Company. Natura Participações S.A. had recorded goodwill on the investment in Natura Empreendimentos S.A., amounting to R$1,028,041, and a corresponding provision for maintenance of future dividend payment capacity in the same amount. This goodwill arose from the merger of the shares of Natura Empreendimentos S.A. into Natura Participações S.A. on December 27, 2000. This merger was approved by the Extraordinary Shareholders' Meeting held on that date, and the amounts are supported by a valuation report issued by independent experts.

The amounts are as follows:

	2006	2005
Goodwill on investments	611,929	758,792
Provision for maintenance of future dividend payment capacity	(611,929)	(758,792)
	-	-

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	2006	2005	Maturity	Charges	Guarantees
BNDES - EXIM	53,070	-	April 2008	Interest of 2.6% p.y. + TJLP (long-term interest rate) for 80% of the financing and interest of 10.2% p.y. + exchange variation for 20% of the financing	Exports and guarantee of Natura Cosméticos S.A.
BNDES - PROGEREN (Support Program for Enhancing Employment and Income Capacity)	37,140	69,890	June 2007	Interest of 3.5% p.y. + TJLP	Bank guarantee
NCE (Export Credit Note)	36,635	31,641	April 2008	Interest of 104.7% of CDI (*)	Promissory notes and guarantee of Natura Cosméticos S.A.
FINEP (Financing Agency for Studies and Projects)	21,747	32,050	December 2008	Interest of 3.0% p.y. + TJLP	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
BNDES (Brazilian Bank for Economic and Social Development)	20,258	34,994	October 2007 and April 2010	Interest of 4.0% p.y. + TJLP + UMBNDES (**) for the maturity in October 2007 and interest of 4.5% p.y. + TJLP + UMBNDES for the maturity in April 2010	Mortgage (***)
FINEP II	17,623	-	March 2013	TJLP	Guarantee of Natura Cosméticos S.A. and bank guarantee
BNDES - FINAME (Government Agency for Machinery and Equipment Financing)	12,938	12,115	October 2006 to April 2011	Interest of 4.5% p.y. + TJLP	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes
Banco do Brasil (Brazilian Bank) - FAT Fomentar (Employee Shelter Fund)	2,568	-	November 2013	Interest of 4.4% p.y. + TJLP	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes
ACE (Advances on Export Contracts)	986	-	January 2007	Interest of 5.4% p.y.+ exchange variation	Exports
Loans - Argentina	-	6,775	January 2006	Interest of 9.5% p.y. + exchange variation (Argentinean pesos)	Guarantee of Natura Cosméticos S.A.
Total	202,965	187,465			
Current	75,888	68,309			
Noncurrent	127,077	119,156			

(*) CDI - interbank certificate of deposit.

(**) UMBNDES - BNDES monetary unit.

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

Maturities of noncurrent debt are as follows:

	2006	2005
2007	-	61,895
2008	55,534	49,107
2009	53,120	6,276
2010	7,409	1,878
2011	4,824	-
2012	4,743	-
2013	1,447	-
	127,077	119,156

15. TAXES PAYABLE

	2006	2005
ICMS (State VAT)	64,789	58,184
IRPJ (income tax)	8,916	12,229
IRRF (withholding income tax)	5,726	4,235
COFINS (tax on revenue)	3,740	2,166
CSLL (social contribution on net profits)	3,662	4,718
PIS/COFINS/CSLL (Law No. 10,833/03)	2,684	1,606
IVA - value-added tax (foreign operations)	1,970	1,557
ISS (tax on service)	1,162	553
PIS (tax on revenue)	1,106	826
IPI (Federal VAT)	-	2,081
Other	1,917	970
	95,672	89,125

16. RESERVES FOR TAX, CIVIL AND LABOR CONTINGENCIES

The Company is a party 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 reserves for tax, civil and labor contingencies are sufficient to cover probable losses.

The reserves for tax, civil and labor contingencies, net of the escrow deposits, are presented as follows:

	2006	2005
Tax	35,969	49,944
Civil	7,316	6,060
Labor	5,808	5,118
	49,093	61,122

Tax contingencies

The changes in the reserves for tax contingencies for the year ended December 31, 2006 are presented as follows:

	2005	Additions	Reversals	Write-offs	Monetary restatement	2006
IPI - zero rate (a)	15,814	9,497	-	-	2,603	27,914
PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 (b)	14,267	-	-	-	1,663	15,930
Late payment fines on Federal taxes paid in arrears (c)	5,859	-	-	-	766	6,625
Deductibility of CSLL (social contribution tax) (Law No. 9,316/96) (d)	5,901	-	-	-	437	6,338
Tax assessment - INSS (social security contribution) (e)	4,944	-	-	-	477	5,421
Monetary restatement of Federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (f)	4,976	-	(14)	-	94	5,056
IPI tax assessment - attorneys' fees (g)	5,717	-	-	(1,265)	164	4,616
IPI credit on purchases of fixed assets and consumption material (h)	4,325	-	(225)	-	337	4,437
IPI tax collection lawsuit (i)	3,773	-	-	-	370	4,143
Assessment notice - 1990 (corporate income tax) (j)	2,448	-	-	-	235	2,683
IRPJ and CSLL tax assessment - attorneys' fees (k)	-	1,469	-	-	-	1,469
Attorneys' fees and other	8,765	530	(618)	(205)	1,368	9,840
Total reserve for tax contingencies	76,789	11,496	(857)	(1,470)	8,514	94,472
Escrow deposits for tax contingencies	(26,845)	(28,590)	77	-	(3,145)	(58,503)
Total reserve for tax contingencies, net of escrow deposits	49,944	(17,094)	(780)	(1,470)	5,369	35,969

(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 and obtained an injunction granting entitlement to the credit. On September 25, 2006, a sentence was rendered dismissing the injunction, judging the Company's request invalid. The Company filed an appeal for review of the merit and reestablishment of the injunction's effects. The additions made in the year ended December 31, 2006 refer to offset against IPI payable computed in the same period. To suspend the collectibility of the tax debt, in October 2006, the Company made an escrow deposit in the amount of R$27,362.

(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 decision was published and a notification was sent. The Federal Revenue Service filed a special appeal with the Superior Board of Tax Appeals, which did not grant the appeal. The decision is pending formalization and publication.

(c) Refers to the levy of a late payment fine on the payment of Federal taxes in arrears, whose expectation of loss, according to the opinion of the attorneys, was changed to probable, due to a recent decision by the Superior Court of Justice.

(d) Refers to CSLL (social contribution tax) that was addressed by a mandate that questions the constitutionality of Law No. 9,316/96, which prohibited the deduction of CSLL from its own tax basis and the IRPJ (corporate income tax) basis. A portion of this reserve, in the amount of R$4,245 (R$3,787 as of December 31, 2005), is deposited in escrow.

(e) Refers to INSS (social security contribution) required by tax assessments issued by the National Institute of Social Security as a result of an inspection. The Company, as a taxpayer having joint liability for tax payment, is required to pay INSS on services provided by third parties. The amounts are discussed in court through a tax debt annulment action and are deposited in escrow.

(f) Refers to the monetary restatement of Federal taxes (IRPJ/CSLL/ILL) related to 1991 based on the UFIR (fiscal reference unit), discussed in a mandate. The amount involved is deposited in escrow.

(g) Refers to attorneys' fees for the defense in the tax assessment notice issued in November 2005 by the Federal Revenue Service, relating to the tax basis of the IPI (Federal VAT) on intercompany transactions. In June 2006, the subsidiary was notified of the decisions rendered by the 2nd Panel of the Federal Revenue Service Judgment Office in Ribeirão Preto, which cancelled, by unanimous vote, the tax requirements related to IPI on these transactions. There was a mandatory appeal, which is pending judgment at the 4th Chamber of the 2nd Board of Tax Appeals of the Federal District. The attorneys are of the opinion that the likelihood of loss is remote.

(h) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through injunctions the right to the IPI (Federal VAT) credit on purchases of fixed assets and consumption materials. In view of Federal Regional Courts' former decisions, the attorneys believe that the risk of loss changed to probable. The reversal in 2006 refers to the lapse of the period for review begun between July and December 2001.

(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 a subsidiary's (Natura Inovação e Tecnologia de Produtos Ltda.) cash investment in the updated amount of R$4,336 (R$3,968 as of December 31, 2005).

(j) Refers to a tax assessment notice issued by the Federal Revenue Service requiring the payment of income tax on profit from incentive-based exports made in base year 1989, at the rate of 18% (Law No. 7,988, of December 29, 1989) and not 3%, as established by article 1 of Decree-law No. 2,413/88, which supported the Company in its tax payments at that time.

(k) Refers to attorneys' fees for defense against the tax deficiency notices issued against the Company in August 2003 and December 2006, by the Federal Revenue Service, in which income and social contribution taxes (IRPJ and CSLL) are demanded related to the deductibility of the yield of the debentures issued by the Company in 1999 and 2001. The attorneys' opinion is that the likelihood of unfavorable outcome is remote.

Civil contingencies

The changes in the reserves for civil contingencies for the year ended December 31, 2006 are presented as follows:

	2005	Additions	Reversals	Payments	Monetary restatement	2006
Several civil lawsuits (a)	2,043	2,769	(1,326)	(579)	250	3,157
Civil lawsuits and attorney's fees - Flora Medicinal (b)	6,649	-	(66)	-	421	7,004
Total reserve for civil lawsuits	8,692	2,769	(1,392)	(579)	671	10,161
Escrow deposits for civil contingencies	(2,632)	(151)	1	-	(63)	(2,845)
Total reserve for civil contingencies, net of escrow deposits	6,060	2.618	(1,391)	(579)	608	7,316

(a) As of December 31, 2006, the Company is a party to 1,164 lawsuits (760 as of December 31, 2005), at the civil court, special civil court and PROCON (Consumer Protection Agency), filed by beauty consultants, consumers, suppliers and former employees, mostly related to indemnity claims.

(b) The Company is a party to civil lawsuits filed by a former shareholder of the indirect subsidiary Flora Medicinal, which seek the determination of any amounts and the satisfaction of alleged liabilities due to the former shareholder's withdrawal. With the end of the expert investigation phase in four of the five civil lawsuits, it was possible to determine the amounts involved, although no decision, even by the lower court, has been issued.

Labor contingencies

As of December 31, 2006, the Company and is a party to 414 labor lawsuits filed by former employees and third parties (267 as of December 31, 2005), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability.

The changes in the reserves for labor contingencies for the year ended December 31, 2006 are presented as follows:

	2005	Additions	Reversals	Payments	Monetary restatement	2006
Total reserve for labor contingencies	5,118	1,084	(1,029)	(72)	1,238	6,339
Escrow deposits for labor contingencies	-	(536)	5	-	-	(531)
Total reserve for labor contingencies, net of escrow deposits	5,118	548	(1,024)	(72)	1,238	5,808

Escrow deposits

Escrow deposits, which represent the Company's restricted assets, refer to amounts deposited in court until litigation is resolved. The balance of escrow deposits for which there is no recognized reserve for contingencies, as of December 31, 2006, totals R$250 - consolidated, and is classified under the heading "Escrow deposits", in noncurrent assets.

Possible losses

The Company is a party to tax, civil and labor lawsuits, for which there is no reserve for losses recorded, because the risk of loss is considered possible by management and its attorneys. These lawsuits are presented as follows:

	2006	2005
Tax:		
INSS (social security contribution) debt annulment action (a)	5,209	4,750
Offset of 1/3 of COFINS (tax on revenue) - Law No. 9,718/98 (b)	4,223	3,902
Tax assessment - transfer pricing on loan agreements with foreign related company (c)	1,342	1,239
Tax debt notification - GFIP (FGTS payment and social security information form) (d)	673	-
ICMS Tax Substitution deficiency notice (e)	608	-
Request for offset of taxes of the same type - IRPJ (corporate income tax) and IRRF (withholding income tax) (f)	406	-
Other	1,500	663
	13,961	10,554
Civil	15,235	9,489
Labor	20,551	5,388
	49,747	25,431

(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. On September 11, 2006 the Company was notified that the offsets made were not approved, and timely filed the applicable appeal. 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) Demand of fine for failure to complete the GFIP (FGTS payment and social security information form), an accessory social security obligation, for independent contractors' social security contributions and indemnities. The Company is discussing the collection at the administrative level.

(e) Tax deficiency notice for ICMS Tax Substitution, demanded by Goiás State, due to supposed underpayment by the Company. The Company has presented its defense at the administrative level and is awaiting judgment.

(f) Refers to the nonapproval of the offset of IRPJ credits related to the fourth quarter of 1999 against IRRF debts for the second quarter of 2000. The Company has presented its defense at the administrative level, for which a partially favorable judgment has been rendered. On July 12, 2006, an annulment action was filed, and an escrow deposit was made, to challenge collection of the balance of offset not approved by the Federal Revenue Service.

Contingent assets

The Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda. are challenging in court the constitutionality and legality of the increase in the tax basis for the PIS and COFINS contributions established by Law No. 9,718/98. The amounts involved in the lawsuits, updated as of December 31, 2006, total R$12,171. The lawsuits are awaiting judgment. The attorneys' opinion is that the likelihood of favorable outcome is probable. As a final and unappealable decision has not been rendered, the Company and its subsidiary have not recorded the contingent assets, as established by CVM Resolution No. 489/05.

17. MANAGEMENT AND EMPLOYEE PROFIT SHARING

The Company pays its employees and management a share of their profits, which is tied to operational and other specific targets and approved at the beginning of each year. As of December 31, 2006, this profit sharing was recorded in the amount of R$39,260 (R$35,171 as of December 31, 2005), under the heading "Salaries, profit sharing and related charges" in consolidated and "Employee profit sharing" and "Management compensation" in the consolidated statements of income for those years.

18. COMPENSATION OF MANAGAMENT AND EXECUTIVES

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

	2006				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock option balance (quantity) (**)	Average exercise price (***)
Board of Directors	2,572	1,049	3,621	-	-
Officers	3,070	1,878	4,948	528,326	12.81
Total	5,642	2,927	8,569	528,326	

	2005				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock option balance (quantity) (**)	Average exercise price (***)
Board of Directors	3,608	-	3,608	-	-
Officers	2,592	1,267	3,859	188,940	6.28
Total	6,200	1,267	7,467	188,940	

b) The compensation of the Executives of the Company is as follows:

	2006				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock option balance (quantity) (**)	Average exercise price (***)
Executives	12,711	4,594	17,305	3,120,859	10.02

	2005				
	Compensation			Stock Options Program	
	Fixed	Variable (*)	Total	Stock option balance (quantity) (**)	Average exercise price (***)
Executives	12,423	4,562	16,985	5,220,570	6.29

(*) 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 Programs, updated by the inflation calculated based on the IPC-A (extended consumer price index) through the balance sheet dates. Note 20 presents the pro forma net income as of December 31, 2006 and 2005, had the Company's management opted to recognize 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, 2006 and 2005 and the value of the option updated based on the IPC-A, for the years then ended).

19. SHAREHOLDERS' EQUITY

a) Capital

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

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

In May and June 2006, 477,377 common shares were subscribed; in August and September 2006, 161,590 common shares; and in October, November and December 2006, 361,438 of the 1,702,250 common shares issued, as decided by the Board of Directors, in a meeting held on February 21, 2006, at an average contribution price of R$3.09, R$3.10 and R$3.11, respectively, for the exercise of options granted to the management and employees of the Company and direct and indirect subsidiaries, participating in the "Addendum to the Purchase or Subscription Option Plan for Common Shares Issued by the Company for Calendar Year 2003". Accordingly, the number of subscribed and paid-up common shares went from 427,193,055, as of March 31, 2006, to 428,193,460 common shares, as of December 31, 2006. The authorized capital went from 14,117,070 common shares, as of March 31, 2006, to 13,116,665 common shares, as of December 31, 2006.

As of December 31, 2006, the Company's capital is R$233,862 (R$230,762 as of December 31, 2005).

b) Receivables from shareholders

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

c) Interest on capital

At the Board of Directors' Meeting on July 26, 2006, 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, 2006, the recorded gross amount of interest on capital is R$33,569 (R$34,205 as of December 31, 2005) 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$5,065 (R$5,131 as of December 31, 2005) was withheld and paid by the Company.

d) Dividend payment policy

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

- Increase in the amounts resulting from the reversal, in the year, of previously recognized reserves for contingencies.

- Decrease in the amounts intended for the recognition, in the year, of the legal reserve and reserve for contingencies.

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

Dividends and interest on capital - gross, relating to income for 2005, in the amounts of R$285,237 (R$0.6714 per share) and R$34,205 (R$0.0801 per share), respectively, were approved by the Annual Shareholders' Meeting on March 29, 2006 and corresponded to 80.5% of the 2005 consolidated net income.

On February 28, 2007, the Board of Directors' Meetings approved a proposal, to be submitted to the Annual Shareholders' Meeting to be held on April 2, 2007, for the payment of dividends and interest on capital - gross, relating to income for 2006, in the total amounts of R$325,866 (R$0.7630 per share) and R$33,569 (R$0.0787 per share), respectively, corresponding to 78.0% of the 2006 consolidated net income. Of these amounts, the Company paid, on August 10, 2006, dividends and interest on capital - gross in the amounts of R$112,110 and R$33,569 (R$28,534, net of withholding income tax), respectively.

Dividends were calculated as follows:

	Company	
	2006	2005
Net income	469,326	397,357
Profit reserve - legal (item g. of this Note)	-	-
Calculation basis for minimum dividends	469,326	397,357
Mandatory minimum dividends	30%	30%
Annual minimum dividend	140,798	119,207
Proposed dividends	325,866	285,237
Interest on capital - net of withholding income tax	28,534	29,074
Withholding income tax	5,035	5,131
Total dividends and interest on capital - gross	359,435	319,442
Amount exceeding the mandatory minimum dividend	218,637	200,235
Dividends per share - R$	0.763	0.671
Interest on capital per share - net - R$	0.067	0.069
Total dividends and interest on capital, per share - net – R$	0.830	0.740

e) Treasury shares

As of December 31, 2006, 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 679,317 (2,160,075 as of December 31, 2005), at a unit average cost of R$0.3350 (R$0.3560 as of December 31, 2005).

f) 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, occurred on March 2, 2004.

g) 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 and 2006.

h) Reserve for profit retention

As of December 31, 2006 and December 31, 2005, the profit retention reserve was recognized pursuant to article 196 of Law No. 6,404/76 for use in future investments, in the amounts of R$109,891 and R$77,915, respectively. The retention referring to 2006 is based on the capital budget, which will be submitted for approval in the Annual Shareholders' Meeting to be held on April 2, 2007.

Article 199 of Law No. 6,404/76 sets forth that the balance of profit reserves, except for the reserve for contingencies and unrealized profit reserve, may not exceed capital. Upon reaching this limit, the Shareholders' Meeting will decide on the use of the excess amount in a capital contribution or increase, or in the payment of dividends.

After distribution of profits for the year ended December 31, 2006, the profit reserves exceeded capital by R$46,618.

In light of the aforementioned, on February 28, 2007, the Board of Directors approved the proposal to be submitted to the Annual and Extraordinary Shareholders' Meetings, to be held on April 2, 2007, for capitalization, without issuance of shares, of the profit reserves. The proposal consists of capitalization in the amount of R$153,939, referring to the profit reserves recognized in the years ended December 31, 2004 and December 31, 2005, which were fully utilized for investments in property, plant and equipment and working capital, in 2005 and 2006.

20. STOCK OPTION PROGRAM

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

The Plans 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, 2006 is 6,701,732 (8,226,050 as of December 31, 2005) and is composed by plan as follows:

	Number of call options or subscription (in shares)	Amount for the year updated according to the IPC-A (extended consumer price index) through December 31, 2006
2002	658,885	5.60
2003	2,381,422	3.14
2004	1,627,960	7.72
2005	941,485	16.57
2006	1,091,980	24.69
	6,701,732	

As of December 31, 2006, had the Company's management opted to record the effects of the plans based on the intrinsic value of the options (difference between market price as of December 31, 2006 and the value according to the IPC-A) recorded over their related vesting period, the pro forma consolidated net income for the year ended December 31, 2006 would have been R$435,470 (R$364,152 as of December 31, 2005), as shown below:

	2006	2005
Net income	460,773	396,881
Effect of programs considering vesting period	(25,303)	(32,729)
Net income - considering the exercise of the options	435,470	364,152

As of December 31, 2006, the market price of the Company's shares was R$30.15 (R$20.60 as of December 31, 2005).

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, 2006 totaled R$3,397 (R$3,037 as of December 31, 2005).

22. FINANCIAL INSTRUMENTS

a) General conditions

The Company enters 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 transactions to hedge against exchange variation on its liabilities resulting from financing agreements and operating activities. According to the Company's policy, swap and/or forward 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, 2006 and 2005, the Company had swap and forward transactions with financial institutions in the amounts of R$30,410 and R$7,242, respectively. Since March 2006, the Company has been contracting transactions for imports of equipment, purchase of inputs pegged to exchange variation, and investments in international operations, resulting in a liability balance of R$2,185 and R$2,703, respectively, recorded in current liabilities in consolidated. Foreign exchange exposure is mainly indexed to the U.S. dollar and the euro.

The Company does not use derivative financial instruments for speculation purposes.

c) Interest rate risk

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

d) Fair values

The fair values of cash and banks, temporary cash investments, and accounts receivable and payable approximate the carrying amounts due to the short-term maturity of these financial instruments. The fair values of loans and financing substantially approximate the carrying amounts since these financial instruments have variable interest rates.

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

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Swap and forward transactions	2,185	2,860	2,703	2,775

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. FINANCIAL INCOME, NET

	2006	2005
Financial income:		
Interest on cash investments	33,722	36,648
Gains on monetary and exchange variations	5,835	13,639
Interest earned	825	1,145
Gains on swap and forward transactions	91	-
Other financial income	2,918	3,282
	43,391	54,714
Financial expenses:		
Interest on financing	(18,677)	(14,665)
Losses on monetary and exchange variations	(7,541)	(8,817)
Losses on swap and forward transactions	(4,114)	(12,223)
Other financial expenses	(3,121)	(7,748)
	(33,453)	(43,453)
Total financial income, net	9,938	11,261

24. INSURANCE

The Company contracts 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, 2006, the insurance coverage was as follows:

Items	Coverage	Insured amount
Industrial complex/inventories	Any material damages to buildings, installations and machinery and equipment	575,152
Vehicles	Fire, theft and collision for 1,255 vehicles	48,055
Loss of profits	Nonrealization of profits arising from material damages to installations, buildings and production machinery and equipment	797,981

25. SUBSEQUENT EVENTS

On February 28, 2007, the Board of Directors approved a proposal to be approved at the Extraordinary Shareholders' Meeting, which will be held on April 2, 2007, for the:

a) Private placement of 1,514,750 common shares, without par value, by the Company, within the limit of authorized capital, as set forth in article 6 of the Company's by-laws, which will be designated for subscribing and paying up the common shares, without par value, issued by the Company, corresponding to the shares granted to the Company's Management and Employees, as well as to the direct or indirect subsidiaries' Management and Employees, participants in the: "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and "Amendment to the Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006", excluding the preferential right to subscription by the Company's other shareholders in view of the specific designation mentioned above, under the terms of paragraph 3, article 171, of Law No. 6,404/76. The prices for paying up the shares issued and to be subscribed, under the referred terms, set according to the "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and to the "Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006", corresponds, on February 28, 2007, to R$3.15, R$7.75, R$16.64 and R$24.80, respectively, subject to monetary adjustment based on the IPC-A, calculated and released by the Brazilian Institute of Geography and Statistics (IBGE), through the subscription date, and must be paid in cash, upon subscription.

b) Purchase of 1,000,000 common shares, without par value, representing the Company's capital, to be held in treasury for subsequent sale, in order to fulfill the exercise of the options granted to the Company's Management and Employees, as well as to the direct or indirect subsidiries' Management and Employees, participants in the "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and "Amendment to the Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006.

The purchase of 1,000,000 common shares, without par value, representing the Company's capital, will be in effect from February 28, 2007 until May 31, 2007 and will be intermediated by the brokerage company Pactual CVTM S.A. located at Avenida Brigadeiro Faria Lima, 3,729, 6º andar, City of São Paulo, State of São Paulo, and the Company's Directors are authorized to practice any acts necessary for the repurchase of the shares approved under the aforementioned terms.

The purchase of 1,000,000 common shares, without par value, representing the Company's capital, will be in effect from February 28, 2007 until May 31, 2007 and will be intermediated by the brokerage company Pactual CVTM S.A. located at Avenida Brigadeiro Faria Lima, 3,729, 6º andar, City of São Paulo, State of São Paulo, and the Company's Directors are authorized to practice any acts necessary for the repurchase of the shares approved under the aforementioned terms.

The 1,514,750 registered common shares, without par value, issued by the Company, in accordance with item (a) above, will be subscribed and paid up only after the sale of all the registered common shares, without par value, to be purchased by the Company and held in treasury. This sale will result from the exercise of the options granted to the Company's Management and Employees, as well as the direct or indirect subsidiaries' Management and Employees, participants in the "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and the "Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006."

In compliance with CVM (Brazilian Securities Commission) Regulatory Instruction No. 358, of January 3, 2002, the Company disclosed on the CVM's site (in the Periodic and Special Financial Statements - IPE), on February 28, 2007, a significant event notice related to the above events.

26. SUMMARY OF THE DIFFERENCES BETWEEN ACCOUNTING PRACTICES IN ACCORDANCE WITH BRAZILIAN GAAP AND U.S. GAAP

The Company's accounting policies comply with Brazilian GAAP. Accounting policies that differ from accounting principles generally adopted in the United States of America (U.S. GAAP) are described below:

a) Capitalization of interest cost

Under Brazilian GAAP, interest charges and monetary and foreign exchange variation from financing linked to construction in progress are capitalized in the balance of the assets and credited to interest expense and monetary and foreign exchange variation.

Under U.S. GAAP, in accordance with the provisions of Statement of Financial Accounting Standards - SFAS No. 34, "Capitalization of Interest Costs", interest incurred on borrowings is capitalized as part of the cost of certain assets to the extent that borrowings do not exceed construction in progress. The credit is recorded as a reduction of interest expense. The amount of interest capitalized excludes foreign exchange gains and losses on foreign currency borrowings.

The U.S. GAAP net income adjustment relates to the amortization of the accumulated difference in criteria arising in prior periods.

b) Monetary correction of 1996 and 1997

As mentioned in Note 2, under Brazilian GAAP, the Company discontinued accounting for the effects of inflation as of December 31, 1995. As of January 1, 1996, the carrying value of all nonmonetary assets and liabilities became their historical cost basis. Under U.S. GAAP, Brazil was still considered to be a highly-inflationary economy until July 1, 1997, and, consequently, the Company continued to record the effects of inflation using the IGP-M (general market price index) up to 1997.

The U.S. GAAP adjustment represents the amortization of the restatement of fixed assets, which resulted from the inflation accounting applied during 1996 and 1997.

c) Items posted directly to shareholders' equity accounts

Brazilian GAAP requires that the effect of certain items relating to entities other than the Company's shareholders be credited directly to shareholders' equity. Under U.S. GAAP, these items are recorded as a credit to the Company's results for the year. The adjustments for the years ended December 31, 2006 and 2005 are presented in Note 26.m) - "Net income reconciliation".

d) Interest income (expense)

Brazilian GAAP requires interest to be included as part of operating income. Under U.S. GAAP, interest income (expense) is included as nonoperating income.

e) Stock option plan

Under Brazilian GAAP, the Company does not account for the impact of the stock option plan in its financial statements. Under U.S. GAAP, since the options are adjusted for the Brazilian consumer price index, the Company accounts for its stock option plan by accruing a liability at fair value relating to the options issued under the plan at each period end in accordance with SFAS No. 123 (R), "Accounting for Stock-based Compensation". SFAS No. 123 (R) requires that the cost of employee services received in exchange for an award of equity instruments be measured based on the grant-date fair value of the awards. Since the Company's awards are adjusted for the Brazilian consumer price index, the liability for the awards is updated to its fair value at each balance sheet date. Until 2005, the Company applied APB No. 25, "Accounting for Stock Issued to Employees", for accounting the effects of stock option plan. Under APB No. 25, the Company's stock options were classified as equity. The cumulative effect of the adoption of SFAS No. 123 (R) at January 1, 2006 amounting to R$61,672 is less than the previously recognized compensation cost recorded under APB No. 25. Consequently, this amount is reflected separately in the shareholders equity reconciliation (Note 26.m.) for the year ended December 31, 2006.

Summarized information for the stock option plan is as follows:

	2006	2005
Outstanding options	6,701,732	8,226,050
Weighted-average remaining contractual term of the outstanding options	3,171	3,441
Weighted-average exercise price of the outstanding (per share, expressed in Brazilian reais)	9,892	6,234

As of December 31, 2006, the market price of the Company's share was R$30.15 (R$20.60 as of December 31, 2005).

The following table summarizes information about the shares granted and outstanding at December 31, 2006 and 2005:

At December 31, 2006

		Outstanding Options			Vested options	
Date of grant	Exercise price - R$	Number outstanding	Remaining contractual Life - years	Exercise price - R$	Number outstanding	Exercise price - R$
April 10, 2002	5.60	658,885	1.28	5.60	658,885	5.60
April 10, 2003	3.14	2,381,422	2.28	3.14	1,190,711	3.14
March 10, 2004	7.72	1,627,960	3.28	7.72	-	7.72
March 16, 2005	16.57	941,485	4.21	16.57	-	16.57
March 29, 2006	24.69	1,091,980	5.21	24.69	-	24.69
		6,701,732			1,849,596	

At December 31, 2005						
		Outstanding options			Vested options	
Date of grant	Exercise price - R$	Number outstanding	Remaining contractual Life - years	Exercise price - R$	Number outstanding	Exercise price - R$
March 1, 2001	3.91	61,470	0.16	3.91	61,470	3.91
April 10, 2002	5.43	2,036,300	2.27	5.43	700,145	5.43
April 10, 2003	3.04	3,404,495	3.28	3.04	-	3.04
March 10, 2004	7.49	1,647,165	4.19	7.49	-	7.49
March 16, 2005	16.06	1,076,620	5.21	16.06	-	16.06
		8,226,050			761,615	

As discussed above, the Company applied APB No. 25 and related interpretations to account for its stock options plan as from the date of its initial public offering until 2005 up to the date of adoption of SFAS No. 123 (R) on January 1, 2006.

The following table sets forth the pro forma effects of the stock option plan if the Company had applied SFAS No. 123 (R) for the year ended December 31, 2005:

	2005
Net income under U.S. GAAP (see Note 26.m.):	
As reported	369,530
Pro forma - SFAS No. 123 (R)	397,900
Basic earnings per share:	
As reported	0.8912
Pro forma - SFAS No. 123 (R)	0.9596
Diluted earnings per share:	
As reported	0.8838
Pro forma - SFAS No. 123 (R)	0.9516

The fair values of the options granted by the Company have been estimated at the date of the initial public offering and subsequent grants using the binomial option-pricing model with the following weighted-average assumptions:

	2006	2005
Expected volatility (daily)	1.45%	2.12%
Risk-free interest rate (per year)	13.25%	15.00%
Weighted-average grant date fair value	R$21.42	R$14.85
Expected term	5 - 6 years	5 - 6 years
Dividend yield	3.5%	4%

f) Goodwill

Under Brazilian GAAP, the goodwill related to Nova Flora, defined as the excess of the acquisition cost over the book value of the net assets acquired, was amortized, until 2004, using the straight-line method over a period of ten years. As described in Note 11, Nova Flora's activities are being closed down, so the Company decided, during 2005, to amortize the total balance of the goodwill.

g) Accounting for derivative instruments

Under Brazilian GAAP, foreign currency swap and forward contracts are recorded at the settlement amount at the balance sheet date. The premium accrued at that date is recorded as an expense with a corresponding liability.

In June 1998, the Financial Accounting Standards Board - FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", an Amendment of FASB No. 133, and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or a liability measured at its fair value. Changes in a derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

For U.S. GAAP purposes, the Company's derivatives do not qualify for hedge accounting using the criteria of SFAS No. 133, and, consequently, the changes in fair value are recorded in earnings. Accordingly, an adjustment has been included in the reconciliation of U.S. GAAP for the difference between the carrying value recorded under Brazilian GAAP and the fair market value of the Company's derivative contracts.

Contracts outstanding at December 31, 2006 and 2005 are summarized as follows:

Type	Date of contract	Expiration date	Number of contracts	Aggregate notional amount	Accounting balance (liability) as of December 31, 2006	Market value
USD x CDI	July 1, 2004	January 2, 2007 to April 15, 2008	29	30,410	(2,703)	(2,860)

Type	Date of contract	Expiration date	Number of contracts	Aggregate notional amount	Accounting balance (liability) as of December 31, 2005	Market value
USD x CDI	July 1, 2004	January 16, 2006 to October 16, 2007	22	7,242	(2,703)	(2,775)

h) Earnings per share

Under U.S. GAAP, the Company calculates earnings per share in accordance with SFAS No. 128, “Earnings Per Share”. Basic earnings per share are calculated by dividing net earnings available to the Company’s shares by weighted-average shares outstanding. Diluted earnings per share are calculated similarly, except that it includes the dilutive effect of the Company’s stock option plan.

	For the year ended December 31,	
	2006	2005
Basic net income per share computation:		
Net income under U.S. GAAP (see Note 26.m.)	445,345	369,530
Weighted-average shares outstanding	415,765,245	414,630,565
Basic net income per share (in R$)	1.0711	0.8912
Diluted net income per share computation:		
Net income under U.S. GAAP (see Note 26.m.)	445,345	369,530
Weighted-average shares outstanding	415,765,245	414,630,565
Incremental shares attributable to the assumed exercise of outstanding options (treasury stock method)	3,078,701	3,490,000
Total	418,843,947	418,120,565
Diluted net income per share (in R$)	1.0633	0.8838

i) Dividends

Under the Company’s bylaws, the Company is required to distribute an aggregate amount equal to at least 30% of the Company’s adjusted net income of each fiscal year as a minimum mandatory dividend. For more information regarding dividends paid to the Company’s shareholders, see Note 19.d.

Under Brazilian GAAP, the minimum dividend must be recognized in the year in which the related income is earned.

Before 2006, the Company’s accounting policy must U.S. GAAP was to recognize dividends in the period in which the dividends were approved by the Company’s shareholders because the Company believed that the minimum mandatory dividend did not become liability for U.S. GAAP purposes until that point. Following this policy, in the U.S. GAAP reconciliation of shareholders’ equity for 2005, the Company reversed R$285,237 in dividends that were recognized in 2005 under Brazilian GAAP.

In 2006, the Company changed its accounting policy under U.S. GAAP to recognize the minimum mandatory dividend in the year in which the distributable profits were earned. The Company believed that, because of the limited discretion of shareholders to veto payment, the dividend was more properly treated as a liability as of the end of the year in which the distributable profits were earned.

The following table sets forth shareholders’ equity under U.S. GAAP if the Company had applied in 2005 the same accounting policy that it applied in 2006:

	2005
Shareholders' equity as reported	811,524
Shareholders' equity applying new policy - restated in 2005 (see Note 26.m.)	726,522

j) Translation of financial statements of foreign subsidiaries

Under Brazilian GAAP, the Company records the effects of translating the financial statements of its foreign subsidiaries into Brazilian reais in results of operations for the year. For U.S. GAAP purposes, the functional currencies of the Company's foreign subsidiaries are considered to be the respective local currencies. Under SFAS No. 52, "Foreign Currency Translation", the adjustments resulting from the process of translating a foreign entity's financial statements from the functional currency to the reporting currency are not recorded in results of operations but are accumulated in a separate component of consolidated equity (foreign currency translation adjustments).

k) Comprehensive income

Brazilian GAAP does not recognize the concept of comprehensive income.

Under U.S. GAAP, SFAS No. 130, "Reporting Comprehensive Income", effective for years beginning after December 15, 1997, requires the disclosure of comprehensive income. Comprehensive income is comprised of net income and "Other comprehensive income", which include charges or credits directly to equity that are not the result of transactions with shareholders. The Company's comprehensive income for the years presented in Note 26.m. relates to cumulative translation adjustments of our foreign subsidiaries recorded under SFAS No. 52 "Foreign Currency Translation".

l) Statements of cash flows

Under Brazilian GAAP, the Company classified cash flows amounting to R$4,540 and R$15,499 for the years ended December 31, 2006 and 2005, respectively, relating to derivative contracts, as financing activities. Under U.S. GAAP, since these derivative contracts do not qualify for hedge accounting, these cash flows are classified as investing activities. Additionally, the Company has classified cash flows from judicial deposits amounting to R$61,879 and R$29,477 for the years ended December 31, 2006 and 2005, respectively, as operating activities. Under U.S. GAAP, these cash flows would be classified as investing activities.

m) Reconciliation of the differences between Brazilian GAAP and U.S. GAAP

Net income reconciliation	2006	2005
Income under Brazilian GAAP	460,774	396,881
Adjustments to reconcile Brazilian GAAP to U.S. GAAP:		
Monetary restatement of 1996 and 1997	(26)	(26)
Amortization of capitalized interest	(361)	(361)
Reversal of goodwill amortization recorded under Brazilian GAAP	-	116
Accounting for derivative instruments	(603)	284
Stock option plan	(20,628)	(32,729)
Other adjustments	406	126
Translation of financial statements of foreign subsidiaries	1,487	4,571
Investment grants - items posted directly to shareholders' equity accounts	3,870	717
Deferred tax effects of the above adjustments	426	(49)
Net income under U.S. GAAP	445,345	369,530
Foreign currency translation adjustments	(1,487)	(4,571)
Comprehensive income under U.S. GAAP	443,858	364,959

Shareholders' equity reconciliation	2006	2005
Total shareholders' equity under Brazilian GAAP	640,551	521,389
Adjustments to reconcile Brazilian GAAP to U.S. GAAP:		
Monetary restatement of 1996 and 1997	1,609	1,635
Capitalized interest	5,235	5,596
Reversal of proposed dividends of 2006 (net of the minimum mandatory dividend) - restated in 2005 for change in accounting policy (see Note 19.d))	218,637	200,235
Accounting for derivative instruments	(675)	(72)
Stock option plan	(20,628)	-
Cumulative effect of adoption of SFAS No. 123 (R) (see Note 26.f.)	(61,672)	-
Other adjustments	669	263
Deferred tax effects of the above adjustments	(2,098)	(2,524)
Shareholders' equity under U.S. GAAP	781,628	726,522
Accumulated comprehensive income under U.S. GAAP	(4,276)	(843)

The deferred tax effects of the U.S. GAAP adjustments above are classified as noncurrent under U.S. GAAP, with the exception of the adjustment relating to derivative instruments.

n) Statements of changes in shareholders' equity under U.S. GAAP

	Total
Balance as of December 31, 2004	554,441
Income under U.S. GAAP	369,530
Foreign currency translation adjustments	(4,571)
Dividends of 2004 approved in 2005	(113,577)
Adjust for reflecting the minimum mandatory dividend of 2006	(85,002)
Interest on capital	(34,205)
Stock option plan under	32,729
Exercise of stock options	4,874
Payment of receivables from shareholders	2,303
Balance as of December 31, 2005	726,522
Income under U.S. GAAP	445,345
Foreign currency translation adjustments	(1,487)
Dividends of 2005 approved in 2006 (excess of the minimum mandatory dividend)	(200,235)
Minimum mandatory dividend on net income of 2006	(107,229)
Cumulative effect of adoption of SFAS No. 123 (R) (see Note 26.f.)	(61,672)
Interest on capital	(33,569)
Exercise of stock options	8,793
Payment of receivables from shareholders	2,060
Capital increase through subscription of shares	3,100
Balance as of December 31, 2006	781,628

27. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a) Concentrations of risk

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of cash investments. The Company places its cash investments with high credit quality financial institutions and has a policy of limiting the amount and percentage of credit exposure to any financial institution.

Some of the Company's employees are affiliated with state and/or municipal labor unions (Union of Workers in the Chemical, Pharmaceutical, Plastics, Explosives, Abrasives, Fertilizers and Refinement of Mineral Oils Industries of Osasco, Cotia and the Surrounding Region ("Sindicato dos Trabalhadores nas Indústrias Químicas, Farmacêuticas, Plásticas, Explosivas, Abrasivas, Fertilizantes e Refino de Óleos Minerais de Osasco, Cotia e Região"); Union of Employees of Independent Commercial Agents, of Companies that Perform Advisory, Expert, Information and Research Services and of Accounting Services Companies in the State of São Paulo ("Sindicato dos Empregados de Agentes Autônomos do Comércio e em Empresas de Assessoramento, Perícias, Informações e Pesquisas e de Empresas de Serviços Contábeis no Estado de São Paulo"); and Union of Commercial Employees of Cotia and the Surrounding Region ("Sindicato dos Empregados no Comércio de Cotia e Região")). Labor agreements are negotiated with these labor unions that influence the wages the Company generally pays to its employees. In recent years, the Company has not experienced a work stoppage that has had a material effect on its operations. The Company's collective agreements have a one-year term. These collective agreements and its related terms are revised yearly.

Other than described above, the Company has no other concentrations of risk that could result in a materially adverse impact on the Company's operations.

b) Intangible assets

The following is a summary of the Company's intangible assets subject to amortization under U.S. GAAP:

	2006			
	Software licenses	Patents	Goodwill on acquisition of investment Nova Flora	Business lease Natura Europa
Gross	32,735	941	8,015	5,860
Accumulated amortization	(13,561)	(941)	(8,015)	-
Net	19,174	-	-	5,860
Amortization expense	4,990	53	-	-
Amortization period (years)	5	4-10	10	-

	2005			
	Software licenses	Patents	Goodwill on acquisition of investment Nova Flora	Business lease Natura Europa
Gross	24,885	1,056	8,015	5,753
Accumulated amortization	(8,571)	(997)	(8,015)	-
Net	16,314	59	-	5,753
Amortization expense	3,192	53	2,528	-
Amortization period (years)	5	4-10	10	-

The estimated aggregate amortization expense for the following years is as follows:

	Amount
2007	6,547
2008	6,547
2009	6,080
	19,174

c) Recently issued accounting pronouncements

In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109", which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application is encouraged if the enterprise has not yet issued financial statements, including interim financial statements, in the period this Interpretation is adopted. The Company is currently evaluating the potential impact of the adoption of FIN No. 48 on its consolidated financial statements.

In June 2006, the FASB issue EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)", which reached a consensus that taxes collected from customers and remitted to governmental authorities could be presented on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The Company's accounting policy is, and has historically been, to present such taxes on a net basis.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company believes that such pronouncement will not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued Staff Position (FSP) No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities", which prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. This guidance is applicable to entities in all industries. The FSP is effective for the first fiscal year beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year. The Company believes that such pronouncement will not generate a material impact on the Company's consolidated financial statements.

NATURA COSMÉTICOS S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	460,773	396,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (Notes 11 and 12)	54,601	44,035
Monetary and exchange variations, net, except those referring to tax, civil and labor contingencies	14,529	6,312
Reserve for losses on swap and forward contracts (Notes 22.b. and 22.d.)	4,022	12,064
Reserve for tax, civil and labor contingencies, including monetary variation on those reserves (Note 16)	12,998	31,040
Allowance for inventory losses (Note 7)	1,626	1,943
Deferred income and social contribution taxes (Note 9.a.)	(12,964)	(12,150)
Proceeds from sale and disposal of property, plant and equipment and intangible assets	2,476	2,242
Equity in subsidiaries (Note 11)	-	-
Minority interest	(4)	1
(INCREASE) DECREASE IN ASSETS		
Current assets:		
Accounts receivable (Note 6)	(57,904)	(66,198)
Inventories (Note 7)	(86,410)	(32,289)
Other receivables	(2,317)	7,152
Noncurrent assets (long-term assets):		
Escrow deposits (Note 16)	(29,369)	(2,688)
Recoverable taxes (Note 8)	(8,019)	(5,726)
Other receivables	(2,575)	4,111
INCREASE (DECREASE) IN LIABILITIES		
Current liabilities:		
Suppliers	54,736	41,849
Salaries, profit sharing and related charges, net (Note 17)	15,545	9,125
Taxes payable, net (Notes 8 and 15)	(4,366)	19,794
Other payables	6,233	9,589
Noncurrent liabilities-		
Other payables	8,491	(4,380)
NET CASH PROVIDED BY OPERATING ACTIVITIES	432,102	462,707
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets (Note 12)	(193,596)	(111,636)
NET CASH USED IN INVESTING ACTIVITIES	(193,596)	(111,636)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in current loans (Note 14)	(116,005)	(75,104)
Fundings - noncurrent loans (Note 14)	111,322	120,366
Payments of swap and forward transactions (Notes 22.b. and 22.d.)	(4,540)	(15,499)
Payment of dividends (Note 19.c.)	(307,123)	(203,812)
Payment of interest on capital (Notes 19.c. and 19.d.)	(51,268)	(30,129)
Payment of capital (Note 19.a.)	3,100	-
Tax incentives	3,872	717
Sale of treasury shares by exercise of stock options (Note 19.e.)	8,581	4,929
Payment of receivables from shareholders (Note 19.b.)	2,272	2,288
NET CASH USED IN FINANCING ACTIVITIES	(349,789)	(196,244)
NET (DECREASE) INCREASE IN CASH AND BANKS	(111,283)	154,827
Cash and banks at beginning of year	386,439	231,612
Cash and banks at end of year	275,156	386,439
CHANGE IN CASH AND BANKS	(111,283)	154,827
SUPPLEMENTARY CASH FLOWS DISCLOSURE		
Income and social contribution taxes paid	143,276	111,605
Interest paid on loans and financing	9,902	6,645

* * * * *

LETTER FOR THE BOARD

Our Common Future

The year 2006 brought us many happy events. Besides the excellent results achieved by Natura, we must all celebrate a historical occurrence: throughout the world, awareness that global warming is a risk to the life of our planet expanded. Thus, the seed planted in the report Our Common Future, of the United Nations World Commission on Environment and Development, whose 20th anniversary will be celebrated in 2007, is prospering. And this increases the possibility that we can cause changes in behavioral, production and consumption guidelines that assure the fulfillment of our common responsibility toward future generations.

The company initiatives that promote development with economic, social and environmental balance ceased to be seen as "idealistic" and have become "imperative." For those of us at Natura who for many years have guided our actions by our dedication to sustainable development, this change in perception only reinforces our desire to advance down this path.

The results obtained in 2006 are expressive. Natura's gross revenues grew 19,9% over gross revenues in 2005. International revenues grew 44,3%. Our EBITDA was R$ 654.5 million. The distribution channel formed by our Consultants grew 16,2% in Brazil, climbing to 561,000 people. In other Latin American countries, we already surpassed 56,000 Consultants. We generated R$ 1.6 billion in direct income for this universe of 617,000 people that is dedicated to social transformation and spreading our values.

In four years, Natura increased its Brazilian market share from 12% to 22,8%. The total number of items for resale jumped from 98 million in 2002, to 241 million in 2006, and in the same period the number of employees increased from 2,800 to 4,300.

This very significant growth trend fills us with pride, and at the same time demands our redoubled attention to control the increased complexity, the pressures on the various systems and processes, and the tensions generated in the work environment. We are confident that the measures taken in 2006 and scheduled for the coming years are solid and consistent, and will eliminate any obstacles to our continued development.

With our dedication to our essence, we will continue to invest in innovative management, science and technology. For Natura, technological development includes the mobilization of expansive social networks that are capable of integrating scientific knowledge with the wisdom of traditional communities, while simultaneously promoting the sustainable use of nature's resources. In 2006, our investments in research and development were R$ 87.8 million, a 30,8% increase over 2005. We initiated the construction of a new Research Center in Campinas (São Paulo), which should be inaugurated in 2008, and we opened an advanced technology center in Paris.

We continued to invest in the sustainable use of Brazil’s biodiversity, despite insufficiency of the legal framework that regulates access to genetic patrimony and fair remuneration of traditional knowledge. Despite the fact that this failing is a significant impediment to the country’s development, we understand that the continuity of our transparent practices and ample dialogue with all the social agents involved assure us of conditions to make good use of the huge competitive advantage represented by Brazil’s rich biodiversity. In anticipation of legislative development, in 2006 we became the first Brazilian company to sign agreements for remuneration of widespread traditional knowledge, establishing pioneering partnerships with the Associação das Ervateiras do Mercado do Ver-o-Peso [Association of Herb Producers of the To-Be-Weighed Market] and the Associação de Produtores de Boa Vista [Association of Producers of Boa Vista], of Acará, both in Pará.

With the same innovative attitude, in Pará we also organized an undertaking intended to widen and deepen our presence in the Amazon, and to expand our experience with sustainability. The new soap factory in Benevides will substitute part of the African palm oil, used as a raw material, with native palm oil provided by agricultural and extractive cooperatives in the region. Over the long term, the project may involve 2,500 families from 21 municipalities, involving social and economic benefits for the communities and new challenges in learning, harmonious living and management.

Our desire to spread the concept of Bem Estar Bem (Well Being / Being Well), and the vision of turning Natura into a globally important brand that is identified with the community of people who are dedicated to building a better world through a better relationship with themselves, with others and with the nature of which they are a part, require daring and determination on our part. It is with this spirit that we define our strategy for strong growth.

In Brazil – the market that will still be responsible for the majority of the company’s results in the coming years – we will continue to grow, seeking efficiency and productivity gains. In our other operations in Latin America, since acceptance of our proposed value through the direct sales channel is already proven, the challenge is to accelerate growth to attain critical mass, thus increasing profitability. In other regions of the world where there are strong indicators of acceptance of our proposal, we are evaluating and testing the best ways to handle the opportunities.

Global expansion demands a company that is increasingly cosmopolitan and multicultural, capable of understanding and interacting with different cultures, and able to express itself in multiple languages. It also demands growing involvement in work done through networking, and the capacity to identify and attract leadership that identifies with our beliefs in the various countries where we operate. Thus, it is essential to encourage entrepreneurship and managerial autonomy to become a decentralized company, with more robust processes and better management of knowledge.

With the participation of everyone: employees, consultants, shareholders, consumers, suppliers and integral partners of the Natura community – whom we thank for their dedication for the achievements made in 2006 – we will build a company that is increasingly better, at the same time contributing toward our common future so that we will realize the ideal of a more prosperous and fair society built on solidarity.

Antonio Luiz da Cunha Seabra

Guilherme Peirão Leal

Pedro Luiz Barreiros Passos

Board of Directors Co-Presidents

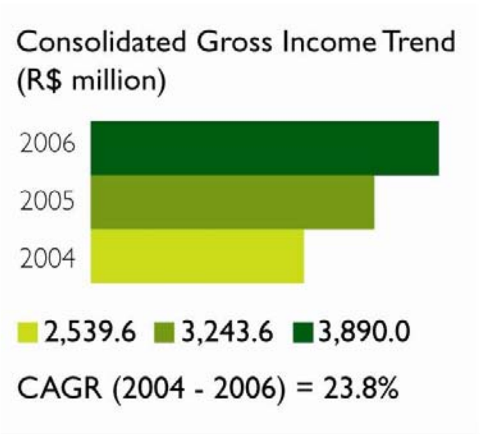
Alessandro Giuseppe Carlucci

Chief Executive Officer

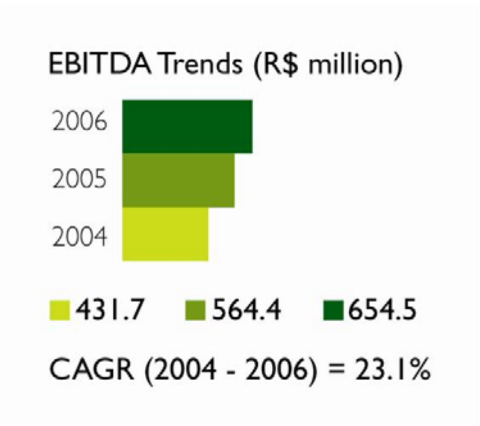
MANAGEMENT REPORT – 2006

The historical growth trend of the markets in which Natura operates continued in 2006 at rates much higher than the average of other sectors in the Brazilian economy. The nominal growth of the cosmetics, fragrances and personal hygiene sector was 13.4%, according to the Brazilian Association of the Personal Hygiene, Perfume and Cosmetics Industry (Abihpec). According to the Brazilian Association of Direct Sales Companies (ABEVD), the direct sales sector posted growth of 18% in relation to 2005.

At Natura, we again reached the end of the 2006 fiscal year with significant growth and profit indicators. Our consolidated gross revenues were R$ 3.9 billion, a 19.9% increase over 2005, which, as in the previous year, exceeded the growth rate of our target market. In Brazil, our market share climbed to 22.8%, versus 21.4% in 2005. This growth was due in part to the efforts of our Consultants, who this year totaled 561,000, 16.2% more than in 2005. In international operations, gross revenue increased 44.3% and the number of Consultants exceeded 56,000, representing growth of 49.7% over the previous year.



In 2006, our EBITDA totaled R$ 654.5 million, 16% greater than EBITDA in 2005. The net profit of R$ 460.8 million grew 16.1% in the period. EBITDA and net profit margins were 23.7% and 16.7%, respectively, slightly lower than the 2005 numbers of 24.7% and 17.4%. This drop is partly due to the planned increase of investments in the Company's internationalization process, both in the administrative structure and in the start-up of new operations, and partly because the sales performance of the last quarter of 2006 was lower than our forecasts.



This fiscal year we made significant investments in fixed assets. The total was R$ 193.6 million, 73.4% greater than the R$ 111.6 million of 2005. The funds were used primarily in expanding the productive capacity of Cajamar, São Paulo, and in the new soap factory in Benevides, Pará, in the start-up of construction of the new research and development center, and in Information Technology.

The Cost of Goods Sold (COGS) was 32.3% of net income, slightly greater than the 32% of 2005. Administrative and sales expenses also posted an increase in 2006, rising from 44.3% in 2005 to 45.5%.

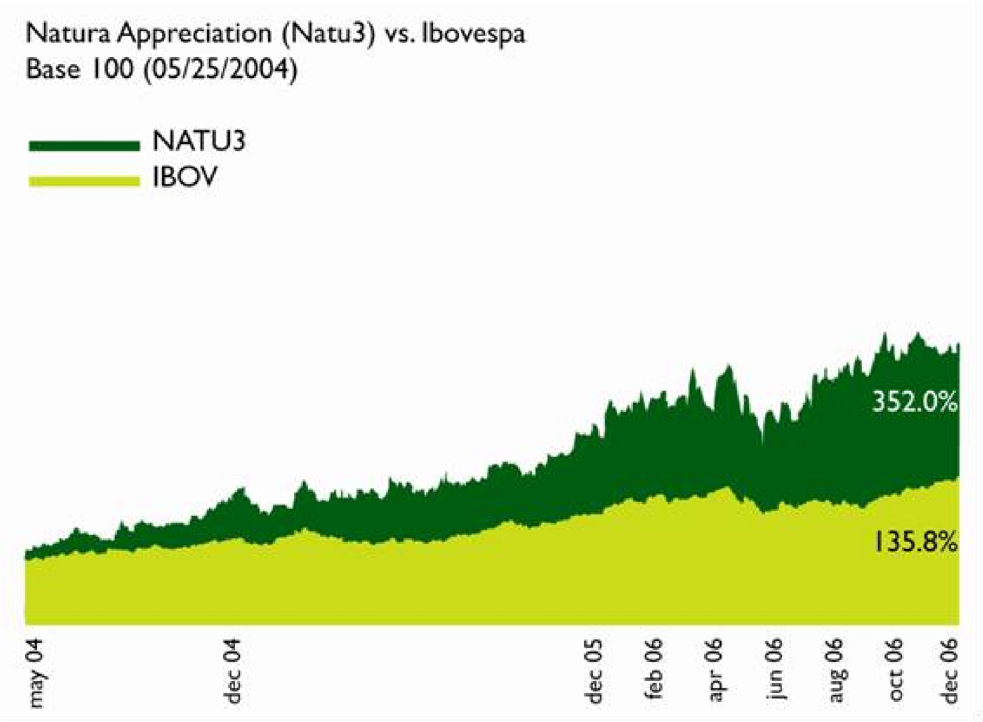
In 2006, the liquidity of Natura's stock increased. At the Extraordinary Shareholders' Meeting held on March 29, 2006, shareholders approved the split of shares issued by Natura at the rate of 1:5, so that individual shareholders trading in smaller volumes could purchase Natura shares in a standard block with less absolute value.

Trading of Natura shares on Bovespa Stock Exchange

Date	Number of trades	Quantity of shares traded	Settlement price – R$/share	Volume traded – millions of reais
2005	24,446	84,412.500	20,60	1,357.2
2006	148,425	139,080.100	30,15	3,592.4

With the increased liquidity, our paper began to appear on the major indices of the Brazilian stock market: Ibovespa, IbrX 50, IBrX 100, ISE, ITAG and IGC, in addition to the MSCI, an index where we first appeared in 2005.

Stock valuation during 2006 was another positive factor, as shown in the following graph:



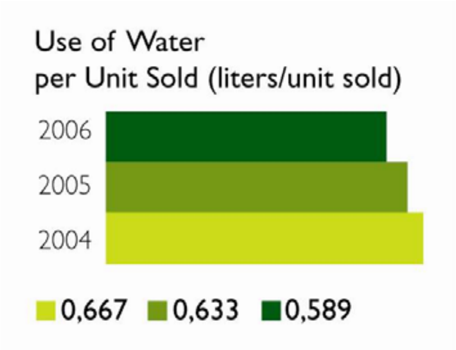
Natura’s bylaws establish an obligatory minimum dividend of 30% of adjusted net income. The company’s Board of Directors approved a dividend distribution policy corresponding to 45% of the adjusted net income. For 2006, Natura already paid dividends and interest on own capital in the amount of R$ 140.6 million.

The Board of Directors sent a proposal to shareholders for the Ordinary Shareholders’ Meeting to be held on April 2, 2007, for payment of an additional R$ 213.8 million, bringing the net total to R$ 354.4 million. These amounts correspond to 77% of consolidated adjusted net income in 2006.

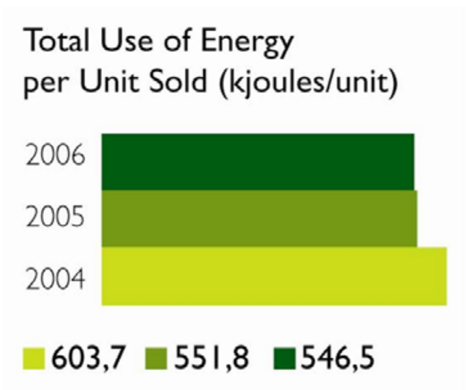
As one of the pillars of our company operation is the integration of environmental and social results into the financial results, some events in 2006 deserve to be highlighted. In the environmental arena, we made progress in several areas in 2006, as follows:

- **Emission of greenhouse gases**: We implemented a system to map emissions, identify opportunities to reduce gases emissions - from the supply chain to the final disposal - and to manage action plans, with the goal of becoming "carbon-neutral" by 2008, thereby mitigating and offsetting the environmental impact of all our operations.

- **Water:** The use of water per unit sold fell 7% and the average water reuse index fell from 55% to 42%. This drop is explained by the increased production volume and the learning curve of a new water purification system for our industrial process.



- **Energy:** The use of energy per unit of product sold decreased by 1%.



- **Waste:** The total weight of waste per unit sold increased 2.2 pp and the portion of recycled waste increased from 81.1% to 84.1%.

- **Refills:** The share of refills per items sold rose from 17.4% to 19.8%, which represents a significant reduction in the environmental impact of our products, considering that the average mass of refill packaging is 54% less than that of regular product packaging. Also because of refills, we achieved a 7% reduction of average environmental impact from our packaging.

The voluntary sale of products of the *Crer para Ver* program totaled R$ 5.4 million in 2006, a growth of 76.9% over 2005. These funds were earmarked to various educational projects. The Youth and Adult Education Campaign, developed in partnership with the Ministry of Education, reached the significant milestone of more than 78,900 enrollments and re-enrollments nationwide.

Research and Development

2006 marked the end of our use of animal testing, an objective that Natura has pursued for more than six years. We also continued our efforts to increase the percentage of use of ingredients of renewable plant origin in our formulas. In 2006 we obtained six new certifications, bringing the total to 22 active certificates of Brazilian biodiversity.

Investments in innovation and launching new products continue to be an important differential for the company. This year we launched 225 products, versus 213 in 2005, and we maintained the strategy of investing in Brazilian biodiversity as a technological platform for the development of new products, as in the launch of our *Diversa* make-up line, which is exceptional in its use of refills, including lipstick refills.

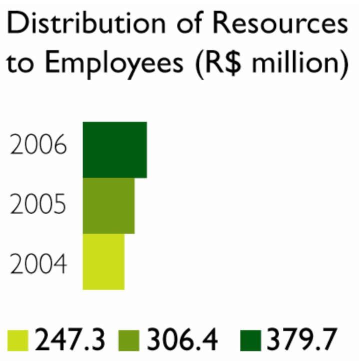
In the fragrance category, we returned to a more intense pace of innovation with the launch of the *Natura Humor* line. Other important launches complemented the Ekos line: Essência do Brasil Breu Branco and Essência do Brasil Priprioca.

In addition to starting construction of a research and technology center in Campinas, São Paulo, and the inauguration of an advanced research center in Paris, France, we installed a laboratory for the development of oils from the Amazon in Benevides, Pará, and we signed a partnership agreement with the *Centro de Biotecnologia da Amazônia* (Amazon River Region Biotechnology Center), to undertake a pilot project to develop fixed oils.

RELATIONSHIPS

Employees

In October 2006, Natura launched its Relationship Principles, a set of rules and standards of conduct, and an ombudsman, which at this initial juncture will apply to our employees in Brazil and will be extended to other operations and publics with which we have a relationship.



The expansion of operations in Brazil and in other countries required that we hire 997 new employees. In 2005, Natura generated 573 new direct jobs. As of December 2006, we had a total of 5,125 employees, with 4,361 in Brazil alone.

In 2006, the investment in education jumped 29% over 2005, reaching R$ 16.4 million, which means that we vastly exceeded the goal of 40 hours of training per year per employee.

During fiscal year, we again conducted research on the organizational climate using an independent institute. The result was 69% favorable, versus 70% for the previous fiscal year. Although small, this drop signals the need to continue to improve the quality of relationships with our employees. On the other hand, we maintained our ability to attract and retain talent. Our turnover rate in Brazil fell from 7.6% to 6.7% this fiscal year.

In terms of diversity, 2006 stands out for the increased share of individuals with disabilities among our employees, representing an increase of 4.2%.

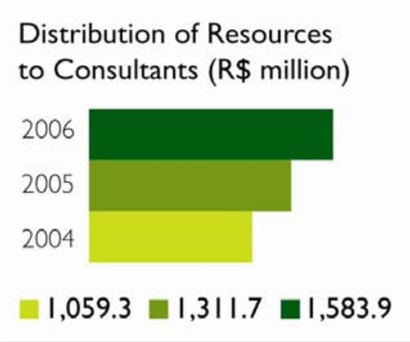
Consultants

Our growth was supported by a boost in the sales force, both in quantity and quality. Considering all operations, we ended 2006 with more than 617,000 Consultants, an increase of 18.9% over 2005. In Brazil alone, we rely on the support of 561,000 Consultants, who maintain productivity (sales per Associate) of R$ 12,500, slightly exceeding the previous year's strong performance, which was R$ 12,300.

Natura Consultants (million)

	2004	2005	2006
TOTAL	433	519	617

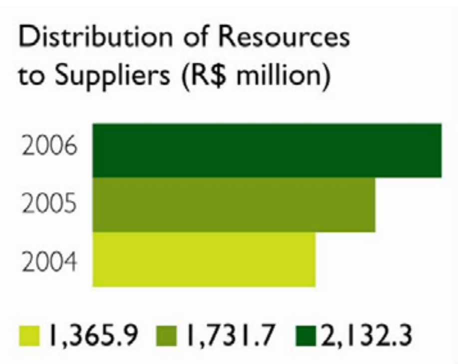
We continue to make important investments in relationships with Consultants, including training, meetings, offices and product launches as a way to keep them involved and an integral part of our community. *Movimento Natura*, a program that invites them to participate in social and environmental issues as mobilizing agents, continues to have relevant results and to earn attention for us, such as, for example, the Youth and Adult Education program and the growing sale of refills.



Suppliers and Supplier Communities

In 2006, we progressed in our certification program, *Qlicar* (Quality, Logistics, Innovation, Cost, Contractual Conditions, Service and Traceability), and we classified our suppliers into categories in order to implement specific development plans. In 2007, *Qlicar* will be expanded to the communities that supply biodiverse resources, distribution centers and service centers.

The policy of industrial outsourcing requires development of the productive skills and capacities of suppliers, both domestic and foreign. The result of this entire process will be to make outsourcing a competitive differential through the development of long-standing associations. The main products currently manufactured by third parties are our lines of bar soaps, shampoos, conditioners and liquid soaps in the *Ekos* line.



STRATEGIES AND CHALLENGES

The impressive financial, social and environmental results that we have obtained in recent years, as well as the acceptance of our proposed value in Brazil and abroad, lead us to believe that there are sufficiently favorable conditions for Natura to continue growing. At the same time, we need to move forward in consolidating the investments and projects that sustain our vigorous growth of recent years. Thus, we will continue to implement a **strategy of growth and consolidation**, based on the following guidelines.

In view of the positive results in Argentina, Peru and Chile, resulting from good acceptance of our brand and the direct sales channel, we will continue to grow and more quickly seek the point of equilibrium in these operations, demonstrating that we have a profitable and reproducible business model. We will continue to invest in the Mexican operation, since the strategy has proven itself sound as evidenced by greater-than-expected growth levels, and we will consolidate Natura's presence in the region by starting operations in Venezuela and in Colombia, also in 2007.

At the same time, we will continue to sound out new markets and, as reported, we began planning the launch of operations in the United States and Russia, slated for 2008. Thus, Natura's experience in France will continue to be a major source of learning.

We will continue to grow in the Brazilian market, maintaining the innovative spirit that defines our company. As a result of increasing competition in this market and of our relevance in it, we will need to be even more efficient and creative in our marketing activities, with an increased balance between short- and long-term operations. In recent years we invested in the expansion of our administrative structure to more autonomously and efficiently manage our operations – in Brazil, which will continue to finance all our initiatives in the coming years, and international operations, which represent the seeds of our future growth. Starting in 2007, we will keep this structure fixed. We will begin to incorporate gains of scale, and we will also explore productivity gains that still exist in the main operating processes.

In terms of the environment, we will continue mitigating and, where possible, eliminating harmful impacts to the environment, with the goal of becoming "carbon-neutral" by 2008. Keeping in mind our large-scale use of biodiverse Brazilian resources, we will continue to dedicate funds and the energy to sustainably use them, in strict partnership with farming and extraction communities with which we maintain relationships. In terms of social justice, our focus will continue to be to improve the quality of relationships and the expansion of the distribution of resources to all the publics in our business chain.

COMPLIANCE WITH ARBITRATION BOARD

The Company, its shareholders, administrators and the members of the Financial Board agree to resolve, by means of arbitration, any and all disputes or controversies that may arise among them, related to or deriving from, especially, the application, validity, efficacy, interpretation, violation and their effects, of the provisions contained in Law No. 6404/76, in the Company's bylaws, in the regulations published by the National Monetary Board, by the Central Bank of Brazil and by the Securities and Exchange Commission, as well as in any other regulations applicable to the operation of the capital markets in general, as well as those appearing in the New Market Listing Regulations, in the New Market Participation Contract and in the Arbitration Regulations of the Market Arbitration Board.

RELATIONSHIP WITH INDEPENDENT AUDITORS

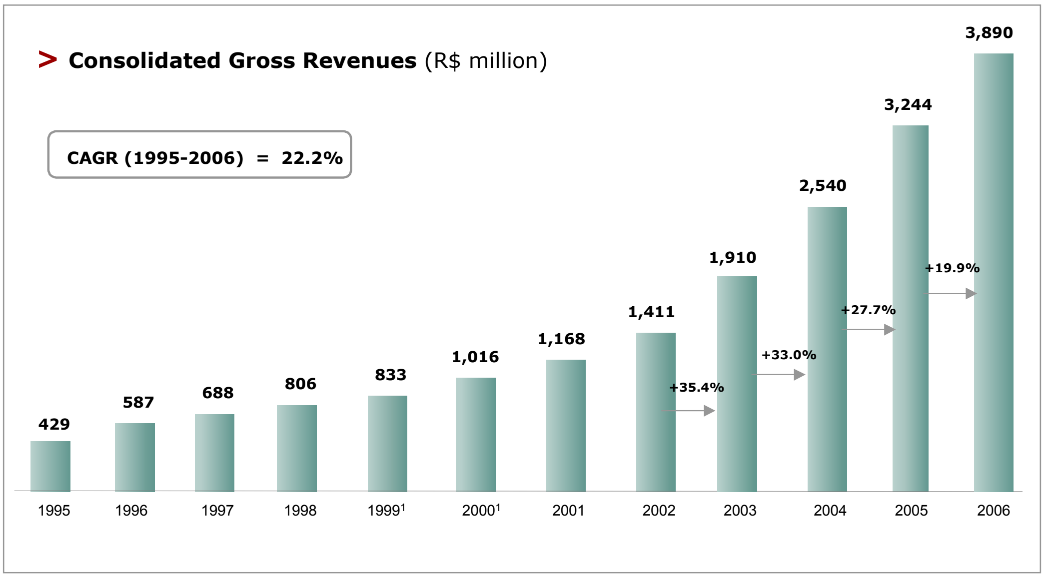
In accordance with CVM Instruction No. 381, we state that the Company's independent auditors, Deloitte Touche Tohmatsu, did not provide any services not related to the independent audit during fiscal year 2006. The Company's policy in hiring the services of independent auditors ensures that there is no conflict of interest, or loss of independence or objectivity.

EARNINGS RELEASE – 2006

São Paulo, Brazil, February 28, 2007 – Natura Cosméticos S.A. (São Paulo Stock Exchange – Bovespa: NATU3) announces today its results for the fourth quarter (4Q06) and for the year 2006. The financial and operating information included in this report, except where otherwise indicated, is presented on a **consolidated basis**, according to the Brazilian Corporate Law.

> 2006 HIGHLIGHTS

- Gross Revenue of R$3,890.0 million (+19.9% compared to 2005)
- R$654.5 million EBITDA (+16.0% compared to 2005)
- Net Income of R$460.8 million (+16.1% compared to 2005)
- Opening of the first *"Casa Natura"* (Natura House) in Brazil – Campinas – São Paulo
- Expansion of the distribution center – Mathias Barbosa/MG
- Initiation of the tests phase of the direct sales model and opening of the researches lab in Paris, France
- 18.6% growth in the consolidated number of Consultants, reaching 617.3 thousand.
- Natura Shares (NATU3)
    - *Splitting* 1:5 in March 2006
    - Entry in the IbrX50 and Ibovespa indexes, of the São Paulo Stock Exchange
    - 51.2% appreciation in 2006 (vs 32.9% of Ibovespa)



(1) Data from Natura Empreendimentos

> FINANCIAL SUMMARY

> Consolidated Financial Summary (R$ million)

	4Q06	4Q05	Change %	2006	2005	Change %
Units sold – items for resale (in millions) – Brazil[1]	71.8	67.8	5.9%	241.0	216.0	11.6%
Gross Revenues	1,201.0	1,029.7	16.6%	3,890.0	3,243.6	19.9%
Net Revenues	852.8	726.0	17.5%	2,757.0	2,282.2	20.8%
Gross Profit	548.2	494.1	11.0%	1,865.7	1,551.0	20.3%
Gross Margin (%)	*64.3%*	*68.1%*	-	*67.7%*	*68.0%*	-
Ebitda[2]	177.5	194.9	-8.9%	654.5	564.5	16.0%
Ebitda Margin (%)	*20.8%*	*26.8%*	-	*23.7%*	*24.7%*	-
Net Income	116.8	138.5	-15.7%	460.8	396.9	16.1%
Net Margin (%)	*13.7%*	*19.1%*	-	*16.7%*	*17.4%*	-
EPS (R$)	-	-	-	1.08	0.93	15.4%
Dividends + Interest on Capital[3] per share (R$)	-	-	-	0.83	0.74	12.2%
Total consultants[4] in Brazil (in thousands)	561.1	482.8	16.2%	561.1	482.8	16.2%
Total consultants[4] in Latin America[5] (in thousands)	56.2	37.6	49.7%	56.2	37.6	49.7%

(1) Total consolidated number of Cosmetics, Fragrances and Toiletries products resold by consultants. Therefore, units sold exclude samples, gifts, resale support material, *Crer para Ver* products, among others.
(2) EBITDA = income from operations before financial effects + non-operating income + depreciation and amortization.
(3) Including the dividends and interest on own capital per share (net of withholding income tax) regarding the results of the fiscal year 2006, "ad referendum" of the Annual General Meeting to be held on April 02, 2007.
(4) Position at the end of the period of the 17th sales cycle.
(5) Argentina, Chile, Peru and Mexico.

> COSMETICS, FRAGRANCE AND TOILETRIES (CF&T) SECTOR IN BRAZIL - NATURA'S TARGET MARKET FIGURES

According to data from Sipatesp/Abhipec1, in 2006, the Cosmetics, Fragrances and Personal Hygiene Industry posted a 13.4% growth, compared to 2005. Discounted by the Amplified Consumer Price Index (IPCA) of 3.1% in the period, in real terms, the industry posted a 10.0% growth. During the last bimester of 2006, the target market annual growth was 11.8%, compared to the same period of previous year.

The table below shows the breakdown of the target market 2 in two segments: Cosmetics and Fragrances, and Toiletries, and Natura's market share in these segments.

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

	Target Market (R$ million)			Natura's Market Share (%)		
	2006	2005	growth%	2006	2005	points percentage
Cosmetics and Fragrances	5,203	4,455	16.8%	36.2%	34.3%	1.8
Personal Hygiene	6,240	5,638	10.7%	11.7%	11.3%	0.4
Total	**11,443**	**10,093**	**13.4%**	**22.8%**	**21.4%**	**1.4**

Source: Sipatesp/Abhipec

(1) Sipatesp/Abhipec – Brazilian Association of the Cosmetic, Toiletry & Fragrance Industry
(2) Target Market – Cosmetics and Fragrances (Skincare, Make up, Fragrances and Sun Protection) and Toiletries (Soaps, Hair care, Deodorants and Shaving products)

Natura increased its market share in the target market by 1.4pp, from 21.4% in 2005 to 22.8% in 2006.

> CONSOLIDATED GROSS REVENUES

Gross revenue in the fiscal year 2006 was R$3,890.0 million, with a 19.9% evolution compared to 2005. We added 1.4pp to our market share in the target market in Brazil, which increased from 21.4% in 2005 to 22.8% in 2006. The foreign market sales interest in the total revenue increased from 2.8% in 2005 to 3.4% in 2006.

In 4Q06, the consolidated gross revenue totaled R$1,201.0 million, a 16.6% growth compared to 4Q05. In Brazil, the gross revenue increased 15.6% in the same period, a rate below our expectations, due to a lower market strategy efficiency at the end of the year, that, despite having several innovative elements, did not reached the planned results. We have developed some actions focused on leveraging the sales of our products that may serve as gifts, what has indeed occurred, despite of a cannibalization of our other items, affecting our gross margin. The causes have already been identified and will be eliminated for the 2007 strategy.

Taking into consideration our relevant market share and the natural increase of competition in the Brazilian market, we will increase the efficiency of our Marketing actions, searching for a better balance between short and long term actions. In the international market, the gross revenue posted a 51.8% growth in North-American dollars in 2006 compared to 2005, and a 52.0% growth in 4Q06, compared to 4Q05.

In 2006, 225 new products were launched, among which two news products deserve special attention – Natura Humor perfume and Natura Diversa make up line. The innovation index, indicating the percentage of the annual revenue arising from the products launched during the last 24 months, decreased from 69.8% in 2005 to 58.4% in 2006. This decrease basically arises from a lower effectivity of some products launches during 2005.

> COST & EXPENSES

Cost of Goods Sold - In the fiscal year 2006, the Cost of Goods Sold as a percentage of net revenues remained stable, from 32.0% in 2005 to 32.3% in 2006.

In 4Q06, the Cost of Goods Sold was 35.7%, compared to 31.9% in 4Q05. This 3.8pp increase was mainly due to two factors: (i) increased growth of sets and lower growth of the baseline products sales and (ii) increase of the overhead and production indirect costs due to the adequation of the structure, focused on the continuity of the expansion process of the Company.

The chart below shows the breakdown of cost's main components:

> Composition of Cost of Good Sold (% Net revenues)

Item	4Q06	4Q05	2006	2005
RM/PM[1]	29.2	26.8	25.4	25.9
Labor	2.5	2.1	2.8	2.5
Depreciation	0.9	0.9	1.1	1.0
Others	3.1	2.1	3.0	2.6
Total	**35.7**	**31.9**	**32.3**	**32.0**

(1) Raw material and package material

In 2006, sales expenses showed a slight 0.4pp increase, from 31.7% in 2005 to 32.1% in 2006, as a percentage of net revenue. This growth was due to a planned increase of investments in international expansion and in the brand construction in these markets, partially offset by the higher efficiency in logistic processes (call center and freight expenses).

The sales expenses posted a 1.0pp growth in the quarter, from 31.3% of net revenue in 4Q05 to 32.3% in 4Q06. This increment is associated to higher investments focused on the strengthening of Natura brand in the international operations mentioned above, concentrated in this period.

Administrative expenses rose from 12.7% in 2005 to 13.4% in 2006 in relation to net revenue. This increase is attributed to (i) strategic decisions, especially regarding the projects and the restructuring of the IT area; and (ii) adequation of the administrative structure, aiming the continuity of the expansion process of the Company in Brazil and abroad. These increases were partially offset by the reduction of the provisions for tax risks and others in 2006.

In 4Q06, the administrative expenses represented 12.7% of net revenue, compared to 11.4% in 4Q05. The reasons for the increase were the same of the year, however, the impact in the quarter was higher, due to the combination of lower sales growth with (i) expenses with administrative structure that achieved its peak in 4Q06 and (ii) a higher circumstantial concentration of expenses from projects also in this quarter.

> EBITDA AND NET INCOME

In 2006, **EBITDA** totaled R$654.5 million, with a 16.0% growth compared to 2005 (R$564.5 million). The EBITDA margin posted a reduction, from 24.7% in 2005 to 23.7% in 2006. This reduction is a direct result of (i) strategic decisions, such as higher investments in the brand strengthening, internationalization and IT; and (ii) re-adequacy of the administrative structure, due to the strong Company growth during the last years.

In 4Q06, **EBITDA** was R$177.5 million, an 8.9% reduction compared to 4Q5 (R$194.9 million). The EBITDA margin decreased from 26.8% in 4Q05 to 20.8% in 4Q06, mainly due to the (i) sales growth below expectations in 4Q06, (ii) gross margin reduction and (iii) intensification of administrative and sales expenses, as previously mentioned.

In 2006, **net income** reached R$460.8 million (R$396.9 million in 2005). The net income per share, excluding treasury shares, was R$1.08 in 2006 (R$0.93 in 20051), posting a 15.4% increase, in line with EBITDA.

In 4Q06, **net income** recorded a 15.7% reduction, from R$138.5 million in 4Q05 to R$116.8 million. This reduction, more accentuated if compared to the EBITDA one, was due to the lower net financial revenue in the period (R$0.1 million in 4Q06 against R$8.1 million in 4Q5). An increase in the Income Tax (IR)/Social Contribution on Net Income (CSLL) average rate could also be observed, compared to 4Q05, due to the higher loss interest of international operations, arising from the opening of new subsidiaries.

(1) For better comparison purposes, the value of net income per share in 2005 was divided by 5 to reflect the splitting of shares occurred in March 2006.

> CAPEX (FIXED ASSETS)

2006 capital expenditures (CAPEX) totaled R$193.6 million, mainly allocated to: (i) expansion of logistics and production capacity, (ii) land acquisition for the construction of the new research and development center in Campinas and (iii) IT.

For 2007, the investments programmed amount to R$190 million to be allocated to: (i) expansion of logistics and production capacity, (ii) civil works regarding the new research and development center, and (iii) IT.

> RESULTS BY AREA OF OPERATION

>> Brazil

> Financial Highlights - Brazil (R$ million)

	4Q06	4Q05	Change%	2006	2005	Change%
Total de Consultants[1]	561.1	482.8	16.2%	561.1	482.8	16.2%
Units sold – items for resale (in millions)	71.8	67.8	5.9%	241.0	216.0	11.6%
Gross Revenues[2]	1,158.5	1,002.1	15.6%	3,759.5	3,154.0	19.2%
Net Revenues[2]	819.9	704.3	16.4%	2,656.0	2,212.8	20.0%
Ebitda[2]	194.4	205.8	-5.5%	697.6	597.2	16.8%
Ebitda Margin	*23.7%*	*29.2%*		*26.3%*	*27.0%*	

(1) Number of consultants by the end of cycle 17 of sales
(2) Pro-forma Revenues and EBITDA Brazil, excluding the transactions with foreign subsidiaries (gross revenue and cost).

In Brazil, the number of consultants reached 561.1 thousand at the end of 2006, with a 16.2% growth compared to the previous year, showing the high attraction capacity of the Natura brand. The average productivity by active consultant was R$12.5 thousand, a 1.9% growth compared to the previous year (2005: R$12.3 thousand).

>> Operations under consolidation - Argentina, Chile and Peru

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

	4Q06	4Q05	Change%	2006	2005	Change%
Total de Consultants[1]	51.2	36.2	41.7%	51.2	36.2	41.7%
Units sold – items for resale (in millions)	4.0	2.2	83.3%	11.6	7.0	65.0%
Gross Revenues	17.6	11.6	52.0%	54.9	36.2	51.8%
Net Revenues	13.5	8.9	51.6%	42.0	27.8	51.1%
Ebitda	-3.4	-1.5	135.9%	-6.8	-4.5	51.1%
Ebitda Margin	*-25.4%*	*-16.3%*		*-16.3%*	*-16.3%*	

(1) Number of consultants by the end of cycle 17 of sales

Gross revenue kept on showing a strong rhythm of growth for the operations under consolidation, with a 51.8% growth in dollars in 2006 compared to 2005 (53.1% in national currency). The EBITDA margin remained in the same level, representing a 16.3% loss on net revenue. The maintenance of the margin is explained by the higher expenditures for the strengthening of Natura brand in these operations, mainly in 4Q06.

In 4Q06, compared to 4Q05, the gross revenue growth was practically the same of the complete year, 52% both in dollars and local currency. The total number of consultants increased 41.7% and the growth of active consultants was even better, reaching 43.7%. The productivity in dollars increased 5.8% compared to 4Q05.

The operating loss represented by EBITDA grew 135.9% in 4Q06 compared to 4Q05. The loss intensification in this quarter is due to higher expenditures for the strengthening of Natura brand in these operations.

>> Operations under implementation – Mexico, Venezuela and France

> Financial Highlights – Mexico, Venezuela and France (US$ million)

	4Q06	4Q05	2006	2005
Total de Consultants[1]	5.0	1.4	5.0	1.4
Units sold – items for resale (in millions)	0.23	0.05	0.58	0.06
Gross Revenues	2.0	0.7	5.1	1.2
Net Revenues	1.7	0.6	4.4	1.1
Ebitda	-5.4	-3.3	-16.7	-10.0

(1) Number of consultants by the end of cycle 17 of sales

The operation in Mexico keeps on expanding and has been showing results that meet the expectations. The operation in Venezuela was started in January 2007 and the operation in Colombia will probably be started at the end of the first half of 2007.

In Paris, France, the highlights were the inception of the pilot tests of the direct sales channel and the opening of the advanced center of technology.

>> International expansion process

In 2006, investments in the international expansion process, represented by the international operations negative results deducted from the ascertained income from the Brazilian exports to international operations, totaled R$39.6 million. This amount was R$4.6 million higher than the projection disclosed at the beginning of 2006, of R$35 million. This increase is totally explained by the decision of increasing the investments in the brand in the Latin-American markets, focused on 4Q06.

For 2007, we estimate a total investment of R$48 million in this process. Such increment is due to the increase of investments in the Mexican operation and to the start of the operations in Venezuela and Colombia.

> CASH FLOW

2006 internal cash generation[1] reached R$515.4 million, up 16.9% over 2005. Out of this total, R$73.1 million were used for operating working capital[3] and R$46.7 million for the other current and non-current assets and liabilities[4].

> Consolidated cash flow – *pro forma* (R$ million)

	2006	2005	Change%
Net income	**460.8**	**396.9**	**16.1%**
(+) Depreciation and amortization	54.6	44.0	24.0%
Internal cash generation[1]	**515.4**	**440.9**	**16.9%**
Operating working capital[3]	-73.1	-3.7	
Other assets and liabilities[4]	-46.7	1.5	
Operating cash generation	**395.5**	**438.7**	**-9.8%**
Capex	-193.6	-111.6	
Free cash flow[2]	**202.0**	**327.1**	**-38.3%**

Out of the R$73.1 million increase in operating working capital, approximately R$38 million refer to temporary events, especially the inventories balance increase due to a sales increase below Company's expectations in 4Q06. Eliminating the excess resulting from temporary events, the investment in operating working capital would represent R$35 million in 2006, in line with the Company's growth.

The increase in other assets and liabilities in 2006 was basically caused by a judicial deposit made by the Company in the amount of R$28 million, regarding a proceeding that questions the right to IPI tax credit in the acquisition of inputs with zero tax rate.

As a final result, the free cash flow generation[2] in 2006 was R$202.0 million, posting a 38.3% reduction compared to 2005 (2005: R$327.1 million).

Note 1: (Net income in the period)+ (depreciations and amortizations).
Note 2: (Internal generation of cash) +/- (variations in working capital and long term assets and liabilities) – (acquisitions of property, plant and equipment).
Note 3: Assets – Accounts receivable, inventories and short-term recoverable taxes. Liabilities – suppliers, salaries, profit sharing and social charges, tax liabilities, provisions and freights payable.
Note 4: Assets – Advance to employees and suppliers, short-term deferred income tax and social contribution, other credits and long-term assets. Liabilities – short and long-term other accounts payable and reserves for taxes, civil and labor contingencies.

> DIVIDENDS AND INTEREST ON OWN CAPITAL

On February 28, 2007, the Board of Directors approved a proposal to be submitted to the Annual General Meeting to be held on April 02, 2007, for the payment of dividends and interest on own capital regarding the results earned in the fiscal year 2006, in the amounts of R$325.9 million and R$33.6 million (R$28.5 million net of withholding income tax), respectively.

Out of the aforementioned amount, on August 10, 2006, dividends and interest on own capital regarding the results earned during the first half of 2006, in the amount of R$112.1 million and R$33.6 million (R$28.5 million net of withholding income tax), respectively, were paid. The remaining balance to be paid on April 04, 2007, after approval by the Annual General Meeting, will represent R$213.8 million dividends.

These dividends and interest on own capital summed up, regarding the results of the fiscal year 2006, will represent a net remuneration of R$0.83 per share (R$0.74 per share in 2005, already considered the splitting effect), corresponding to 175% of the free cash generation[1] (96% in 2005) and 77% on net income in 2006 (79% in 2005).

Note 1: (internal cash generation) +/- (variations in working capital and long term assets and liabilities) – (acquisitions of property, plant and equipment).

> ESTRATEGY AND CHALLENGES

The significant financial, social and environmental results that we have been obtaining during the last years, as well as the acceptance of our value proposal, in Brazil and abroad, make us believe that there are quite favorable conditions for

Natura’s continued growth. At the same time, we need to make progress regarding the consolidation of the investments and projects that have supported our strong growth during the last years. Thus, we are going to implement a consolidation and growth strategy, based on the following guidelines.

Taking into consideration the positive results obtained in Argentina, Chile and Peru, resulting from a good acceptance of our brand and from the direct sales channel, we will keep on growing and will be more focused on searching for the break-even point in these operations, showing that we have a profitable and feasible business model. We will keep on investing in the Mexican operation, since the strategy has been showing to be adequate, with growth levels above projections. We will also consolidate the presence of Natura in the region, through the establishment of operations in Venezuela and Colombia still in 2007.

At the same time, we will keep on searching for new markets and, as already announced, we have already started the planning for the establishment of operations in the USA and Russia, in 2008. In this sense, the experience of Natura in France will keep on being a great source of learning.

We will keep on growing in the Brazilian market, maintaining the innovative spirit that characterizes our Company. Due to the increasingly competitiveness of this market and to our relevance in it, we will need to be even more efficient and creative in our marketing actions, with a greater balance between the short and long term movements. During the last years, we have invested in the extension of our administrative structure to manage our operations in a most efficient and independent manner – the one in Brazil, which will keep on financing all the initiatives during the next years, and the international ones, which represent the seeds of our future growth. From 2007 on, we will maintain this structure fixed, starting to incorporate scale gains, also exploring productivity gains already existing in the main operating processes.

> CORPORATE RESPONSIBILITY

Employees – We keep on advancing in 2006 with a view to get closer and talk to our publics. We have approved and published the Letter of Relationship Principles and installed an Ombudsman’s Office, both addressed to employees and third parties operating in our facilities in 2006, but which will be extended, during 2007, to the other publics in Brazil and to international operations.

Consultants – Our consultants take to the consumer our products and concepts and also act as social transformation agents, with the initiatives of *Movimento Natura (*“Natura Movement”), the recruitment of students for the program *Educação de Jovens e Adultos (EJA) (*Adults and Youth Education*)*, which, in 2006, reached 78,936 enrollments and the efforts for the reduction of the environmental impact, through the sale of refills that increased from 17.4% on invoiced items in 2005 to 19.8% in 2006. Moreover, our consultants voluntarily sell products specially created to collect resources destined to *Programa Crer para Ver* ("Believing is Seeing" Program), which supports public education projects. In 2006, *Crer para Ver* collected R$5,382.4 thousand, a 76.9% growth compared to 2005.

Consumers – In 2006, we completely eliminated the realization of tests with animals from our practices, without renouncing to the exigent safety criteria for the utilization of our products, i.e., from 2007 on, Natura will no longer make tests with animals in its production chain and will no longer buy raw materials or inputs tested in animals.

Suppliers and Supplying Communities – During the last quarter of the year, we have executed a historic and inedited agreement for the sharing of benefits arising from the access to diffuse traditional knowledge associated to the genetic patrimony with *Ver-As-Ervas* Association, which represents the herb workers of the *Ver-O-Peso* popular market, in Belém (PA). Besides the benefits sharing, Natura has established a cultural and technical agreement, in the amount of R$560 thousand, to meet the association requirements, such as professional qualification to learn new techniques of herbs manipulation, preventing wastage and adding value to the activities.

Environment - Biodiversity – In 2006, Natura reached 22 certified biodiversity assets, or 63% from a total of 35 native or exotic species used. The assets in phase 3 of certification in 2006 were lemon grass, camomile, "buriti", coffee, "cumaru" and "priprioca".

Emission of Gases of the Greenhouse Effect – With the Consolidation of the Annual Inventory of Emission of Gases of the Greenhouse Effect in 2006, which considers from the supply chain up to the use and final disposal of the product, we will be able to construct a scenery of reduction alternatives starting from 2007 and meet our challenge of making our activities "carbon free" up to 2008. Products impact – Since 2003, Natura analyzes the environmental impacts of its packages through the evaluation of their life cycle. The average environmental impact of the products by declared weight showed a 7% reduction compared to 2005, from 89.3 mPt/kg to 83.2 mPt/kg.

Energy – The Energy Consumption showed a 10.5% growth compared to 2005, explained by both production and isolated items growth. However, the relative consumption of energy by unity sold showed a 9.9% reduction, meaning the efforts for the optimization of the use of energy.

Water – The absolute consumption of water increased from 136,677m³ to 141,883m³ in 2006, 2.4% above the stipulated goal, partially due to the internal production volume 3.2% higher when compared to the goal and partially due to the variations in the products mix. Moreover, in that year, a more efficient system of water purification was installed for the plant, although much more complex, reason why there was initially a higher consumption of water, due to the stabilization and learning curve. On the other hand, the consumption of water by unit sold posted a 7.0% decrease.

Residues – The total weight of residues generated by Natura increased 14.3% in 2006, reaching 6,831 tons. Out of this total, 84% were recycled, increasing by 3p.p. the percentage of residues addressed for recycling.

In 2006, our ISO 9001 and 14001 certifications were maintained.