



2Q06 Earnings Release

São Paulo, Brazil, July 26, 2006. Natura Cosméticos S.A. (São Paulo Stock Exchange - Bovespa: NATU3) announces today its results for the second quarter 2006 (2Q06). The financial and operating information included in this report, except where otherwise indicated, is presented on a **consolidated basis**, according to the Brazilian Corporate Law.

> FINANCIAL SUMMARY - CONSOLIDATED

> Financial Summary – Consolidated (R\$ million)

	2Q06	2Q05	% Change	1H06	1H05	% Change
Units sold – items for resale (in millions) - Brazil ¹	57.5	48.7	18.1%	108.3	94.4	14.8%
Gross Revenues	980.8	793.2	23.7%	1,703.5	1,404.2	21.3%
Net Revenues	696.4	557.5	24.9%	1,208.2	984.9	22.7%
Gross Profit	473.0	383.2	23.4%	825.3	665.3	24.0%
<i>Gross Margin (%)</i>	67.9%	68.7%	-	68.3%	67.6%	-
Ebitda ²	180.4	128.7	40.2%	293.7	223.8	31.2%
<i>Ebitda Margin (%)</i>	25.9%	23.1%	-	24.3%	22.7%	-
Net Income	129.3	87.9	47.1%	210.9	157.6	33.9%
<i>Net Margin (%)</i>	18.6%	15.8%	-	17.5%	16.0%	-
Total consultants ³ in Brazil (in thousands)	525.2	454.0	15.7%	525.2	454.0	15.7%
Total consultants ³ in Latin America ⁴ (in thousands)	42.1	29.9	40.7%	42.1	29.9	40.7%

(1) Total consolidated number of Cosmetics, Fragrances and Toiletries products resold by consultants. Therefore, units sold exclude samples, gifts, resale support material, Crer para Ver products, among others.

(2) EBITDA = income from operations before financial effects + non-operating income + depreciation and amortization.

(3) Position at the end of the period of the 9th sales cycle.

(4) Argentina, Chile and Peru.

> COSMETICS, FRAGRANCE AND TOILETRIES (CF&T) SECTOR IN BRAZIL - NATURA'S TARGET MARKET FIGURES (1st four months 06 X 1st four months 05)

Based on available information for the period from January to April 2006, the nominal growth of the sector was 11.0%, according to information of Sipatesp/Abhipec¹. In real terms, excluding the 5.5% IPCA (Amplified Consumer Price Index) for the period, the growth reached 5.2%.

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

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

	Target Market (R\$ million)			Natura's Market Share (%)		
	1 st four months 06	1 st four months 05	% growth	1 st four months 06	1 st four months 05	% points percentage
Cosmetics & Fragrances	1,318	1,124	17.3%	38.8%	36.8%	2.0
Personal Hygiene	1,878	1,756	6.9%	11.1%	10.3%	0.8
Total	3,196	2,881	11.0%	22.5%	20.6%	1.9

Source: Sipatesp/Abhipec

Natura increased its market share in the target market in 1.9 p.p., from 20.6% in the first four months of 2005 to 22.5% in the first four months of 2006.

(1) Sipatesp/Abhipec – Brazilian Association of the Cosmetic, Toiletry & Fragrance Industry

(2) Target Market – Cosmetics and Fragrances (Skincare, Make up, Fragrances and Sun Protection) and Toiletries (Soaps, Hair care, Deodorants and Shaving products)

> CONSOLIDATED GROSS REVENUES

Natura's 2Q06 gross revenues were R\$980.8 million, up 23.7% over the same period 2005 (R\$793.2 million). This growth was driven by the successful launchings of products, good promotional campaigns and good results provided by the sale of commemorative sets (Mother's Day and Valentine's Day).

By the end of 2Q06, the number of consultants in Brazil reached 525.5 thousand, a growth of 15.7% over the same period of previous year. Considering active consultants, the average

growth was 17.3% over the same period. Brazilian productivity per active consultant in 2Q06 reached R\$3,259.00 ⁽¹⁾, a 5.6% growth compared to 2Q05.

This quarter, the former sales catalogue – Vitrine – was replaced by Revista Natura, a magazine-catalogue aligned with the strategic objective to work not only as an efficient instrument of sales support, but also as a brand builder element. This shift, which was firstly implemented in Brazilian operations, is now being replicated in Latin American operations.

1H06 consolidated gross revenues were R\$1,703.5 million, recording a growth of 21.3% when compared to the same period of 2005 (1H05: R\$1,404.2 million).

(1) Estimated end-price sale per consultant.

> COST & EXPENSES

Cost of goods sold (COGS) – COGS went from 31.3% of the net revenue in 2Q05 to 32.1% in 2Q06. The main drivers that contributed to such increase were: (i) larger participation of promotional sets in sales; and (ii) the intensification of promotional efforts of sales in 2Q06. These increases were partially offset by the favorable effect of the Real appreciation in the cost of materials occurred in the quarters under comparison.

> Composition of Cost of Sales (% Net Revenues)

Item	2Q06	2Q05	1H06	1H05
RM/PM*	25.5	25.0	24.7	25.7
Labor	2.6	2.4	2.9	2.6
Depreciation	1.1	1.0	1.3	1.1
Others	2.9	2.9	2.9	3.1
Total	32.1	31.3	31.7	32.4

* Raw material and packaging material

In 1H06, on the other hand, COGS declined from 32.4% in 1H05 to 31.7%. This decrease was driven by the stability in the prices of materials in 1H06 compared to 1H05, due to the Real appreciation over the USD between the periods.

Selling expenses, which represented 31.4% of net revenue in 2Q05, decreased to 30.3% in 2Q06. This decrease was primarily driven by the adjustment of the logistics process related to services provided to consultants (order, picking and order delivery).

In spite of the decrease in 2Q06, when analyzing 1H06, selling expenses remained virtually stable. In sum, the gains of efficiency in the logistics process were offset by the increase in expenses related to communication and relationship with the sales channel occurred in 1Q06.

Administrative expenses declined from 15.1% in 2Q05 to 13.2% in 2Q06. This decrease was due to the smaller impact of expenses with provisions. In the first half, these factors offset the increase in expenses with IT, as previously informed, making administrative expenses remain virtually stable (14.4% in 1H06 and 14.2% in 1H05).

> EBITDA AND NET INCOME

2Q06 **EBITDA** amounted to R\$180.4 million, up 40.2% compared to 2Q05 (R\$128.7 million). EBITDA margin climbed from 23.1% to 25.9% in 2Q06. In the first half 2006, EBITDA amounted to R\$293.7 million, up 31.2% compared to 1H05 (R\$223.8 million). EBITDA margin increased from 22.7% in 1H05 to 24.3% in 1H06.

2Q06 **net income** posted a 47.1% growth, from R\$87.9 million in 2Q05 to R\$129.3 million in 2Q06. Net margin also increased, from 15.8% in 2Q05 to 18.6% in 2Q06. In 1H06, net income amounted to R\$210.9 million, up 33.9% over the same period last year. Net margin grew from 16.0% in 1H05 to 17.5% in 1H06.

> CAPEX

1H06 capital expenditures (CAPEX) totaled R\$60.6 million, led by machine purchases aiming at increasing the Company's manufacturing capacity. Total investments estimated for 2006 increased from R\$180 million to R\$210 million. Most part of this increase derives from higher investments planned for both the innovation process and the new Natura research center, as well as the enhancement of investments planned for IT.

> INTERNATIONAL OPERATIONS

>> Argentina, Chile and Peru

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

	2Q06	2Q05	% Change	1H06	1H05	% Change
Units sold – items for resale (in millions)	2.4	1.6	47.4%	4.5	3.0	51.2%
Gross Revenues	13.2	8.6	53.8%	23.0	15.0	52.7%
Net Revenues	10.1	6.6	53.2%	17.6	11.6	52.2%
Income (loss) from operations	-0.8	-0.6	27.5%	-2.2	-1.8	24.3%
<i>Operating margin</i>	<i>-7.7%</i>	<i>-9.3%</i>		<i>-12.7%</i>	<i>-15.6%</i>	

Note: Mexican and Venezuelan operations are not included in the above table.

The results from Argentinean, Chilean and Peruvian operations continue to grow at the same pace of last quarters, as evidenced by gross revenue evolution (growth of 53.8% in USD in the quarter and 55.1% in weighted local currency) and operational loss reduction when compared to net revenue.

The number of consultants grew 40.7%, from 29.9 thousand in 1H05 to 42.1 thousand in 1H06.

>> International expansion process

In 1H06, investments in the international expansion process, represented by negative operational results, totaled R\$17.2 million (1H05: R\$ 17.0 million). For 2006, we estimate total investments of R\$35.0 million in this process.

> CASH FLOW

1H06 gross cash generation reached R\$246.2 million, up 23.7% over the same period of last year. Out of this total, R\$40.4 million were used for working capital, long-term assets and liabilities and R\$60.6 million for fixed assets acquisition.

The use of working capital focused basically on the payment to suppliers as a result of the concentration of material and service purchases that took place in the end of 2005 and payment of taxes over December 2005 sales. Free cash generation in 1H06 reached R\$145.1 million, up 37.7% over the same period 2005.

> **DIVIDENDS AND INTEREST ON CAPITAL**

On July 26, 2006, the Company's Board of Directors approved the proposal to be submitted to the Ordinary General Shareholder's Meeting, to be held in March 2007, for the payment, on August 10, 2006, of dividends and interest on capital, related to profits recorded in the first half of 2006, in the amount of R\$112.1 million and R\$33.6 million (R\$28.5 million – net) respectively, representing 96.9% of free cash generation in the first half and 66.7% of the net income in the same period.

These payments added up will result in a net yield of R\$0.33 per share (R\$0.24 in 1H05). It is worth noting that the accounting of interest on capital will be carried out on 07/31/06.

> **CONFERENCE CALL & WEBCAST**

BRAZILIAN CONFERENCE CALL:

Friday, July 28, 2006

09:00 a.m. US EST / 10:00 a.m. Brasília

In Brazil: 11-4688-6301

International: 1-412-858-4600

In USA: 1-800-860-2442

INTERNATIONAL CONFERENCE CALL:

Friday, July 28, 2006

11:00 p.m. US EST – 12:00 a.m. Brasília

In Brazil: 11-4688-6301

International: 1-412-858-4600

In USA: 1-800-860-2442

Live webcast will be available on Natura's IR website at www.natura.net/investor

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> ANNEX 1 - STATEMENT OF INCOME (CONSOLIDATED)

(in R\$ million)	2Q06	%RL	2Q05	%RL	Var%	1H06	%RL	1H05	%RL	Var%
Gross sales to domestic market	948.3	96.7	770.2	97.1	23.1%	1647.1	96.7	1362.9	97.1	20.9%
Gross sales to foreign market	32.2	3.3	22.5	2.8	43.0%	55.7	3.3	40.6	2.9	37.2%
Other sales	0.4	0.0	0.5	0.1	-19.6%	0.7	0.0	0.7	0.0	1.5%
GROSS OPERATING REVENUES	980.8	100.0	793.2	100	23.7%	1703.5	100.0	1404.2	100	21.3%
Taxes on sales, returns and rebates	(284.4)	29.0	(235.4)	29.7	20.8%	(495.2)	29.1	(419.3)	29.9	18.1%
NET OPERATING REVENUES	696.4	100.0	557.7	100	24.9%	1208.2	100.0	984.9	100	22.7%
Cost of sales	(223.4)	32.1	(174.5)	31.3	28.0%	(382.9)	31.7	(319.5)	32.4	19.8%
GROSS PROFIT	473.0	67.9	383.2	68.7	23.4%	825.3	68.3	665.3	67.6	24.0%
OPERATING (EXPENSES) INCOME										
Selling	(210.9)	30.3	(175.4)	31.4	20.2%	(376.8)	31.2	(310.2)	31.5	21.5%
General and administrative	(91.8)	13.2	(84.4)	15.1	8.8%	(171.3)	14.2	(141.2)	14.3	21.4%
Management compensation	(3.0)	0.4	(2.6)	0.5	13.2%	(6.2)	0.5	(5.3)	0.5	16.0%
Other operating expenses, net	(0.7)	0.1	(1.6)	0.3	-58.6%	(4.2)	0.3	(2.7)	0.3	53.9%
INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS	166.7	23.9	119.2	21.4	39.9%	266.7	22.1	205.9	20.9	29.6%
Financial expenses	(8.9)	1.3	(14.9)	2.7	-40.2%	(18.5)	1.5	(23.5)	2.4	-21.2%
Financial income	9.9	-1.4	12.2	-2.2	-18.8%	25.7	-2.1	26.4	-2.7	-2.6%
INCOME FROM OPERATIONS	167.7	24.1	116.5	20.9	43.9%	274.0	22.7	208.8	21.2	31.2%
Nonoperating income, net	0.3	0.0	(1.1)	0.2	-126.2%	0.4	0.0	(2.2)	0.2	-119.6%
INCOME BEFORE TAXES ON INCOME	168.0	24.1	115.4	20.7	45.5%	274.4	22.7	206.7	21.0	32.8%
Income and social contribution taxes	(38.7)	5.6	(27.5)	4.9	40.6%	(63.5)	5.3	(49.1)	5.0	29.3%
NET INCOME BEFORE MINORITY INTEREST	129.3	18.6	87.9	15.8	47.1%	210.9	17.5	157.6	16.0	33.9%
Minority interest	0.0	0.0	(0.0)	0.0	-100.0%	(0.0)	0.0	(0.0)	0.0	-50.0%
NET INCOME	129.3	18.6	87.9	15.8	47.1%	210.9	17.5	157.6	16.0	33.9%
Depreciation	13.4	1.9	10.6	1.9	26.5%	26.5	2.2	20.1	2.0	31.7%
EBITDA	180.4	25.9	128.7	23.1	40.2%	293.7	24.3	223.8	22.7	31.2%

> ANNEX 2 - BALANCE SHEET (06/30/06 AND 03/31/06) – R\$ million

ASSETS	jun/2006	mar/2006	LIABILITIES	jun/2006	mar/2006
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and Banks	53.8	12.1	Loans and financing	108.0	94.9
Cash Investments	261.8	180.5	Domestic suppliers	136.9	103.5
Trade account receivables	287.3	247.9	Foreign suppliers	3.1	6.5
Inventories	184.4	189.9	Payroll and related charges	73.6	50.7
Recoverable taxes	28.3	28.6	Tax payable	73.4	78.8
Advances to employees and suppliers	7.7	6.1	Dividends	112.2	0.1
Deferred income & social contribution taxes	33.2	24.3	Freights payable	11.7	11.4
Other receivables	22.6	23.7	Other provisions	7.3	9.3
Total current assets	879.2	713.0	Other payables	19.7	15.5
			Reserve for losses on swap contracts	3.9	2.8
			Total current liabilities	549.9	373.6
LONG-TERM ASSETS			LONG TERM LIABILITIES		
Receivables from shareholders	0.0	0.0	Loans and financing	78.9	95.2
Recoverable taxes	10.5	11.3	Reserve for contingences	100.3	92.8
Deferred income & social contribution taxes	32.2	30.1	Other payables	3.8	3.5
Escrow deposits	31.6	30.3	Total long-term liabilities	183.0	191.5
Other receivables	0.5	0.5			
Cash investments	4.1	4.1	MINORITY INTEREST		
Total long-term assets	78.9	76.4		0.0	0.0
			SHAREHOLDER'S EQUITY		
			Capital	232.2	230.8
PERMANENT ASSETS			Capital reserves	128.0	124.4
Investments	5.8	5.5	Profit reserves	269.5	252.4
Property, plant and equipment	398.3	377.0	Treasury shares	(0.5)	(0.7)
Total permanent assets	404.1	382.5	Total shareholders' equity	629.2	606.9
TOTAL ASSETS	1,362.1	1,171.9	TOTAL LIABILITIES	1,362.1	1,171.9

> ANNEX 3 - STATEMENT OF CASH FLOW (CONSOLIDATED)

(in R\$ million)	1H06	1H05
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	210.9	157.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	26.5	20.1
Monetary and exchange variations, net	9.0	(6.6)
Reserve for losses on swap and forward transactions	2.3	11.1
Reserve for contingencies	6.1	17.1
Reserve for obsolete inventories	0.6	(1.5)
Other reserves	-	1.1
Deferred income and social contribution taxes	(10.4)	(4.2)
Proceeds from sale and disposal of permanent assets	1.2	4.4
Minority interest	0.0	-
	246.2	199.1
(INCREASE) DECREASE IN ASSETS		
Current assets:		
Accounts receivable	29.0	8.1
Inventories	(32.7)	(45.2)
Other receivables	(2.8)	(0.4)
Long-term assets:		
Escrow deposits	(0.6)	(1.5)
Recoverable taxes	(0.9)	(3.3)
Others receivables	0.0	0.8
	(7.9)	(41.5)
INCREASE (DECREASE) IN LIABILITIES		
Current liabilities:		
Suppliers	(17.4)	15.7
Payroll and related charges	(1.9)	(8.5)
Taxes payable	(19.7)	(12.7)
Other payables	2.4	2.5
Long-term liabilities:		
Other payables	4.2	3.9
	(32.5)	0.9
NET CASH PROVIDED BY OPERATING ACTIVITIES	205.8	158.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(60.6)	(53.1)
NET CASH USED IN INVESTING ACTIVITIES	(60.6)	(53.1)
FINANCING ACTIVITIES		
Decrease - short-term loans	(33.0)	(162.9)
Increase - long-term loans	21.8	209.4
Payment of swap and forward contracts	(1.1)	(14.1)
Payment of dividends	(195.0)	(112.2)
Payment of interest on capital	(17.7)	(15.6)
Payment of subscribed capital	1.5	-
Others	1.5	-
Sale of treasury share by exercise of stock options	4.0	1.2
Payment of receivables from shareholders	2.1	0.1
NET CASH USED IN FINANCING ACTIVITIES	(216.0)	(94.2)
NET INCREASE IN CASH AND BANKS	(70.8)	11.2
Cash and banks at the beginning of quarter	386.4	231.6
Cash and banks at the end of quarter	315.6	242.8
CHANGE IN CASH AND BANKS	(70.8)	11.2
SUPPLEMENTARY CASH FLOW DISCLOSURE:		
Income and social contribution taxes paid	72.1	36.5
Interest on paid on loans and financing	3.8	3.3