

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

# ***Natura Cosméticos S.A.***

*Interim Financial Statements for the  
Quarter and Six-month Period Ended  
June 30, 2008 and Independent  
Accountants' Review Report*

Deloitte Touche Tohmatsu Auditores Independentes

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

1. We have reviewed the accompanying interim financial statements of Natura Cosméticos S.A. and subsidiaries, for the second quarter ended June 30, 2008, consisting of the individual (Company) and consolidated balance sheets, and the related statements of income, changes in shareholders' equity (Company) and cash flows, and the related notes, prepared under the responsibility of the Company's Management.
2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Brazilian Federal Accounting Council (CFC), and consisted, principally, of: (a) inquiries of and discussions with certain officials of the Company and its subsidiaries who have responsibility for accounting, financial and operating matters about the criteria adopted in the preparation of the interim financial statements; and (b) review of the information and subsequent events that have, or might have had, material effects on the financial position and results of operations of the Company and its subsidiaries.
3. Based on our review, we are not aware of any material modifications that should be made to the interim financial statements referred to in paragraph 1 for them to be in conformity with standards established by the Brazilian Securities and Exchange Commission (CVM), specifically applicable to the preparation of the interim financial statements, including CVM Instruction No. 469/08.
4. As mentioned in Note 3, on December 28, 2007, Law No. 11,638 was enacted, altering, revoking and adding new provisions to Law No. 6,404/76 (Brazilian Corporate Law). This Law is effective for fiscal years beginning on or after January 1, 2008 and introduced changes in the Brazilian accounting practices. Although this Law has already become effective, certain changes introduced by it are subject to regulation by regulatory agencies before being fully applied by companies. Accordingly, during this transition phase, CVM, through Instruction CVM No. 469/08, has permitted companies not to apply all the provisions of Law No. 11,638/07 in the preparation of the interim financial statements. Thus, the interim financial statements for the second quarter ended June 30, 2008 have been prepared in conformity with specific instructions of the CVM and do not include all the changes in accounting practices introduced by Law No. 11,638/07. The information for the quarter ended March 31, 2008, presented for comparative purposes, has been adjusted to include the introduced changes in accounting practices.

Deloitte Touche Tohmatsu

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

São Paulo, July 23, 2008

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Altair Tadeu Rossato  
Engagement Partner

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NATURA COSMÉTICOS S.A.

BALANCE SHEETS AS OF JUNE 30 AND MARCH 31, 2008

(In thousands of Brazilian reais - R\$)

ASSETS	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Company		Consolidated	
	06/2008	03/2008	06/2008	03/2008		06/2008	03/2008	06/2008	03/2008
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and banks	301	3,459	23,952	17,745	Loans and financing (Note 14)	5,233	3,982	167,795	155,136
Cash investments (Note 5)	44,401	184,328	245,381	439,096	Domestic suppliers	34,096	32,571	166,497	178,230
Trade accounts receivable (Note 6)	285,551	284,229	312,909	315,998	Foreign suppliers	148	586	2,169	2,516
Inventories (Note 7)	41,389	41,184	299,688	311,570	Suppliers - related parties (Note 10)	150,114	140,931	-	-
Recoverable taxes (Note 8)	64,696	8,467	133,979	60,826	Salaries, profit sharing and related charges	35,814	21,803	86,634	59,475
Advances to employees and suppliers	3,694	2,193	4,952	2,914	Taxes payable (Note 15)	76,259	58,430	152,895	121,377
Related parties (Note 10)	14,741	11,963	-	-	Dividends (Notes 10 and 17.b)	188,170	237,896	188,170	237,896
Deferred income and social contribution taxes (Note 9.a)	44,214	28,172	70,396	50,457	Accrued freight	19,342	17,063	20,031	17,785
Unrealized gains on swap and forward transactions (Notes 20.b and 20.d)	-	6,284	-	4,989	Other payables	21,273	24,739	23,476	26,811
Other receivables	25,349	14,165	69,017	43,332	Reserve for tax, civil and labor contingencies (Note 16)	14,861	14,421	14,861	14,421
Total current assets	<u>524,336</u>	<u>584,444</u>	<u>1,160,274</u>	<u>1,246,927</u>	Allowance for losses on swap and forward transactions (Notes 20.b and 20.d)	14,704	-	16,910	-
					Other provisions	<u>3</u>	<u>126</u>	<u>56</u>	<u>177</u>
<b>NONCURRENT ASSETS</b>					Total current liabilities	<u>560,017</u>	<u>552,548</u>	<u>839,494</u>	<u>813,824</u>
Long-term assets:					<b>NONCURRENT LIABILITIES</b>				
Cash investments (Note 5 and 16.g)	-	-	4,923	4,973	Loans and financing (Note 14)	110,962	126,626	184,175	266,277
Recoverable taxes (Note 8)	8,535	7,942	26,033	27,346	Allowance for losses on subsidiaries (Note 11)	519	441	-	-
Deferred income and social contribution taxes (Note 9.a)	17,244	17,142	34,053	35,496	Reserve for tax, civil and labor contingencies (Note 16)	33,303	33,926	47,195	47,416
Escrow deposits (Note 16)	27,623	25,521	31,243	29,235	Other payables	<u>6,683</u>	<u>6,039</u>	<u>8,963</u>	<u>8,296</u>
Advances to employees and suppliers	357	570	3,222	3,902	Total noncurrent liabilities	<u>151,467</u>	<u>167,032</u>	<u>240,333</u>	<u>321,989</u>
Advance for future capital increase (Note 10.c)	20	10	-	-	<b>DEFERRED INCOME</b>				
Permanent assets:					Investment grants	<u>1,816</u>	<u>916</u>	<u>1,816</u>	<u>916</u>
Investments (Note 11)	-	-	-	-	Total deferred income	<u>1,816</u>	<u>916</u>	<u>1,816</u>	<u>916</u>
Property, plant and equipment (Note 12)	805,910	794,309	-	-	<b>MINORITY INTEREST</b>				
Intangible assets (Note 12)	33,480	32,825	512,688	519,254					
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>5,830</u>	<u>6,466</u>					
	<u>893,169</u>	<u>878,319</u>	<u>617,992</u>	<u>626,672</u>					
<b>TOTAL ASSETS</b>	<u>1,417,505</u>	<u>1,462,763</u>	<u>1,778,266</u>	<u>1,873,599</u>	<b>SHAREHOLDERS' EQUITY</b>				
					Capital (Note 17)	390,948	390,948	390,948	390,948
					Capital reserves (Notes 17.e)	119,161	121,394	119,160	121,394
					Profit reserves (Note 17.f)	170,318	170,318	164,327	164,327
					Treasury shares (Note 17.c)	(15,462)	(18,765)	(15,462)	(18,765)
					Retained earnings	<u>39,240</u>	<u>78,372</u>	<u>37,649</u>	<u>78,965</u>
					Total shareholders' equity	<u>704,205</u>	<u>742,267</u>	<u>696,622</u>	<u>736,869</u>
					<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>1,417,505</u>	<u>1,462,763</u>	<u>1,778,266</u>	<u>1,873,599</u>

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

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NATURA COSMÉTICOS S.A.

STATEMENTS OF INCOME  
FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007  
(In thousands of Brazilian reais - R\$, except for earnings per share)

	Company				Consolidated			
	04/01/2008 to 06/30/2008	04/01/2007 to 06/30/2007	01/01/2008 to 06/30/2008	01/01/2007 to 06/30/2007	04/01/2008 to 06/30/2008	04/01/2007 to 06/30/2007	01/01/2008 to 06/30/2008	01/01/2007 to 06/30/2007
GROSS SALES								
Domestic market	1,121,915	1,035,286	1,978,647	1,839,748	1,134,420	1,041,059	2,007,346	1,852,903
Foreign market	-	-	-	-	64,366	46,076	114,489	83,528
Other sales	1	55	1	55	351	340	631	609
GROSS OPERATING REVENUES	1,121,916	1,035,341	1,978,648	1,839,803	1,199,137	1,087,475	2,122,466	1,937,040
Taxes on sales, returns and rebates	(185,937)	(229,898)	(350,321)	(407,768)	(316,063)	(308,457)	(571,360)	(555,113)
NET OPERATING REVENUES	935,979	805,443	1,628,327	1,432,035	883,074	779,018	1,551,106	1,381,927
Cost of sales	(373,112)	(309,994)	(647,493)	(561,306)	(266,702)	(242,387)	(493,111)	(440,519)
GROSS PROFIT	562,867	495,449	980,834	870,729	616,372	536,631	1,057,995	941,408
OPERATING (EXPENSES) INCOME								
Selling	(163,843)	(202,441)	(354,640)	(380,967)	(307,068)	(249,165)	(545,621)	(463,505)
General and administrative	(201,815)	(128,339)	(320,394)	(236,190)	(113,583)	(100,473)	(203,520)	(186,859)
Management compensation	(2,180)	(2,383)	(4,051)	(3,591)	(3,300)	(3,129)	(6,431)	(5,065)
Equity in subsidiaries (Note 11)	(10,748)	8,606	(16,096)	13,037	-	-	-	-
Other operating income (expenses), net (Note 22)	24,351	(2,464)	26,582	(5,329)	26,448	(2,012)	26,526	2,904
INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS	208,632	168,428	312,235	257,689	218,869	181,852	328,949	288,883
Financial expenses (Note 21)	(16,092)	(17,377)	(24,862)	(19,235)	(20,538)	(24,701)	(43,543)	(32,049)
Financial income (Note 21)	6,205	12,945	13,458	16,682	5,749	17,733	28,633	26,452
INCOME FROM OPERATIONS	198,745	163,996	300,831	255,136	204,080	174,884	314,039	283,286
Nonoperating income (expenses), net	419	95	455	156	502	64	674	88
INCOME BEFORE TAXES ON INCOME	199,164	164,091	301,286	255,292	204,582	174,948	314,713	283,374
Income and social contribution taxes (Note 9.b)	(50,296)	(33,177)	(74,046)	(49,267)	(57,897)	(45,595)	(89,064)	(73,677)
NET INCOME	148,868	130,914	227,240	206,025	146,685	129,353	225,649	209,697
EARNINGS PER SHARE - R\$	0.3477	0.3053	0.5308	0.4805	0.3426	0.3017	0.5270	0.4891

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

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NATURA COSMÉTICOS S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)

FOR THE QUARTERS ENDED JUNE 30 AND MARCH 31, 2008

(In thousands of Brazilian reais - R\$, except dividends per outstanding share)

	<u>Capital</u>	<u>Capital reserves</u>		<u>Profit reserves</u>		<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Total</u>
		<u>Share premium</u>	<u>Investment grants</u>	<u>Legal</u>	<u>Retention</u>			
BALANCES AS OF DECEMBER 31, 2007	<u>390,618</u>	<u>107,093</u>	<u>17,378</u>	<u>18,650</u>	<u>151,668</u>	<u>(2,205)</u>	<u>-</u>	<u>683,202</u>
Sale of treasury shares due to exercise of stock options	-	(3,077)	-	-	-	4,564	-	1,487
Capital increase through subscription of shares	330	-	-	-	-	-	-	330
Acquisition of treasury shares	-	-	-	-	-	(21,124)	-	(21,124)
Net income	-	-	-	-	-	-	78,372	78,372
BALANCES AS OF MARCH 31, 2008	<u>390,948</u>	<u>104,016</u>	<u>17,378</u>	<u>18,650</u>	<u>151,668</u>	<u>(18,765)</u>	<u>78,372</u>	<u>742,267</u>
Sale of treasury shares due to exercise of stock options	-	(2,233)	-	-	-	3,303	-	1,070
Net income	-	-	-	-	-	-	148,868	148,868
Allocation of net income:								
Dividends - R\$0.43907 per outstanding share (Note 17.b)	-	-	-	-	-	-	(188,000)	(188,000)
BALANCES AS OF JUNE 30, 2008	<u>390,948</u>	<u>101,783</u>	<u>17,378</u>	<u>18,650</u>	<u>151,668</u>	<u>(15,462)</u>	<u>39,240</u>	<u>704,205</u>

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

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NATURA COSMÉTICOS S.A.

NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007  
AND QUARTER ENDED MARCH 31, 2008  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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1. OPERATIONS

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

The Extraordinary Shareholders' Meeting held on March 31, 2008 resolved to transfer to the Company the negative shareholders' equity of subsidiary Nova Flora Participações Ltda. based on an independent appraisers' report. This transfer did not change the operations described in the previous paragraph.

The negative shareholders' equity of Nova Flora Participações Ltda., transferred into the Company, was R\$10,059 as of December 31, 2007, and is composed as follows:

<u>ASSETS</u>		<u>LIABILITIES</u>	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash and banks	27	Domestic suppliers	18
Deferred income and social contribution taxes	<u>4,563</u>	Reserve for civil contingencies	13,421
Total current assets	<u>4,590</u>	Other payables	<u>833</u>
		Total current liabilities	<u>14,272</u>
		NONCURRENT LIABILITIES	
		Allowance for losses on subsidiaries	352
		Advance for future capital increase	<u>25</u>
		Total noncurrent liabilities	<u>377</u>
		SHAREHOLDERS' DEFICIT	
		Capital	3,695
		Accumulated deficit	(13,754)
		Total shareholders' deficit	(10,059)
TOTAL ASSETS	<u>4,590</u>	TOTAL LIABILITIES	<u>4,590</u>

In recording the adjustments resulting from the transfer of the negative shareholders' equity, accounts payable and accounts receivable between the merged company and the Company were eliminated, and the investments and the shareholders' deficit were considered in accordance with Brazilian accounting practices.

In March 2008, the shareholders decided to approve a capital increase in Nova Flora Participações Ltda. in the amount of R\$16,735, represented by 16,735 new shares, with par value of R\$1.00 each, which were fully paid up in local currency. Accordingly, capital increased from R\$3,695 to R\$20,430.

## 2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

The financial statements have been prepared in accordance with standards established by the Brazilian Securities Commission (CVM), and the following significant accounting practices:

a) Results of operations

Determined on the accrual basis of accounting.

b) Cash investments

Consist of highly liquid temporary investments, except for the long-term investments, stated at cost plus income earned through the balance sheet dates, as described in Note 5.

c) Allowance for doubtful accounts

Recognized based on an analysis of risks on realization of receivables, in an amount considered sufficient by Management to cover potential losses, as described in Note 6.

d) Inventories

Stated at the average cost of acquisition or production, adjusted to market value and for potential losses, when applicable. The details are shown in Note 7.

e) Investments

Investments in subsidiaries are accounted for under the equity method, as shown in Note 11.

f) Property, plant and equipment and intangible assets

Recorded at acquisition cost monetarily adjusted through December 31, 1995, plus interest capitalized during the construction period, when applicable, and goodwill on acquisition of investment and business lease. Depreciation and amortization are calculated under the straight-line method, based on the estimated economic useful lives of the assets, at the rates shown in Note 12.



Additionally, those rights in tangible assets that are used in the operations of the Company and its subsidiaries, arising from capital lease transactions, are recorded under the caption “property, plant and equipment” and depreciated based upon the estimated useful lives of the assets.

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

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% on taxable income. Deferred income and social contribution taxes recorded in current and noncurrent assets arise from temporary differences represented by temporarily nondeductible expenses recorded in income.

Pursuant to CVM Resolution No. 273/98 and CVM Instruction No. 371/02, deferred taxes are recorded at amounts that are likely to be realized, 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

Adjusted through the balance sheet dates to cover probable losses, based upon the nature of contingencies and the opinion of the Company’s and its subsidiaries’ attorneys. For purposes of the interim financial statements, these reserves are presented net of related escrow deposits. The basis and nature of the reserves for tax, civil and labor contingencies are described in Note 16.

l) Swap and forward contracts

The nominal values of swap and forward contracts are not recorded in the balance sheet. Unrealized gains or losses on these transactions are recorded on the accrual basis of accounting, as mentioned in Notes 20.b and 20.d.

m) Financial income and expenses

Represented by interest and monetary and exchange variations on cash investments, escrow deposits and loans and financing and swap and forward contracts, as mentioned in Note 21.

n) Interest on capital

For corporate and accounting 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 base.

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.

q) Stock option programs

The effects from the stock option programs do not result in any expense to be recorded. Upon the exercise of stock options, the stock purchase by the option holder is recognized as capital increase in an amount equivalent to the total purchase price.

### 3. AMENDMENT TO BRAZILIAN CORPORATE LAW

On December 28, 2007, Law No. 11,638 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. This Law is effective for fiscal years beginning on or after January 1, 2008 and may be fully enforced by the end of year ending December 31, 2008, and was designed primarily to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards (IFRS) and allow the Brazilian Securities and Exchange Commission (CVM) to issue new accounting standards and procedures, in conformity with such international accounting standards.

The changes in Brazilian Corporate Law are applicable to all companies incorporated as corporations, including public companies, and introduces a new requirement for large companies to prepare and report financial statements in accordance with provisions of the Brazilian Corporate Law.

As these changes have only been introduced recently and not all of them have specific accounting standards issued by regulatory agencies and the CVM, the Company's Management is using, for the purpose of disclosing the interim financial statements in accordance with the guidelines of CVM Instruction No. 469/08, the option of disclosing the effects of the changes applicable to the Company and its subsidiaries, summarized as follows:

- a) Replacement of the statement of changes in financial position by the statement of cash flows. This statement of cash flows is presented by the Company since December 31, 2004, as supplemental information.
- b) Requirement for the presentation of a statement of value added, applicable to public companies, that presents the additional value created by the Company, as well as the composition of the sources of such value and the amount of undistributed value. This statement of value added is presented by the Company since December 31, 2004 as supplemental information to the annual financial statements.
- c) Possibility of maintaining separate accounting records for purposes of complying with tax legislation and reflecting necessary adjustments in order to prepare the financial statements in conformity with Brazilian Corporate Law. This practice has not yet been adopted by the Company and its subsidiaries due to the lack of specific accounting and tax standards issued by regulatory agencies. The Company and its subsidiaries shall apply these changes upon the preparation of the annual financial statements for the year ending December 31, 2008, after the issue of the related accounting and tax standards.
- d) Creation of a new account group, intangible assets, for purposes of balance sheet presentation. This account encompasses rights in intangible assets maintained or used in the operation of the Company's business, including the acquired goodwill. This practice has already been adopted by the Company and its subsidiaries since December 31, 2006, as shown in Note 12.
- e) Requirement to record under the caption property, plant and equipment those rights in tangible assets that are maintained or used in the operations of the Company's business, including those rights received as a result of transactions that transfer the benefits, risks and control of such assets to the Company (e.g., capital leases). This practice has already been adopted by the Company and its subsidiaries, as mentioned in Note 2.f.
- f) Requirement of periodic analysis of the recoverability of amounts recorded in property, plant and equipment, intangible assets and deferred charges to ensure that:
  - (i) impairment losses are recorded as a result of decisions to discontinue activities related to such assets or when there is evidence that future operating results will not be sufficient to ensure their realization. The Company and its subsidiaries shall apply these changes upon the preparation of the annual financial statements for the year ending December 31, 2008, together with the other changes.

- g) Requirement that investments in financial instruments, including derivatives, be accounted for: (i) at fair value or equivalent value for trading securities or securities available for sale; or (ii) at the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments. The Company and its subsidiaries shall apply these changes upon the preparation of the annual financial statements for the year ending December 31, 2008, after the issue of the related accounting and tax standards. Currently, the Company discloses the fair value of its derivative financial instruments for reporting purposes only, as shown in Note 20.
- h) Creation of a new account group, valuation adjustments to shareholders' equity, in order to record certain fair value adjustments, mainly for financial instruments; foreign exchange rate variations on foreign investments accounted for under the equity method of accounting, and certain fair value adjustments related to assets and liabilities as a result of a merger between unrelated parties that results in the transfer of control. The Company and its subsidiaries shall apply these changes upon the preparation of the annual financial statements for the year ending December 31, 2008, together with the other changes. In connection with this change, for the six-month period ended June 30, 2008, the Company recognized an exchange loss of R\$4,340 (loss of R\$2,164 for the three-month period ended June 30, 2008) arising from exchange variations on foreign investments accounted for under the equity method.
- i) Requirement that certain noncurrent assets and liabilities be recorded at present value, and, if material, for certain other current assets and liabilities. The Management of the Company and its subsidiaries assessed the impacts of this change and concluded that there are no effects to be recorded in the interim financial statements arising from monetary assets and liabilities discounted to present value.
- j) Elimination of the possibility of recording government investment grants (including tax incentives) directly as capital reserves in shareholders' equity. Such items are now required to be recorded as part of earnings in the income statement. Donations and government grants may be required to be allocated, after being recorded in earnings, to the tax incentive reserve. This practice has already been adopted by the Company. In the quarter ended June 30, 2008, investment grants totaled R\$900 (R\$916 as of March 31, 2008) and are recorded under the caption "deferred income" in the amount of R\$1,816, as required by CVM Instruction No. 469/08.
- k) Elimination of the materiality parameter in determining the applicability of the equity method of accounting for investments in affiliates and subsidiaries and replacement of the parameter of 20% of the capital of the investee by 20% of the outstanding voting capital of the investee. Not applicable to the Company and its subsidiaries as all investments are greater than the percentages set forth by the new legislation, as stated in Note 11.
- l) Accounting for the effects of employee and Management stock option grants. The Company shall apply these changes upon the presentation of the annual financial statements for the year ending December 31, 2008, after the issue of the related accounting standards. Currently the Company discloses the information and the effects related to stock option programs in conformity with CVM Instruction No. 460/08, as stated in Note 18.

As of June 30, 2008, except for the changes already reflected in the interim financial statements, the main changes that will affect the Company and its subsidiaries and could be assessed are summarized below:

Description	Debit (credit) to			
	Noncurrent assets	Noncurrent liabilities	Net income (loss)	Shareholders' equity
Exchange variation on foreign investments	-	-	(2,164)	2,164
Stock option grants	-	(19,262)	(409)	19,671
Deferred income and social contribution taxes	<u>6,549</u>	<u>-</u>	<u>139</u>	<u>(6,688)</u>
Net effect	<u>6,549</u>	<u>(19,262)</u>	<u>(2,434)</u>	<u>15,147</u>

#### 4. CONSOLIDATION CRITERIA

The consolidated financial statements have been prepared in accordance with the consolidation criteria established by Brazilian accounting practices and CVM standards and include the financial statements of the Company and its direct and indirect subsidiaries, as follows:

	Ownership interest - %		
	06/2008	03/2008	06/2007
Direct:			
Indústria e Comércio de Cosméticos Natura Ltda.	99.99	99.99	99.99
Natura Cosméticos S.A. - Chile	99.99	99.99	99.99
Natura Cosméticos S.A. - Peru	99.94	99.94	99.94
Natura Cosméticos S.A. - Argentina	99.94	99.94	99.94
Natura Brasil Cosmética Ltda. - Portugal	98.00	98.00	98.00
Nova Flora Participações Ltda.	-	-	99.99
Natura Inovação e Tecnologia de Produtos Ltda.	99.99	99.99	99.99
Natura Europa SAS	100.00	100.00	100.00
Natura Cosmeticos y Servicios de Mexico, S.A. de C.V.	99.99	99.99	-
Natura Cosmeticos de Mexico, S.A. de C.V.	99.99	99.99	99.99
Natura Distribuidora de Mexico, S.A. de C.V.	99.99	99.99	-
Natura Cosméticos C.A. - Venezuela	99.99	99.99	99.99
Natura Cosméticos Ltda. - Colombia	99.99	99.99	99.99
Natura Cosmetics USA Co.	100.00	100.00	-
Flora Medicinal J. Monteiro da Silva Ltda.	100.00	100.00	-
Indirect:			
Natura Logística e Serviços Ltda.	99.99	99.99	99.99
Flora Medicinal J.Monteiro da Silva Ltda.	-	-	100.00
Ybios S.A. (proportional consolidation - joint control)	33.33	33.33	33.33
Natura Innovation et Technologie de Produits SAS - France	99.99	99.99	-

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 2. 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. Translation gains or losses, arising from the appreciation/devaluation of the real, are allocated to other operating income (expenses).

The shareholders' equity balances as of June 30, 2008 and March 31, 2008, reported by the Company, differ by R\$7,583 and R\$5,398, respectively, from those recorded in the consolidated financial statements due to the elimination of unrealized profits of subsidiaries and the Company. For the same reason net income balances reported by the Company for the six-month periods ended June 30, 2008 and 2007 differ by R\$1,591 and R\$3,672, respectively, from the balances in the consolidated financial statements.

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

- a) 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 Ltda. - Colombia, Natura Europa SAS, Natura Cosméticos de México, S.A. de C.V., and Natura Cosméticos C.A - Venezuela, whose amounts are mentioned in Note 10.
- b) Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos C.A. - Venezuela, Natura Cosméticos Ltda. - Colombia, Natura Cosmetics USA Co. (as of June 30, 2008 it is in the preoperating stage) and Natura Distribuidora de México, S.A. de C.V.: their activities are an extension of the activities conducted by the parent company Natura Cosméticos S.A. - Brazil.
- c) Natura Inovação e Tecnologia de Produtos Ltda.: its activities consist of product and technology development and market research. It is the only owner of Natura Innovation et Technologie de Produits SAS, a research and technology satellite center opened in 2007 in Paris, where researches are developed for in vitro tests, an alternative to tests in animals, for safety and efficacy testing of active compounds, skin care, and new packaging materials.
- d) Natura Europa SAS: engaged in the purchase, sale, import, export and distribution of cosmetics, fragrances in general, and hygiene products.
- e) Natura Cosméticos de México, S.A. de C.V.: imports and sells cosmetics, fragrances in general and hygiene products to Natura Distribuidora de México, S.A. de C.V.
- f) Natura Cosméticos y Servicios de México, S.A. de C.V.: provides administrative and logistics services to Natura Cosméticos de México, S.A. de C.V. and Natura Distribuidora de México, S.A. de C.V.

- g) Flora Medicinal J. Monteiro da Silva Ltda.: used to be engaged in the sale of phytotherapeutic and phytocosmetic products of its own brand. Since 2005 this company has had no activities. On March 31, 2008, after the merger of Nova Flora Participações Ltda., Flora Medicinal J. Monteiro da Silva Ltda. became a direct subsidiary of Natura Cosméticos S.A.
- h) Natura Logística e Serviços Ltda.: engaged in the provision of administrative and logistics services to Natura Group companies based in Brazil.
- i) 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.
- j) Natura Innovation et Technologie de Produits SAS: engaged mainly in research activities developed for in vitro tests, an alternative to tests in animals, for safety and efficacy testing of active compounds, skin care, and new packaging materials.

## 5. CASH INVESTMENTS

	Company		Consolidated	
	06/2008	03/2008	06/2008	03/2008
Bank certificates of deposit (CDBs)	43,458	183,403	236,963	430,998
Investment funds	<u>943</u>	<u>925</u>	<u>13,341</u>	<u>13,071</u>
	<u>44,401</u>	<u>184,328</u>	<u>250,304</u>	<u>444,069</u>
Current	44,401	184,328	245,381	439,096
Noncurrent (Note 16.g. - tax contingencies)	<u>-</u>	<u>-</u>	<u>4,923</u>	<u>4,973</u>

As of June 30, 2008, CDBs yield interest rates ranging from 100.0% to 102.5% of the interbank deposit rate (CDI) (100.0% to 102.0% as of March 31, 2008). In consolidated, the share in the total investment portfolio as of June 30, 2008 is 94.7% (97.1% as of March 31, 2008). Weighted-average yield of investment fund investments for the quarter ended June 30, 2008 was 99.2 of the CDI (71.5% as of March 31, 2008).

6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Trade accounts receivable	327,276	318,272	360,072	355,563
Allowance for doubtful accounts	<u>(41,725)</u>	<u>(34,043)</u>	<u>(47,163)</u>	<u>(39,565)</u>
	<u>285,551</u>	<u>284,229</u>	<u>312,909</u>	<u>315,998</u>

The changes in the allowance for doubtful accounts for the quarter ended June 30, 2008 are as follows:

Company				
<u>Balance at 03/2008</u>	<u>Additions (*)</u>	<u>Reversals</u>	<u>Write-offs (**)</u>	<u>Balance at 06/2008</u>
<u>(34,043)</u>	<u>(20,961)</u>	<u>27</u>	<u>13,252</u>	<u>(41,725)</u>
Consolidated				
<u>Balance at 03/2008</u>	<u>Additions (*)</u>	<u>Reversals</u>	<u>Write-offs (**)</u>	<u>Balance at 06/2008</u>
<u>(39,565)</u>	<u>(24,126)</u>	<u>27</u>	<u>16,501</u>	<u>(47,163)</u>

(\*) Allowance recognized according to Note 2.c.

(\*\*) Refers to accounts over 180 days past due, written off due to noncollection.

7. INVENTORIES

	Company		Consolidated	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Finished products	39,988	38,617	234,105	242,435
Raw materials and packing materials	56	26	67,807	63,443
Promotional material	3,113	3,954	22,787	31,758
Work in process	-	-	6,821	6,346
Allowance for losses	<u>(1,768)</u>	<u>(1,413)</u>	<u>(31,832)</u>	<u>(32,412)</u>
	<u>41,389</u>	<u>41,184</u>	<u>299,688</u>	<u>311,570</u>



The changes in the allowance for inventory losses for the quarter ended June 30, 2008 are as follows:

Company			
Balance at 03/2008	Additions, net (*)	Write-offs (**)	Balance at 06/2008
<u>(1,413)</u>	<u>(4,669)</u>	<u>4,314</u>	<u>(1,768)</u>
Consolidated			
Balance at 03/2008	Additions, net (*)	Write-offs (**)	Balance at 06/2008
<u>(32,412)</u>	<u>(3,188)</u>	<u>3,768</u>	<u>(31,832)</u>

(\*) Refers mainly to the recognition of the reserve for discontinuance, expiration and quality losses, according to actual need to cover expected losses on the realization of inventories and the policy established by the Company and its subsidiaries.

(\*\*) Refers to write-offs of products discarded by the Company and its subsidiaries.

## 8. RECOVERABLE TAXES

	Company		Consolidated	
	06/2008	03/2008	06/2008	03/2008
ICMS (state VAT) - ST (tax substitution) (a)	10,555	11,436	10,555	11,436
ICMS on purchases of goods (b)	21,619	1,134	50,474	15,262
ICMS on purchases of fixed assets	4,401	2,908	19,241	18,560
COFINS (tax on revenue) on purchases of fixed assets	-	-	17,727	17,288
PIS (tax on revenue) on purchases of fixed assets	-	-	3,849	3,753
Taxes - foreign operations	-	-	17,814	16,900
PIS and COFINS on purchases of goods (c)	36,656	931	37,048	1,323
PIS/COFINS/CSLL - withheld at source	-	-	1,222	1,222
IRRF (withholding income tax)	-	-	1,162	1,695
Other	-	-	920	733
	<u>73,231</u>	<u>16,409</u>	<u>160,012</u>	<u>88,172</u>
Current	64,696	8,467	133,979	60,826
Noncurrent	<u>8,535</u>	<u>7,942</u>	<u>26,033</u>	<u>27,346</u>

(a) Refers to the ICMS - ST (tax substitution system) credits granted by the State of Santa Catarina which were challenged in courts and were deposited in escrow in the period from March to December 2007. In January 2008, the Company entered into an Agreement with the Santa Catarina State Government for the application of the 30% Value Added Margin (MVA) to calculate the ICMS-ST on sales made by the Company in that State.

As a result of the above-mentioned agreement, a total of R\$29,938 deposited in escrow until December 2007 was converted to income for the state government. Of that amount, R\$11,436 is being refunded by the Santa Catarina State government to the Company in 24 monthly installments monetarily adjusted, through offsetting against ICMS-ST due beginning April 2008.

According to the terms of said agreement, the Company has assumed certain commitments and for the operations conducted by the Natura beauty consultants in Santa Catarina the following was agreed upon: (i) in the period from January 1, 2007 to June 30, 2008, the applicable value added margin is 30%, (ii) starting July 2008, after the approval of the Santa Catarina State authorities, the applicable margin will be that resulting from a study which is being carried out by Fundação Getúlio Vargas-FGV and (iii) promote an increase in ICMS collection of at least 5% in 2008.

- (b) The increase reported as of June 30, 2008 refers mainly to ICMS - ST credits obtained from the São Paulo State government, arising from the taxation of sales made by (i) industrial establishments to the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. and (ii) the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. to Natura Cosméticos S.A., whose products were intended for sale to customers outside the state of São Paulo. Such tax credits, in the amounts of R\$21,619 (Company) and R\$44,806 (Consolidated) as of June 30, 2008, will be refunded by the Finance Department of the State of São Paulo in the second half of 2008 after the analysis and approval of the refund requests prepared by the Company and its subsidiaries.
- (c) The increase reported as of June 30, 2008 (Company and Consolidated) refers to the event mentioned in Note 22.

Of the balance recorded in the second quarter of 2008, R\$30,921 refers to untimely used credits of PIS and Cofins that will be offset against other federal taxes beginning July 2008.

## 9. INCOME AND SOCIAL CONTRIBUTION TAXES

## a) Deferred

Deferred income (IRPJ) and social contribution (CSLL) taxes result from temporary differences (Company and subsidiaries). These credits are recorded in current and noncurrent assets, in view of their expected realization based on projections of taxable income. The amounts are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Current:				
Temporary differences:				
Allowance for doubtful accounts (Note 6)	14,186	11,575	14,186	11,575
Allowance for inventory losses (Note 7)	601	480	10,823	10,028
Non-inclusion of ICMS in the PIS and COFINS basis (Note 15)	435	938	7,429	6,388
Reserves for tax, civil and labor contingencies (Note 16)	5,053	4,903	5,053	4,903
Effects of unrealized profits on inventories of the Company and its subsidiaries (Note 4)	-	-	3,906	2,781
Allowance for losses on swap and forward contracts (Notes 20.b. and 20.d.)	4,999	-	5,749	440
Provision for ICMS - ST - Paraná (Note 15)	3,602	2,896	3,602	2,896
Other provisions	<u>15,338</u>	<u>7,380</u>	<u>19,648</u>	<u>11,446</u>
Deferred income and social contribution taxes	<u>44,214</u>	<u>28,172</u>	<u>70,396</u>	<u>50,457</u>
Noncurrent:				
Temporary differences:				
Reserves for tax, civil and labor contingencies (Note 16)	15,662	15,720	32,317	33,581
Other provisions	<u>1,582</u>	<u>1,422</u>	<u>1,736</u>	<u>1,915</u>
Deferred income and social contribution taxes	<u>17,244</u>	<u>17,142</u>	<u>34,053</u>	<u>35,496</u>

As required by CVM Resolution No. 273/98 and CVM Instruction No. 371/02, Management, based on projections of future taxable income, estimates that the recorded tax credits will be fully realized within five years.

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

	<u>Consolidated</u>	
	<u>06/2008</u>	<u>03/2008</u>
2009	23,340	30,325
2010	8,042	5,171
2011 and 2012	<u>2,671</u>	-
	<u>34,053</u>	<u>35,496</u>

## b) Current

## Reconciliation of income and social contribution taxes

	Company		Consolidated	
	<u>06/2008</u>	<u>06/2007</u>	<u>06/2008</u>	<u>06/2007</u>
Income before taxes on income	301,286	255,292	314,713	283,374
Income and social contribution taxes at the rate of 34%	(102,437)	(86,799)	(107,002)	(96,347)
Reversal of provision for maintenance of dividend payment capacity (Note 13)	24,967	24,967	24,967	24,967
Technological research and innovation benefit - Law No. 11,196/05 (a)	5,895	5,616	5,895	5,616
Tax incentives (donations)	464	462	758	563
Equity in subsidiaries and exchange variation on foreign investments (Note 11)	(6,948)	2,756	-	-
Losses generated by subsidiaries	-	-	(15,151)	(9,688)
Other temporary differences	<u>4,013</u>	<u>3,731</u>	<u>1,469</u>	<u>1,212</u>
Income and social contribution tax expenses	(74,046)	(49,267)	(89,064)	(73,677)
Income and social contribution taxes - current	(87,411)	(54,356)	(106,020)	(78,037)
Income and social contribution taxes - deferred	<u>13,365</u>	<u>5,089</u>	<u>16,956</u>	<u>4,360</u>
Effective rate - %	<u>24.6</u>	<u>19.3</u>	<u>28.3</u>	<u>26.0</u>

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

## 10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

	Company		Consolidated	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Current assets:				
Natura Inovação e Tecnologia de Produtos Ltda. (a)	6,496	6,434	-	-
Natura Logística e Serviços Ltda. (b)	<u>8,245</u>	<u>5,529</u>	-	-
	<u>14,741</u>	<u>11,963</u>	-	-
Advance for future capital increase:				
Flora Medicinal J. Monteiro da Silva Ltda. (c)	<u>20</u>	<u>10</u>	-	-
	<u>20</u>	<u>10</u>	-	-

	Company		Consolidated	
	06/2008	03/2008	06/2008	03/2008
Current liabilities:				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. (d)	124,130	114,988	-	-
Natura Logística e Serviços Ltda. (e)	13,866	13,629	-	-
Natura Inovação e Tecnologia de Produtos Ltda. (f)	<u>12,118</u>	<u>12,314</u>	-	-
	<u>150,114</u>	<u>140,931</u>	-	-
Dividends payable	<u>188,170</u>	<u>237,896</u>	<u>188,170</u>	<u>237,896</u>

Transactions with related parties are summarized as follows:

	Product sales		Product purchases	
	06/2008	06/2007	06/2008	06/2007
Natura Cosméticos S.A.	-	-	819,974	687,710
Indústria e Comércio de Cosméticos Natura Ltda.	868,456	721,747	-	-
Natura Cosméticos S.A. - Argentina	-	-	13,914	11,259
Natura Cosméticos S.A. - Peru	-	-	13,576	9,073
Natura Cosméticos S.A. - Chile	-	-	8,270	5,944
Natura Cosméticos S.A. - Mexico	-	-	8,425	5,180
Natura Cosméticos C.A. - Venezuela	-	-	946	607
Natura Europa SAS	-	-	675	723
Natura Cosméticos Ltda. - Colombia	-	-	2,501	819
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	129	432
Natura Logística e Serviços Ltda	-	-	46	-
	<u>868,456</u>	<u>721,747</u>	<u>868,456</u>	<u>721,747</u>

	Service sales		Service purchases	
	06/2008	06/2007	06/2008	06/2007
Administrative structure: (g)				
Natura Logística e Serviços Ltda.	132,870	138,808	-	-
Natura Cosméticos S.A.	-	-	100,807	102,019
Indústria e Comércio de Cosméticos Natura Ltda.	-	-	21,427	24,846
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	10,636	11,943
	<u>132,870</u>	<u>138,808</u>	<u>132,870</u>	<u>138,808</u>
Product and technology research and development: (h)				
Natura Inovação e Tecnologia de Produtos Ltda.	77,781	80,643	-	-
Natura Cosméticos S.A.	-	-	77,781	80,643
	<u>77,781</u>	<u>80,643</u>	<u>77,781</u>	<u>80,643</u>
Provision of research and in vitro testing services: (i)				
Natura Innovation et Technologie de Produits SAS	758	-	-	-
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	758	-
	<u>758</u>	-	<u>758</u>	-
Lease of properties and common charges: (j)				
Indústria e Comércio de Cosméticos Natura Ltda.	3,029	2,864	-	-
Natura Logística e Serviços Ltda.	-	-	1,755	1,660
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	706	667
Natura Cosméticos S.A.	-	-	568	537
	<u>3,029</u>	<u>2,864</u>	<u>3,029</u>	<u>2,864</u>
Total of service sales and purchases	<u>1,082,894</u>	<u>944,062</u>	<u>1,082,894</u>	<u>944,062</u>

Natura Cosméticos S.A.

- (a) Refers to advances granted for provision of product and technology development and market research services.
- (b) Refers to advances granted for provision of logistics and general administrative services.
- (c) Refers to remittances to Flora Medicinal J. Monteiro da Silva Ltda. by Nova Flora Participações Ltda., a company merged into Natura Cosméticos Ltda. on March 31, 2008, as referred to in Note 1.
- (d) Payables for the purchase of products.
- (e) Payables for services described in item (i).
- (f) Payables for services described in item (j).
- (g) Logistics and general administrative services.
- (h) Product and technology development and market research services.
- (i) Provision of research and in vitro testing services.
- (j) Rental of part of the industrial complex located in Cajamar and buildings located in the municipality of Itapecerica da Serra.

The main intercompany balances as of June 30, 2008 and March 31, 2008, as well as the intercompany transactions that affected the results for the six-month periods ended June 30, 2008 and 2007, refer to transactions between the Company and its subsidiaries.

## 11. INVESTMENTS

	Company		Consolidated	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Investments in subsidiaries	<u>805,910</u>	<u>794,309</u>	<u>-</u>	<u>-</u>
	<u>805,910</u>	<u>794,309</u>	<u>-</u>	<u>-</u>

Natura Cosméticos S.A.

Investments in direct subsidiaries are as follows:

	Indústria e Comércio de Cosméticos Natura Ltda.	Natura Cosméticos S.A. - Chile	Natura Cosméticos S.A. - Peru	Natura Cosméticos S.A. - Argentina	Natura Cosméticos C.A. - Venezuela	Flora Medicinal J. Monteiro da Silva Ltda.	Natura Inovação e Tecnologia de Produtos Ltda. (*)	Natura Europa SAS (*)	Natura Cosméticos (*) - Mexico	Natura Brasil Cosmética Ltda. - Portugal	Natura Cosmetics USA Co.	Natura Cosméticos Ltda. - Colombia	Total
Capital	526,155	54,509	1,827	40,540	13,341	33,503	5,008	17,982	65,849	105	11,169	6,595	776,583
Ownership interest	99.99%	99.99%	99.94%	99.94%	99.99%	100%	99.99%	100.00%	99.99%	98,0%	100.00%	99.99%	-
Shareholders' equity of subsidiaries	716,885	6,303	146	16,593	1,811	(518)	26,990	12,927	21,152	(1)	1,315	1,801	805,404
Interest in shareholders' equity	716,884	6,303	146	16,583	1,811	(518)	26,990	12,927	21,150	(1)	1,315	1,801	805,390
Net income (loss) of subsidiaries, net of exchange variation on translation of foreign investments	24,561	(2,263)	(949)	(5,332)	(3,418)	(167)	7,055	(7,928)	(11,144)	-	(8,359)	(4,795)	(12,738)
Book value of Company's investment:													
Balances as of March 31, 2008	700,803	9,304	1,696	15,545	2,372	-	24,925	14,039	21,392	-	1,476	2,757	794,309
Equity in subsidiaries	16,081	(2,826)	(1,495)	(2,137)	(1,685)	-	2,065	(5,013)	(6,692)	-	(5,985)	(3,061)	(10,748)
Exchange variation and other adjustments on translation of foreign investments	-	(1,314)	(55)	(564)	(163)	-	-	(656)	(1,094)	-	(112)	(382)	(4,340)
Capital increase	-	1,139	-	3,739	1,287	-	-	4,557	7,544	-	5,936	2,487	26,689
Balances as of June 30, 2008	<u>716,884</u>	<u>6,303</u>	<u>146</u>	<u>16,583</u>	<u>1,811</u>	<u>-</u>	<u>26,990</u>	<u>12,927</u>	<u>21,150</u>	<u>-</u>	<u>1,315</u>	<u>1,801</u>	<u>805,910</u>
Provision for losses:													
Balances as of March 31, 2008	-	-	-	-	-	(440)	-	-	-	(1)	-	-	(441)
Increase in provision for losses	-	-	-	-	-	(78)	-	-	-	-	-	-	(78)
Balances as of June 30, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(518)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(519)</u>
Net balances as of June 30, 2008	<u>716,884</u>	<u>6,303</u>	<u>146</u>	<u>16,583</u>	<u>1,811</u>	<u>(518)</u>	<u>26,990</u>	<u>12,927</u>	<u>21,150</u>	<u>(1)</u>	<u>1,315</u>	<u>1,801</u>	<u>805,391</u>

(\*) Consolidated information on the following companies:

- Natura Cosméticos y Servicios de Mexico, S.A. de C.V.
- Natura Cosméticos de Mexico, S.A. de C.V.
- Natura Distribuidora de Mexico, S.A. de C.V.
- Innovation et Technologie de Produits SAS
- Natura Brasil SAS

## 12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT	Annual depreciation rate - %	Company					
		06/2008			03/2008		
		Adjusted cost	Accumulated depreciation	Net book value	Adjusted cost	Accumulated depreciation	Net book value
Vehicles	20 to 33	24,483	12,586	11,897	22,982	11,066	11,916
Software	20	12,844	4,996	7,848	11,061	4,583	6,478
Leasehold improvements	20 to 33	9,493	2,972	6,521	9,466	2,542	6,924
Machinery and equipment	10	4,465	893	3,572	4,457	785	3,672
Furniture and fixtures	10	4,054	2,035	2,019	4,049	1,963	2,086
IT equipment	20	5,076	3,504	1,572	5,064	3,346	1,718
Construction in progress	-	51	-	51	31	-	31
		<u>60,466</u>	<u>26,986</u>	<u>33,480</u>	<u>57,110</u>	<u>24,285</u>	<u>32,825</u>

PROPERTY, PLANT AND EQUIPMENT	Annual depreciation rate - %	Consolidated					
		06/2008			03/2008		
		Adjusted cost	Accumulated depreciation	Net book value	Adjusted cost	Accumulated depreciation	Net book value
Machinery and equipment	10	232,798	84,422	148,376	229,807	79,594	150,213
Buildings	4	144,685	38,857	105,828	144,685	37,437	107,248
Software	20	92,767	32,203	60,564	86,136	28,657	57,479
Installations	10 to 33	97,197	47,031	50,166	93,843	44,903	48,940
Land	-	33,662	-	33,662	33,662	-	33,662
Molds	33	73,271	47,901	25,370	71,811	44,148	27,663
Vehicles	20 to 33	39,155	17,028	22,127	37,239	15,386	21,853
IT equipment	20	46,981	27,895	19,086	46,547	26,413	20,134
Advances to suppliers	-	9,401	-	9,401	11,761	-	11,761
Furniture and fixtures	10	23,778	9,065	14,713	23,710	8,693	15,017
Leasehold improvements	20 to 33	16,045	5,830	10,215	15,810	4,895	10,915
Construction in progress	-	10,344	-	10,344	11,149	-	11,149
Other	10	5,962	3,126	2,836	6,316	3,096	3,220
		<u>826,046</u>	<u>313,358</u>	<u>512,688</u>	<u>812,476</u>	<u>293,222</u>	<u>519,254</u>

INTANGIBLE ASSETS	Annual amortization rate - %	Consolidated					
		06/2008			03/2008		
		Adjusted cost	Accumulated amortization	Net book value	Adjusted cost	Accumulated amortization	Net book value
Business lease - Natura Europa (a)	-	5,207	-	5,207	5,736	-	5,736
Patents	10 to 25	1,837	1,214	623	2,039	1,309	730
		<u>7,044</u>	<u>1,214</u>	<u>5,830</u>	<u>7,775</u>	<u>1,309</u>	<u>6,466</u>

- (a) 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 March 31, 2008 and June 20, 2008 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 appraisers.

The amounts are as follows:

	<u>Company</u>	
	<u>06/2008</u>	<u>03/2008</u>
Goodwill on investments	391,635	428,350
Provision for maintenance of future dividend payment capacity	(391,635)	(428,350)
	=====	=====

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, starting March 2004.

## 14. LOANS AND FINANCING

Type	Company		Consolidated		Maturity	Charges	Guarantees
	06/2008	03/2008	06/2008	03/2008			
BNDES - EXIM <sup>(1)</sup>	-	-	95,300	106,771	February 2009 and May 2009	Interest of 2.57% p.y. + TJLP <sup>(2)</sup> for 80% of the financing and interest of 9.76% p.y. + exchange variation (dollar) for 20% of the financing maturing in February 2009. Interest of 2.60% p.y. + TJLP <sup>(2)</sup> for 80% of the financing and interest of 8.98% p.y. + exchange variation (dollar) for 20% of the financing maturing in May 2009.	Guarantee of Natura Cosméticos S.A.
Resolution 2770 <sup>(1)</sup>	85,741	99,977	85,741	99,977	January 2010	Exchange variation (YEN) + 2.11% p.y.	Guarantee of Indústria e Comércio de Cosméticos Natura Ltda.
FINEP (Financing Agency for Studies and Projects)	-	-	55,587	55,334	December 2008 and March 2013	TJLP <sup>(2)</sup> for 90% of the financing maturing in March 2013 and interest of 3% p.y. + TJLP <sup>(2)</sup> for 10% of the financing maturing in December 2008.	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
Agribusiness Credit Note <sup>(1)</sup>	-	-	51,200	49,957	April and June 2009	Interest of 100.6% of CDI <sup>(3)</sup> + IOF <sup>(4)</sup> and TR <sup>(5)</sup> + 8.66% p.y. + IOF <sup>(4)</sup>	Guarantee of Natura Cosméticos S.A.
BNDES (Brazilian Bank for Economic and Social Development) <sup>(1)</sup>	30,454	30,631	43,351-	44,544	April 2010 and July 2014	Interest of 4.5% p.y. + TJLP <sup>(2)</sup> + UMBNDES <sup>(6)</sup> for maturity in April 2010. For financing maturing in July 2014 : (i) TJLP <sup>(2)</sup> + interest of 2.8% p.y. for 85% of the financing; (ii) exchange variation (dollar) + interest of 8.54% p.y. for 9% of the financing; and (iii) TJLP <sup>(2)</sup> + interest of 2.3% p.y. for 6% of the financing.	Mortgage <sup>(7)</sup> Bank guarantee
Export Credit Note (NCE)	-	-	-	42,443	April 2008	Interest of 104.7% of CDI <sup>(3)</sup>	Promissory note and guarantee of Natura Cosméticos S.A.
BNDES - FINAME (Government Agency for Machinery and Equipment Financing)	-	-	13,875	15,279	September 2012	Interest of 4.5% p.y. + TJLP <sup>(2)</sup>	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes
Banco do Brasil (Brazilian Bank) - FAT Fomentar (Employee Shelter Fund).	-	-	6,298	6,490	February 2014	Interest of 4.4% p.y. + TJLP <sup>(2)</sup>	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes
FINEP - Grant	-	-	618	618	January 2011	None	None
Total	<u>116,195</u>	<u>130,608</u>	<u>351,970</u>	<u>421,413</u>			
Current	<u>5,233</u>	<u>3,982</u>	<u>167,795</u>	<u>155,136</u>			
Noncurrent	<u>110,962</u>	<u>126,626</u>	<u>184,175</u>	<u>266,277</u>			

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- (1) Loans and financing for which swap transactions for CDI were contracted
- (2) TJLP - Long-term interest rate
- (3) CDI - Interbank certificate of deposit
- (4) IOF - Tax on financial transactions
- (5) TR - Managed prime rate
- (6) UMBNDES - BNDES monetary unit
- (7) Financing in local currency from the BNDES is guaranteed mainly by the Cajamar unit

Maturities of noncurrent debt are as follows:

	<u>Consolidated</u>	
	<u>06/2008</u>	<u>03/2008</u>
2009	18,913	89,172
2010	109,783	123,356
2011	21,435	20,745
2012	20,159	19,567
2013	10,292	9,728
2014	<u>3,593</u>	<u>3,709</u>
	<u>184,175</u>	<u>266,277</u>

15. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
ICMS Company and tax substitution (b)	88,821	70,869	129,341	99,376
PIS/COFINS (Injunction) (a)	1,279	2,758	21,850	18,788
IRPJ	20,726	11,490	24,296	14,784
CSLL	7,666	4,238	8,584	4,825
IRRF	2,516	3,727	4,233	9,001
PIS/COFINS/CSLL (Law No. 10,833/03)	3,637	4,250	4,666	5,134
COFINS	-	(152)	2,274	1,477
Taxes - foreign operations	-	-	3,818	5,697
IPI	-	-	1,197	104
ISS (tax on service)	155	155	705	761
PIS	<u>-</u>	<u>(33)</u>	<u>472</u>	<u>302</u>
	124,800	97,302	201,436	160,249
(-) Escrow deposits (b)	<u>(48,541)</u>	<u>(38,872)</u>	<u>(48,541)</u>	<u>(38,872)</u>
Total taxes payable, net of escrow deposits	<u>76,259</u>	<u>58,430</u>	<u>152,895</u>	<u>121,377</u>

- (a) The Company and its subsidiary Indústria e Comércio de Cosméticos Natura Ltda. are challenging in court the inclusion of ICMS in the PIS and COFINS tax basis. In June 2007, the Company and its subsidiary were authorized by the court to pay PIS and COFINS without the inclusion of ICMS in the tax basis, starting April 2007. The reserve recognized as of June 30, 2008 refers to the unpaid amounts of PIS and COFINS, from April 2007 to June 2008 adjusted based on the SELIC (Central Bank overnight rate).
- (b) Refers to the ICMS tax substitution system in the State of Paraná, which is being challenged in court, as detailed in Note 16, item (a) “Contingent liabilities - possible losses”. The same amount is recorded as tax payable under the caption “ICMS Company and tax substitution”.

#### 16. RESERVES FOR TAX, CIVIL AND LABOR CONTINGENCIES

The Company and its subsidiaries are parties to certain tax, labor and civil lawsuits and to tax proceedings at the administrative level. Based on the opinion and judgments of its internal and external attorneys, Management believes that the reserves for tax, civil and labor contingencies are sufficient to cover probable losses. These reserves, net of escrow deposits, are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Tax	23,928	23,501	37,196	36,393
Civil	18,863	19,800	17,916	18,892
Labor	<u>5,373</u>	<u>5,046</u>	<u>6,944</u>	<u>6,552</u>
	<u>48,164</u>	<u>48,347</u>	<u>62,056</u>	<u>61,837</u>
Current	14,861	14,421	14,861	14,421
Noncurrent	<u>33,303</u>	<u>33,926</u>	<u>47,195</u>	<u>47,416</u>

Tax contingencies

The changes in the reserves for tax contingencies are as follows:

	Company					06/2008
	03/2008	Additions	Reversals	Write-offs	Monetary adjustment	
Deductibility of CSLL (social contribution tax) (Law No. 9,316/96) (c)	6,745	-	-	-	76	6,821
Late payment fines on Federal taxes paid in arrears (b)	6,238	-	-	-	114	6,352
Monetary adjustment of Federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (d)	5,010	-	-	-	13	5,023
IPI (Federal VAT) - tax collection lawsuit (f)	4,486	-	-	-	65	4,551
Tax assessment - INSS (social security contribution) (g)	3,918	-	-	-	58	3,976
Assessment notice - 1990 (corporate income tax) (i)	2,902	-	-	-	41	2,943
IRPJ and CSLL tax assessment - attorneys' fees (h)	2,873	-	-	-	14	2,887
Attorneys' fees and other	<u>6,855</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222</u>	<u>7,077</u>
Total reserve for tax contingencies	39,027	-	-	-	603	39,630
Escrow deposits for tax contingencies	(15,526)	-	-	-	(176)	(15,702)
Total reserve for tax contingencies, net of escrow deposits	<u>23,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>427</u>	<u>23,928</u>
	Consolidated					
	03/2008	Additions	Reversals	Write-offs	Monetary adjustment	06/2008
IPI - zero rate (a)	31,737	-	-	-	716	32,453
Late payment fines on Federal taxes paid in arrears (b)	7,401	-	-	-	135	7,536
Deductibility of CSLL (social contribution tax) (Law No. 9,316/96) (c)	6,745	-	-	-	76	6,821
Monetary adjustment of Federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) (d)	5,136	-	-	-	13	5,149
IPI (Federal VAT) credit on purchases of fixed assets and consumption material (e)	4,497	-	-	-	66	4,563
IPI (Federal VAT) - tax collection lawsuit (f)	4,486	-	-	-	65	4,551
Tax assessment - INSS (social security contribution) (g)	3,918	-	-	-	57	3,975
IRPJ and CSLL tax assessment - attorneys' fees (h)	2,879	-	-	-	14	2,893
Assessment notice - 1990 IRPJ (corporate income tax) (i)	2,902	-	-	-	41	2,943
Non-inclusion of the ICMS in the PIS and COFINS tax basis - attorneys' fees (j)	2,332	-	-	-	42	2,374
PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 (k)	1,866	-	-	-	31	1,897
Attorneys' fees and other	<u>11,052</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>456</u>	<u>11,508</u>
Total reserve for tax contingencies	84,951	-	-	-	1,712	86,663
Escrow deposits for tax contingencies	(48,558)	-	-	-	(909)	(49,467)
Total reserve for tax contingencies, net of escrow deposits	<u>36,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>803</u>	<u>37,196</u>

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- (d) Refers to IPI tax credits on raw materials and packing materials purchased at a zero tax rate and with tax exemption. The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. 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. To suspend payments of the tax the Company made escrow deposits in the amount in dispute in October 2006. The total amount deposited in escrow, adjusted as of June 20, 2008 is R\$32,453 (R\$31,737 as of March 31, 2008).
- (e) Refers to fine for late payment of federal taxes.
- (f) Refers to CSLL (social contribution tax) that was addressed by an injunction that questions the constitutionality of Law No. 9,316/96, which prohibited the deduction of CSLL from its own tax basis and the IRPJ (income tax) basis. A portion of this reserve, in the amount of R\$4,763 (R\$4,681 as of March 31, 2008), is deposited in escrow.
- (g) Refers to the monetary adjustment of federal taxes (IRPJ/CSLL/ILL) related to 1991 based on the UFIR (fiscal reference unit), discussed in an injunction. The amount involved is deposited in escrow.
- (h) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through injunctions the right to the IPI (Federal VAT) credit on purchases of fixed assets and consumption materials.
- (i) Refers to a tax collection lawsuit seeking to collect the IPI (Federal VAT) related to July 1989, when wholesale establishments began to be considered equivalent to industrial establishments under Law No. 7,798/89. The lawsuit is in the Federal Regional Court of 3<sup>rd</sup> Region (SP) for judgment of the appeal filed by the debtor. The amounts involved in this tax collection lawsuit are guaranteed by a subsidiary's (Natura Inovação e Tecnologia de Produtos Ltda.) cash investment in the updated amount of R\$4,923 (R\$4,973 as of March 31, 2008).
- (j) 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. The amounts required in the tax assessment notice cover the period from January 1990 to October 1999. In 2007 the Company reversed the amount of R\$1,903, relating to the expiration of part of the amount involved in the lawsuit for the period from January 1990 to October 1994, as recently instructed by the Federal Supreme Court (STF).
- (k) Refers to attorneys' fees for defense against the tax deficiency notices issued against the Company in August 2003, December 2006 and December 2007 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, 2001 and 2002. The attorneys' opinion is that the likelihood of unfavorable outcome is remote.
- (l) 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.
- (m) Refers to attorneys' fees for filing and dealing with the administrative proceeding for requesting a refund of the ICMS included in the PIS and COFINS basis in the period from April 2002 to March 2007. The attorneys assessed the risk of loss as remote.
- (n) 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 reversal made by the Company in 2007 in the amount of R\$14,910 year is due to the final decision favorable to the Company, rendered in August 2007. The remaining reserve refers to the subsidiary Indústria e Comércio de Cosméticos Natura Ltda., which is awaiting the appreciation of the lawsuit by the Board of Tax Appeals.

Civil contingencies

The changes in the reserves for civil contingencies for the quarter ended June 30, 2008 are as follows:

	Company					06/2008
	03/2008	Additions	Reversals	Payments	Monetary adjustment	
Several civil lawsuits (a)	5,080	1,001	(1,827)	(407)	477	4,324
Civil lawsuits and attorney's fees - Nova Flora Participações Ltda. (b) e (c)	<u>14,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93</u>	<u>15,016</u>
Total reserve for civil lawsuits	20,003	1,001	(1,827)	(407)	570	19,340
Escrow deposits for civil contingencies	<u>(203)</u>	<u>(274)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(477)</u>
Total reserve for civil contingencies, net of escrow deposits	<u>19,800</u>	<u>727</u>	<u>(1,827)</u>	<u>(407)</u>	<u>570</u>	<u>18,863</u>
Current	14,421					14,861
Noncurrent	<u>5,379</u>					<u>4,002</u>
	Consolidated					06/2008
	03/2008	Additions	Reversals	Payments	Monetary adjustment	
Several civil lawsuits (a)	6,310	1,122	(2,053)	(408)	487	5,458
Civil lawsuits and attorney's fees - Nova Flora Participações Ltda. (b) e (c)	<u>15,912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156</u>	<u>16,068</u>
Total reserve for civil lawsuits	22,222	1,122	(2,053)	(408)	643	21,526
Escrow deposits for civil contingencies	<u>(3,330)</u>	<u>(280)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,610)</u>
Total reserve for civil contingencies, net of escrow deposits	<u>18,892</u>	<u>842</u>	<u>(2,053)</u>	<u>(408)</u>	<u>643</u>	<u>17,916</u>
Current	14,421					14,861
Noncurrent	<u>4,471</u>					<u>3,055</u>

(a) As of June 30, 2008, the Company and its subsidiaries are parties to 1,145 lawsuits (1,369 as of March 31, 2008), 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 subsidiary Flora Medicinal J. Monteiro da Silva Ltda., which seek the determination of any amounts and the satisfaction of alleged liabilities due to the former shareholder's withdrawal. In November 2007, the Court of Justice of Rio de Janeiro judged the appeals filed against the decision issued by the lower court, setting the amount of the liabilities. The decision issued by the Court of Justice of Rio de Janeiro was subject to motions for clarification denied in January 2008, when the Company filed a special appeal.

(c) As of March 31, 2008, after the merger of Nova Flora Participações Ltda., the Company started to be liable for the civil lawsuits of the former subsidiary. The Company is a party to three civil lawsuits filed by a former shareholder of Flora Medicinal, the nature and likelihood of a favorable outcome of which are described below:

- Lawsuit for arbitration of capital reimbursement: lawsuit in which the former shareholder alleges being entitled to receivables resulting from his withdrawal from the Company. In January 2008, the former shareholder filed with the Superior Court of Justice a special appeal against the decision issued by the Court of Justice of Rio de Janeiro which, by upholding the lower court decision, denied the former shareholder's claim. The amount involved cannot be reliably measured. The attorneys are of the opinion that the likelihood of unfavorable outcome is remote.
- Lawsuit for collection of business plan: lawsuit in which the former shareholder alleges being entitled to receivables resulting from his withdrawal from the Company. The court expert work started in March 2008. The lawsuit is in the District of São Paulo. The amount involved cannot be reliably measured. The attorneys are of the opinion that the likelihood of unfavorable outcome is remote.

- Lawsuit for payment allocation: refers to ICMS credits deposited by the former shareholder on account of the tax payment in installments agreed by Flora Medicinal. The judgment by the Superior Court of Justice of the bill of review filed by the former shareholder against the decision that rejected his special appeal is awaited since September 2007. The Court of Justice of Rio de Janeiro overruled the lower court decision and denied the claim made by the former shareholder. The attorneys are of the opinion that the likelihood of unfavorable outcome is possible.

### Labor contingencies

As of June 30, 2008, the Company and its subsidiaries are parties to 707 labor lawsuits filed by former employees and third parties (682 as of March 31, 2008), claiming the payment of severance amounts, salary premiums, overtime and other amounts due, as a result of joint liability. Reserves are periodically reviewed based on the progress of lawsuits and history of losses on labor claims to reflect the best current estimate.

The changes in the reserves for labor contingencies for the quarter ended June 30, 2008 are as follows:

	Company					06/2008
	03/2008	Additions	Reversals	Payments	Monetary adjustment	
Total reserve for labor contingencies	5,919	148	180	-	360	6,247
Escrow deposits for labor contingencies	<u>(873)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(874)</u>
Total reserve for labor contingencies, net of escrow deposits	<u>5,046</u>	<u>148</u>	<u>(180)</u>	<u>-</u>	<u>359</u>	<u>5,373</u>
	Consolidated					06/2008
	03/2008	Additions	Reversals	Payments	Monetary adjustment	
Total reserve for labor contingencies	7,708	148	(180)	-	467	8,143
Escrow deposits for labor contingencies	<u>(1,156)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43)</u>	<u>(1,199)</u>
Total reserve for labor contingencies, net of escrow deposits	<u>6,552</u>	<u>148</u>	<u>(180)</u>	<u>-</u>	<u>424</u>	<u>6,944</u>

### Escrow deposits

Escrow deposits, which represent the Company's and its subsidiaries' restricted assets, refer to amounts deposited in court until litigation is resolved. The balances of escrow deposits for which there is no recognized reserve for contingencies, as of June 30, 2008, total R\$27,623 - Company and R\$31,243 - consolidated (R\$25,521 and R\$29,235, respectively, as of March 31, 2008) and are classified under the heading "Escrow deposits", in noncurrent assets.



Possible losses

The Company and its subsidiaries are parties 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 as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/2008</u>	<u>03/2008</u>	<u>06/2008</u>	<u>03/2008</u>
Tax:				
Declaratory Action - ICMS Tax Substitution of Paraná State (a)	12,349	10,791	12,349	10,791
Offset of 1/3 of COFINS - Law No. 9,718/98 (b)	4,577	4,521	4,577	4,521
INSS debt annulment action (c)	4,092	4,034	4,092	4,034
Tax assessment - transfer pricing on loan agreements with foreign related company (d)	1,083	1,064	1,083	1,064
Tax debt notification - GFIP (FGTS payment and social security information form) (e)	739	729	739	729
ICMS Tax Substitution deficiency notice (f)	646	622	646	622
Request for offset of taxes of the same type - IRPJ (income tax) and IRRF (withholding income tax) (g)	470	460	470	460
Other	<u>3,855</u>	<u>3,505</u>	<u>6,115</u>	<u>5,732</u>
	<u>27,811</u>	<u>25,726</u>	<u>30,071</u>	<u>27,953</u>
Civil	5,497	5,700	18,345	18,221
Labor	<u>33,606</u>	<u>33,099</u>	<u>49,408</u>	<u>49,087</u>
	<u>66,914</u>	<u>64,525</u>	<u>97,824</u>	<u>95,261</u>

- (a) Lawsuit filed by the Company challenging the changes in ICMS tax basis introduced by Paraná Decree No. 7,018/06. The amounts discussed in the lawsuit, related to the period from January 2007 to June 2008, are fully deposited in escrow, as mentioned in Note 15.
- (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 an injunction 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 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 proceeding is awaiting ruling at the lower administrative court.

- (c) 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. The amounts are discussed in the tax debt annulment action and are deposited in escrow. The amounts required in the assessment notice cover the period from January 1995 to October 1999.
- (d) 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. In June 2008, the Company filed an appeal against the unfavorable decision with the Board of Tax Appeals, which is awaiting judgment.
- (e) 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.
- (f) 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 the final judgment.
- (g) Refers to the nonapproval of the offset of IRPJ credits related to the 4th quarter of 1999 against IRRF debts for the 2nd 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

Significant contingent assets of the Company and its subsidiaries are as follows:

- (a) 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 PIS and COFINS established by Law No. 9,718/98. The amounts involved in the lawsuits, updated as of June 30, 2008, total R\$18,587 (R\$18,347 as of March 31, 2008). The lawsuits are awaiting judgment. The attorneys' opinion is that the likelihood of favorable outcome is probable.
- (b) The Company and its subsidiaries Indústria e Comércio de Cosméticos Natura Ltda., Natura Inovação e Tecnologia de Produtos Ltda. and Natura Logística e Serviços Ltda. are requesting at administrative level the refund of the ICMS and ISS included in the PIS and COFINS basis and paid in the period from April 2002 to March 2007. The amounts of the refund request as of June 30, 2008 are R\$107,466 (R\$105,398 as of March 31, 2008). The attorneys believe that the chance of a 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. SHAREHOLDERS' EQUITY

### a) Capital

As of December 31, 2007, the Company's capital was R\$390,618. On March 7, 2008, 100,000 common shares without par value were subscribed for R\$3.30. Accordingly, capital is currently R\$390,948, and subscribed and paid-up common shares went from 428,929,051 as of December 31, 2007 to 429,029,051 as of June 30, 2008. Authorized capital went from 12,381,074 common shares as of December 31, 2007 to 12,481,074 as of June 30, 2008.

### b) 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.

On April 7, 2008, the Company paid dividends in the amount of R\$237,726, relating to the remaining balances for fiscal 2007, as approved by the Annual Shareholders' Meeting on March 31, 2008.

On July 23, 2008, the Board of Directors approved a proposal, subject to further consideration by the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2008, for the payment of interim dividends out of the income earned in the first half of 2008, in the amount of R\$188,000 (R\$0.43907000 per share), equivalent to 83.32% of the consolidated net income for the first half of 2008.

### c) Treasury shares

As of June 30, 2008, 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 881,398 (1,069,695 as of March 31, 2008), at a unit average cost of R\$18.1518 (R\$17.5426 as of March 31, 2008). The decrease in the number of common shares in treasury in relation to March 31, 2008 is due to the exercise of 188,297 options under the stock option programs.

### d) 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.

e) 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 the Brazilian Corporate Law, not to recognize a legal reserve on net income for 2006 and 2007.

f) Reserve for profit retention

As of December 31, 2007 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\$41,777. The retention referring to 2007 is based on the capital budget approved in the Annual Shareholders' Meeting held on March 31, 2008.

As mentioned in article 199 of Law No. 6,404/76, the balance of profit reserves, except for the reserve for contingencies and unrealized profit reserve, may not exceed capital. Therefore, at the Extraordinary Shareholders' Meeting held on April 2, 2007, the capitalization in the amount of R\$153,939, referring to the profit reserves recognized in the years ended December 31, 2004 and 2005, which were fully utilized for investments in property, plant and equipment and working capital, in 2005 and 2006, was approved.

## 18. STOCK OPTION PROGRAM

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

The Plans have a four-year time span for exercising the options, and the exercise rights are 50% at the end of the third year and 50% at the end of the fourth year. The deadline for exercising options was two years after the end of the fourth year.

The balance of options as of June 30, 2008 is 6,570,797 and is composed by plan as follows:

	Number of call options (in shares)	Amount for the year updated according to the IPC-A (extended consumer price index) through June 30, 2008
2003	763,522	3.37
2004	1,076,708	8.30
2005	806,425	17.80
2006	949,920	26.53
2007	1,221,698	25.09
2008	<u>1,752,524</u>	19.48
	<u>6,570,797</u>	

As of June 30, 2008, had the Company's Management opted to record the effects of the plans based on the intrinsic value of the options (difference between market price as of June 30, 2008 and the value updated based on the IPC-A) recorded over their related vesting period, the pro forma consolidated shareholders' equity and net income for the six-month period ended June 30, 2008 would have been:

	<u>Shareholders'</u> <u>equity</u>	<u>Net</u> <u>income</u>
Balance as of June 30, 2008	696,622	225,649
Effects of programs considering the vesting period	<u>(19,262)</u>	<u>409</u>
Balance as of June 30, 2008 - considering the exercise of the options	<u>677,360</u>	<u>226,058</u>

As of June 30, 2008, the market price of the Company's shares was R\$16.50.

## 19. PENSION PLAN

On August 1, 2004, the Company implemented a supplementary defined contribution plan for all employees of the Company and its subsidiaries in Brazil. According to the terms of this plan, the cost is shared between the employer and the employees, so that the Company's share is equivalent to 60% of the employee's contribution according to a contribution scale based on salary ranges from 1% to 5% of the employee's compensation. The plan is managed by Brasilprev Seguros e Previdência S.A. and the Company's and its subsidiaries' contributions for the six-month period ended June 30, 2008 totaled R\$2,017 (R\$1,842 as of June 30, 2007).

## 20. FINANCIAL INSTRUMENTS

### a) General conditions

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

Cash investments are mainly made at negotiated rates of return, since the Company intends to hold these investments to redemption. These investments reflect market conditions at the balance sheet dates.

Loans and financing are recorded at the contractual interest rates of each transaction as shown in Note 14.

b) Exchange risk

The Company has entered into swap and forward transactions to hedge its liabilities against fluctuations in the exchange rate and TR (a managed prime rate) arising from financing agreements and operating activities. These transactions consist of swapping the liability in foreign currency or certain index for a liability adjusted by a percentage of the CDI (interbank deposit rate), and are composed as follows:

<u>Type of transaction</u>	Consolidated			
	<u>Contracted amount</u>		<u>Balance</u>	
	<u>06/2008</u>	<u>03/2008</u>	<u>Assets</u> <u>06/2008</u>	<u>Liabilities</u> <u>03/2008</u>
Finance (a)	129,305	131,833	(15,579)	2,303
Operating (b)	<u>58,639</u>	<u>67,439</u>	<u>(1,331)</u>	<u>(2,686)</u>
	<u>187,944</u>	<u>199,272</u>	<u>16,910</u>	<u>4,989</u>

(a) The effects of these transactions are directly related to the monetary and exchange variations on loans and financing, as stated in Note 14.

(b) Operating activities refer to import of equipment, purchase of inputs linked to exchange variation, and investments in international operations.

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

c) Interest rate risk

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

d) Fair values

The fair values of cash and banks, temporary cash investments, and intercompany loans 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.

Gains and losses on swap and forward transactions, considering the carrying and fair values, are as follows:

	Consolidated			
	<u>06/2008</u>		<u>03/2008</u>	
	<u>Carrying</u> <u>value</u>	<u>Fair</u> <u>value</u>	<u>Carrying</u> <u>value</u>	<u>Fair</u> <u>value</u>
Gains (losses) on swap and forward transactions	<u>(16,910)</u>	<u>(15,857)</u>	<u>4,989</u>	<u>5,004</u>

At the balance sheet dates the Company and its subsidiaries consult the financial institutions and update the fair value of their financial instruments.

e) Credit risk

The Company's and its subsidiaries' sales are made to a large number of beauty consultants. The Company and its subsidiaries manage the credit risk through a strict credit granting process.

21. FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	<u>06/2008</u>	<u>06/2007</u>	<u>06/2008</u>	<u>06/2007</u>
Financial income:				
Interest on cash investments	3,737	3,208	16,850	10,404
Gains on monetary and exchange variations	6,477	11,797	6,799	12,037
Gains on swap and forward transactions	2,912	304	2,912	318
Other financial income	<u>332</u>	<u>1,373</u>	<u>2,072</u>	<u>3,693</u>
	<u>13,458</u>	<u>16,682</u>	<u>28,633</u>	<u>26,452</u>
Financial expenses:				
Losses on swap and forward transactions	(15,615)	(16,449)	(17,792)	(18,150)
Interest on financing	(6,023)	(2,261)	(17,657)	(10,939)
Losses on monetary and exchange variations	(71)	(18)	(2,445)	(1,869)
Other financial expenses	<u>(3,153)</u>	<u>(507)</u>	<u>(5,649)</u>	<u>(1,091)</u>
	<u>(24,862)</u>	<u>(19,235)</u>	<u>(43,543)</u>	<u>(32,049)</u>
Total financial expenses, net	<u>(11,404)</u>	<u>(2,553)</u>	<u>(14,910)</u>	<u>(5,597)</u>

22. OTHER OPERATING INCOME (EXPENSES)

	Company		Consolidated	
	<u>06/2008</u>	<u>06/2007</u>	<u>06/2008</u>	<u>06/2007</u>
Operating income:				
Exchange variation on foreign investments	-	-	-	2,904
Untimely used credits of PIS and Cofins (a)	30,921	-	30,921	-
Operating expenses:				
Exchange variation on foreign investments	<u>(4,339)</u>	<u>(5,329)</u>	<u>(4,395)</u>	-
Other operating income (expenses), net	<u>26,582</u>	<u>(5,329)</u>	<u>26,526</u>	<u>2,904</u>

- (a) In the second quarter of 2008 the Company recorded untimely used credits of PIS and COFINS arising from expenses, costs and charges related to its revenues, incurred between May 2004 and December 2007, in the amounts of R\$5,516 and R\$25,405 for PIS and COFINS, respectively, totaling R\$30,921. Such credits were generated from the new interpretation by the Company of certain provisions of Law No. 10,865/04, which changed definitively the taxation system for certain taxes on revenues earned by the Company. The amount of untimely used credits of PIS and COFINS will be offset against other federal taxes starting July 2008, as mentioned in Note 8.

## 23. INSURANCE

The Company and its subsidiaries contract insurance based principally on risk concentration and significance, at amounts considered by Management to be sufficient, taking into consideration the nature of its activities and the opinion of its insurance advisors. As of June 30, 2008, the insurance coverage was as follows:

<u>Items</u>	<u>Coverage</u>	<u>Insured amount</u>
Industrial complex/inventories	Any material damages to buildings, installations and machinery and equipment	739,379
Vehicles	Fire, theft and collision for 1,456 vehicles	48,591
Loss of profits	Nonrealization of profits arising from material damages to installations, buildings and production machinery and equipment	815,705

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

NATURA COSMÉTICOS S.A.STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007  
(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	06/2008	06/2007	06/2008	06/2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net income	227,240	206,025	225,649	209,697
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization (Note 12)	5,141	3,615	43,346	34,576
Monetary and exchange variations, net, except those referring to tax, civil and labor contingencies	(1,306)	(3,282)	495	(843)
Reserve for losses on swap and forward contracts (Notes 20.b and 20.d)	12,701	16,145	14,880	17,832
Reserve for tax, civil and labor contingencies, including monetary variation (Note 16)	15,636	3,824	(15)	11,321
Income tax, social contribution and other deferred taxes (Note 9.a)	(18,360)	(5,089)	(42,875)	(11,489)
Proceeds from sale and disposal of property, plant and equipment and intangible assets	484	263	5,954	1,762
Equity in subsidiaries (Note 11)	18,271	(13,037)	-	-
Other adjustments to income, including allowance for inventory losses	624	-	6,629	(2,370)
Minority interest	-	-	-	(4)
	<u>260,431</u>	<u>208,464</u>	<u>254,063</u>	<u>260,482</u>
<b>(INCREASE) DECREASE IN ASSETS</b>				
Current assets:				
Trade accounts receivable (Note 6)	226,543	42,840	222,619	38,308
Inventories (Note 7)	(12,767)	(13,673)	(52,846)	(48,823)
Other receivables	(16,006)	(17,233)	(16,934)	(17,365)
Noncurrent assets (long-term assets):				
Escrow deposits (Note 16)	8,024	(24,048)	8,061	(24,364)
Recoverable taxes (Note 8)	(7,046)	59	(4,630)	(183)
Other receivables	431	834	1,310	(2,531)
Subtotal	<u>199,179</u>	<u>(11,221)</u>	<u>157,580</u>	<u>(54,958)</u>
<b>INCREASE (DECREASE) IN LIABILITIES</b>				
Current liabilities:				
Suppliers	(5,181)	(48,840)	(8,493)	(47,820)
Salaries, profit sharing and related charges, net	1,888	(2,679)	(607)	(7,596)
Taxes payable, net (Notes 8 and 15)	(69,164)	1,384	(48,862)	6,305
Other payables	2,599	(679)	3,117	(713)
Noncurrent liabilities (long-term liabilities):				
Other payables	1,283	905	1,920	4,337
Subtotal	<u>(68,575)</u>	<u>(49,909)</u>	<u>(52,925)</u>	<u>(45,487)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>391,035</u>	<u>147,334</u>	<u>358,718</u>	<u>160,037</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment and intangible assets (Note 12)	(4,633)	(3,423)	(32,637)	(42,892)
Investments (Note 11)	(69,121)	(50,375)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(73,754)</u>	<u>(53,798)</u>	<u>(32,637)</u>	<u>(42,892)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Decrease in loans (Note 14)	(263,941)	(124,311)	(387,318)	(144,958)
Fundings - loans (Note 14)	143,630	170,387	185,810	247,287
Payments of swap and forward transactions (Notes 20.b and 20.d)	(3,692)	(15,288)	(6,485)	(15,558)
Payment of dividends (Note 17.b)	(237,726)	(213,645)	(237,726)	(213,645)
Capital increase (Note 17.a)	330	2,778	330	2,778
Acquisition of shares	(21,124)	(22,701)	(21,124)	(22,701)
Investment grants	1,816	1,295	1,816	1,295
Sale of treasury shares due to exercise of stock options (Note 17.c)	2,557	7,389	2,557	7,389
Payment of receivables from shareholders	-	92	-	92
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(378,150)</u>	<u>(194,004)</u>	<u>(462,140)</u>	<u>(138,021)</u>
<b>DECREASE IN CASH AND BANKS</b>	<u>(60,869)</u>	<u>(100,468)</u>	<u>(136,059)</u>	<u>(20,876)</u>
Cash and banks at beginning of period	105,571	133,362	405,392	275,156
Cash and banks at end of period	44,702	32,894	269,333	254,280
<b>CHANGE IN CASH AND BANKS</b>	<u>(60,869)</u>	<u>(100,468)</u>	<u>(136,059)</u>	<u>(20,876)</u>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE</b>				
Income and social contribution taxes paid	53,411	54,085	58,747	66,686
Interest paid on loans and financing	1,267	1,301	8,860	6,354