



## 2Q05 EARNINGS RELEASE

**São Paulo - July 27, 2005** – Natura Cosméticos S.A. (São Paulo Stock Exchange: NATU3) announces today its results for the second quarter 2005 (2Q05). The financial and operating information below, except when otherwise indicated, are presented on a **consolidated basis**, according to the Brazilian Corporate Law.

### FINANCIAL SUMMARY

In R\$ million	2Q05	2Q04	% Change	1H05	1H04	% Change
Units sold - items for resale (in millions) - Brazil <sup>1</sup>	48.7	41.6	17.1%	94.4	76.3	23.7%
Gross revenues	793.2	617.1	28.5%	1,404.2	1,092.8	28.5%
Net revenues	557.7	428.5	30.1%	984.9	757.7	30.0%
Gross profit	383.2	282.6	35.6%	665.3	503.4	32.2%
<i>Gross margin (%)</i>	68.7%	65.9%	-	67.6%	66.4%	-
Ebitda	128.7	102.2	25.9%	223.8	184.6	21.3%
<i>Ebitda margin (%)</i>	23.1%	23.9%	-	22.7%	24.4%	-
Net income	87.9	78.8	11.5%	157.6	123.5	27.6%
<i>Net margin (%)</i>	15.8%	18.4%	-	16.0%	16.3%	-
Total consultants <sup>2</sup> in Brazil (in thousands) <sup>3</sup>	454.0	377.5	20.2%	454.0	377.5	20.2%
Total consultants <sup>2</sup> in Latin America <sup>4</sup> (in thousands)	29.9	22.0	35.9%	29.9	22.0	35.9%

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

(2) Position at the end of the period of the 9<sup>th</sup> sales cycle.

(3) The total number of consultants at the end of 1H04 is different from the previously released figure of 366.9, due to the change in the method employed for calculating consultants, from monthly basis to the company's sales cycle to better reflect the sales channel growth.

(4) Argentina, Chile and Peru.



## **COSMETICS, FRAGRANCE AND TOILETRIES (CF&T) SECTOR IN BRAZIL – NATURA’S TARGET MARKET FIGURES (First four months of 2005)**

According to data from sector associations Sipatesp/Abhipec<sup>1</sup>, the CF&T target market<sup>2</sup> net revenues grew by 18.1% on a four-month basis in 2005 compared to the same period of 2004, reaching R\$2,875.6 million (First four months of 2004: R\$2,435.1 million).

Natura’s market share of this target market grew by 1.9 points, from 18.6% in the first four months of 2004 to 20.5% in the same period of 2005.

(1) Sipatesp/Abhipec – Brazilian Cosmetics, Fragrance and Toiletries Association.

(2) Target Market: skin care, sunscreen, makeup, perfums fragrances, hair care, shaving products and deodorants – do not include diapers, nail polishes, sanitary pads, hair dyes and oral hygiene.

## **CONSOLIDATED GROSS REVENUES**

2Q05 consolidated gross revenues was R\$793.2 million, up 28.5% over the same period of 2004 (R\$617.1 million), continuing its consistent growth when compared to the previous quarters. In 1H05, gross revenues amounted to R\$1,404.2 million, up 28.5% over the same period last year. This performance once again reflects the ongoing efficiency of the company’s business model.

The growth pace of the sales channel in 2005 has been faster than that of last few years. At the end of 1H05, on a consolidated basis, the total number of consultants reached 483.9 thousand, up 21.1% Y-o-Y.

## **COST OF SALES**

The **cost of sales** declined in relation to net revenues, from 34.1% in 2Q04 to 31.3% in 2Q05.



### Composition of Cost of Sales (% of net revenues)

Item	2Q05	2Q04	1H05	1H04
RM/PM*	25.0	27.5	25.7	26.5
Labor	2.4	2.5	2.6	2.6
Depreciation	1.0	1.2	1.1	1.4
Others	2.9	2.9	3.1	3.1
<b>Total</b>	<b>31.3</b>	<b>34.1</b>	<b>32.4</b>	<b>33.6</b>

\* Raw material/packaging material.

The 2.8 points decrease in relation to net revenues is primarily due to lower promotional efforts and better management of seasonal products margins (Mother's Day and Valentines' Day) in 2Q05 over 2Q04.

Other factors that have also contributed to reduce costs, although in a lesser degree, were: (i) tax credit rights (PIS and Cofins) on productive purchases incurring in the three months of 2Q05, but only in May and June of 2Q04; and (ii) scale gains.

**Selling expenses** in relation to net revenues increased from 29.9% in 2Q04 to 31.4% in 2Q05. This increase was primarily due to two main reasons: (i) growth of expenses related to the logistical process of collecting and distributing orders resulting from the inadequacy of these processes *vis à vis* the increase in operating volume in the last few years (the company is reviewing and redesigning these processes); and (ii) stronger investment in the marketing program.

**Administrative expenses** in relation to net revenues also posted an increase, from 13.5% in 2Q04 to 15.2% in 2Q05. The main contributors for this increase were: (i) intensified spending on the innovation process, in line with the company's strategy of attaining at least 3% of net revenues; (ii) international expansion (Mexico and France); and (iii) small increase in the provisions for contingencies in 2Q05, compared to reversal of contingencies in 2Q04.



## EBITDA AND NET INCOME

2Q05 **EBITDA** amounted to R\$128.7 million, up 25.9% compared to 2Q04 (R\$102.2 million). EBITDA margin posted a slightly decrease from 23.9% in 2Q04 to 23.1% in 2Q05.

In 1H05, EBITDA totaled R\$223.8 million, a 21.3% growth over 1H04 (R\$184.6 million). EBITDA margin went from 24.4% in 1H04 to 22.7% in 1H05.

The international expansion process generated additional net expenses of R\$9.0 million in the 2Q05 result compared to 2Q04 (2Q05: R\$11.1 million vs. 2Q04: R\$2.1 million).

In 1H05, this additional expense amounted to R\$14.1 million (1H05: R\$18.6 million vs. 1H04: R\$4.5 million). The international expansion process is a strategic effort for the company's continuous growth. For 2005, total net expenses estimated for the expansion process is R\$41.0 million (2004: R\$12.2 million).

In **2Q05, net income** totaled R\$87.9 million, up 11.5% compared to R\$78.8 million posted in 2Q04. Lower net income growth compared to EBITDA growth resulted primarily from:

- Lower profit in 2Q05 vs. 2Q04, due to: (i) positive impact on 2Q04 of the reversal of provision for financial expenses, which resulted from the capitalization of BNDESPAR debentures at the time of the IPO and (ii) marking to market those debts whose settlement were anticipated to 2Q05.
- Increase of the average rate of IR/CSLL (income tax / social contribution on profit), mostly as a result of losses generated by international operations and, also, of the lower weight of goodwill amortization on the income tax and social contribution calculation base.



## INVESTMENTS

Investments in 1H05 amounted to R\$53.1 million. Highlights were: (i) construction of the third automatic distribution line – Picking – R\$15.4 million, which is expected to go on-stream during the third quarter; and (ii) acquisition of new machines, software and shapes totaling R\$16.9 million. For 2005, estimated investment program will total R\$120 million.

## OPERATIONS IN LATIN AMERICA

### Financial Highlights - US\$ million (Argentina, Chile and Peru)

	2Q05	2Q04	% change	1H05	1H04	% change
Units sold - items for resale (in millions)	1.6	1.0	58.6%	3.0	1.9	52.6%
Net revenues	6.6	4.3	55.3%	11.6	7.6	52.2%
Income (loss) from operations	-1.0	-0.6	63.6%	-2.1	-1.4	45.2%
<i>Operating margin</i>	<i>-15.3%</i>	<i>-14.6%</i>	-	<i>-18.0%</i>	<i>-19.7%</i>	-

2Q05 net income from **Argentina, Chile and Peru** operations grew, in dollars, by 55.3%. Considering the growth in local currency weighted by the share in dollars of each operation, the growth reached 48.5% in 2Q05.

The operating loss posted in the quarters under comparison increased from US\$0.6 million in 2Q04 to US\$1.0 million in 2Q05 and was due to the growth of expenses related to the opening of new operations in other Latin American countries.

In 1H05, the number of consultants in Argentina, Chile and Peru grew by 35.9%, reaching 29.9 thousands by the end of the period.



Items for resale announced by the end of 2004 were slightly altered resulting from the revision of quantities sold in international operations (Argentina, Chile and Peru). The table below shows revised data of items for resale for the three operations.

**Items for resale (in thousands)  
Argentina, Chile and Peru**

	<b>2004</b>	<b>2005</b>
<b>1Q</b>	914.7	1,335.8
<b>2Q</b>	1,032.5	1,637.1
<b>3Q</b>	1,294.7	n/a
<b>4Q</b>	1,426.3	n/a
<b>Total</b>	<b>4,668.2</b>	<b>n/a</b>

Note: In 2004 total released number was 3,349 thousands of resold units.

In **Mexico**, the startup of operations is expected to take place in the second half of 2005, counting on a still small consultant base.

## **CASH FLOW**

In 1H05, gross cash generation<sup>1</sup> was R\$184.9 million, 27.2% higher than that posted in the same period of last year. Of this total, R\$40.5 million were allocated to working capital and to long-term assets and liabilities.

The amount invested in the purchase of property, plant and equipment amounted to R\$53.1 million, ending 1H05 with free cash flow<sup>2</sup> generation of R\$91.3 million.

Note 1: (Net income)+ (Adjustments to reconcile net income to net cash provided by operating activities).

Note 2: (Net cash provided by operating activities) – (net cash used in investing activities)



## **DIVIDENDS**

In meetings held on April 28 and July 27, 2005, the Board of Directors approved the distribution and payment of interest on capital and dividends, referring to the 1H05, as anticipation of 2006 Ordinary General Shareholders Meeting ad-referendum dividends, totaling a gross amount of R\$103,816.4 thousands (net: R\$101,823.3 thousands).

This payment corresponds to R\$1.22350438 per share, as follows: (i) R\$90,433.5 thousands as dividends, corresponding to R\$1.06568538 per share, tax free and (ii) R\$13,382.9 thousands as interest on capital, corresponding to R\$0.157818997 per share, or R\$0.13431462 per share, after income tax, except for shareholders who are immune or exempt.

Additionally, at the same meeting held on July 27, 2005, the Board of Directors approved the distribution and payment, on April 4, 2006, of interest on capital which will be calculated on the stock interest as of July 2005, totaling the gross amount of R\$10,349.3 thousand

## **CONFERENCE CALL & WEBCAST**

**Portuguese:           Friday, July 29, 2005**  
**09:00 AM – US EST**  
In Brazil:   5511-4613-0501  
International: 1-412-858-4600

**English:               Friday, July 29, 2005**  
**11:00 AM – US EST**  
In Brazil:   5511-4613-0501  
International: 1-412-858-4600

**Live webcast will be available at: [www.natura.net/investor](http://www.natura.net/investor)**

## ANNEX 1 – STATEMENT OF INCOME

### Natura Cosméticos S/A - Consolidated

<i>(in R\$ million)</i>	2Q05	%NR	2Q04	%NR	% change	1H05	%NR	1H04	%NR	% change
Gross sales to domestic market	770.2	97.1	598.2	96.9	28.8%	1,362.9	97.1	1,060.2	97.0	28.5%
Gross sales to foreign market	22.5	2.8	18.7	3.0	20.4%	40.6	2.9	32.2	3.0	25.9%
Other sales	0.5	0.1	0.2	0.0	20.4%	0.7		0.3		114.6%
<b>GROSS OPERATING REVENUES</b>	<b>793.2</b>	<b>100.0</b>	<b>617.1</b>	<b>100.0</b>	<b>28.5%</b>	<b>1,404.2</b>	<b>100.0</b>	<b>1,092.8</b>	<b>100.0</b>	<b>28.5%</b>
Taxes on sales, returns and rebates	(235.4)	29.7	(188.6)	30.6	24.9%	(419.3)	29.9	(335.0)	30.7	25.2%
<b>NET OPERATING REVENUES</b>	<b>557.7</b>	<b>100.0</b>	<b>428.5</b>	<b>100.0</b>	<b>30.1%</b>	<b>984.9</b>	<b>100.0</b>	<b>757.7</b>	<b>100.0</b>	<b>30.0%</b>
Cost of sales	(174.5)	31.3	(145.9)	34.1	19.6%	(319.5)	32.4	(254.3)	33.6	25.7%
<b>GROSS PROFIT</b>	<b>383.2</b>	<b>68.7</b>	<b>282.6</b>	<b>65.9</b>	<b>35.6%</b>	<b>665.3</b>	<b>67.6</b>	<b>503.4</b>	<b>66.4</b>	<b>32.2%</b>
OPERATING (EXPENSES) INCOME										
Selling	(175.4)	31.4	(128.3)	29.9	36.7%	(310.2)	31.5	(232.3)	30.7	33.5%
General and administrative	(85.0)	15.2	(58.0)	13.5	46.5%	(142.1)	14.4	(99.8)	13.2	42.4%
Management compensation	(2.0)	0.4	(2.1)	0.5	-2.5%	(4.4)	0.4	(4.0)	0.5	9.9%
Othe operating expenses	(1.6)	0.3	-	-	n/a	(2.7)	0.3	-	-	n/a
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>119.2</b>	<b>21.4</b>	<b>94.2</b>	<b>22.0</b>	<b>26.5%</b>	<b>205.9</b>	<b>20.9</b>	<b>167.3</b>	<b>22.1</b>	<b>23.1%</b>
Financial expenses	(14.9)	2.7	(5.8)	1.3	157.7%	(23.5)	2.4	(20.5)	2.7	14.4%
Financial income	12.2	(2.2)	6.5	(1.5)	86.4%	26.4	(2.7)	20.2	(2.7)	30.6%
<b>INCOME FROM OPERATIONS</b>	<b>116.5</b>	<b>20.9</b>	<b>95.0</b>	<b>22.2</b>	<b>22.7%</b>	<b>208.8</b>	<b>21.2</b>	<b>167.0</b>	<b>22.0</b>	<b>25.0%</b>
Nonoperating income	(1.1)	0.2	(0.6)	0.1	89.6%	(2.2)	0.2	0.1	(0.0)	n/a
<b>INCOME BEFORE DEBENTURES PARTICIPATION</b>	<b>115.4</b>	<b>20.7</b>	<b>94.4</b>	<b>22.0</b>	<b>22.3%</b>	<b>206.7</b>	<b>21.0</b>	<b>167.1</b>	<b>22.1</b>	<b>23.6%</b>
Debentures participation	-	-	-	-		-	-	(7.2)	(0.9)	n/a
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>115.4</b>	<b>20.7</b>	<b>94.4</b>	<b>22.0</b>	<b>22.3%</b>	<b>206.7</b>	<b>21.0</b>	<b>160.0</b>	<b>21.1</b>	<b>29.2%</b>
Income and social contribution taxes	(27.5)	(4.9)	(15.6)	(3.6)	77.0%	(49.1)	(5.0)	(36.5)	(4.8)	34.5%
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>87.9</b>	<b>15.8</b>	<b>78.8</b>	<b>18.4</b>	<b>11.5%</b>	<b>157.6</b>	<b>16.0</b>	<b>123.5</b>	<b>16.3</b>	<b>27.6%</b>
Minority interest	(0.0)	(0.0)	-	-	n/a	(0.0)	(0.0)	(0.0)	(0.0)	661.4%
<b>NET INCOME</b>	<b>87.9</b>	<b>15.8</b>	<b>78.8</b>	<b>18.4</b>	<b>11.5%</b>	<b>157.6</b>	<b>16.0</b>	<b>123.5</b>	<b>16.3</b>	<b>27.6%</b>
<b>Depreciation</b>	<b>10.6</b>	<b>(4.5)</b>	<b>8.6</b>	<b>(4.6)</b>	<b>23.2%</b>	<b>20.1</b>	<b>2.0</b>	<b>17.1</b>	<b>2.3</b>	<b>17.9%</b>
<b>Ebitda</b>	<b>128.7</b>	<b>23.1</b>	<b>102.2</b>	<b>23.9</b>	<b>25.9%</b>	<b>223.8</b>	<b>22.7</b>	<b>184.6</b>	<b>24.4</b>	<b>21.3%</b>



## ANNEX 2 – BALANCE SHEET (06/30/2005 AND 03/31/2005)

### NATURA COSMÉTICOS S/A - R\$ million

ASSETS	Jun/05	Mar/05	LIABILITIES	Jun/05	Mar/05
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash and banks	33.4	45.7	Loans and financing	36.5	85.6
Temporary cash investments	209.5	272.3	Domestic suppliers	93.1	81.7
Trade accounts receivable	241.9	206.9	Foreign suppliers	9.2	2.5
Inventories	168.7	141.2	Payroll and related charges	54.6	38.0
Recoverable taxes	22.9	17.9	Tax payable	58.9	69.6
Advances to employees	4.8	6.0	Dividends	91.8	113.6
Related parties	-	-	Interest on capital	11.4	13.6
Deferred income and social contribution taxes	22.1	20.7	Freights payable	10.4	7.5
Other receivables	12.9	8.1	Reserve for losses on swap contracts	3.1	3.7
<b>Total current assets</b>	<b>716.2</b>	<b>718.9</b>	Other payables	34.4	26.5
			<b>Total current liabilities</b>	<b>403.5</b>	<b>442.3</b>
<b>LONG-TERM ASSETS</b>			<b>LONG-TERM LIABILITIES</b>		
Receivables from shareholders	0.2	0.2	Loans and financing	138.6	67.0
Tax incentives	-	1.2	Reserve for contingencies	76.6	69.1
Deferred income and social contribution taxes	25.1	24.2	Provision for losses on subsidiaries	-	-
Recoverable taxes	7.2	4.6	Other payables	2.4	2.2
Escrow deposits	26.9	25.9	<b>Total long-term liabilities</b>	<b>217.7</b>	<b>138.3</b>
Other receivables	2.1	1.7			
<b>Total long-term assets</b>	<b>61.4</b>	<b>57.8</b>	<b>MINORITY INTEREST</b>	<b>0.0</b>	<b>0.0</b>
			<b>SHAREHOLDER'S EQUITY</b>		
<b>PERMANENT ASSETS</b>			Capital	230.8	230.8
Investments	7.3	8.0	Capital reserves	116.9	115.8
Property, plant and equipment	327.4	301.8	Profit reserves	93.3	93.3
<b>Total permanent assets</b>	<b>334.7</b>	<b>309.8</b>	Retained earnings	53.7	69.7
			Treasury shares	(3.5)	(3.6)
			<b>Total shareholders' equity</b>	<b>491.2</b>	<b>506.0</b>
<b>TOTAL ASSETS</b>	<b>1,112.4</b>	<b>1,086.5</b>	<b>TOTAL LIABILITIES</b>	<b>1,112.4</b>	<b>1,086.5</b>

## ANNEX 3 – STATEMENT OF CASH FLOW

<b>Natura Cosméticos S/A - Consolidated</b>			
R\$ million		<b>1H05</b>	<b>1H04</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net income</b>		<b>157.6</b>	<b>123.5</b>
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation		20.1	17.1
Monetary and exchange variations, net		(6.6)	6.3
Reserve for losses on swap and forward transactions		(3.0)	(8.0)
Reserve for contingencies		17.1	0.7
Reserve for obsolete inventories		(1.5)	5.4
Other reserves		1.1	-
Deferred income and social contribution taxes		(4.2)	(5.8)
Disposal of permanent assets		4.4	0.4
Debentures participation, net of taxes		-	5.7
		<b>184.9</b>	<b>145.2</b>
<b>(INCREASE) DECREASE IN ASSETS</b>			
Current assets:			
Accounts receivable		8.1	18.0
Inventories		(45.2)	(23.1)
Other receivables		(0.4)	(0.2)
Long-term assets:			
Escrow deposits		(1.5)	(7.1)
Other receivables		0.8	(2.9)
<b>Subtotal</b>		<b>(38.1)</b>	<b>(15.2)</b>
<b>INCREASE (DECREASE) IN LIABILITIES</b>			
Current liabilities:			
Suppliers		15.7	(1.0)
Payroll and related charges		(8.5)	3.4
Taxes payable		(12.7)	(6.2)
Other payables		2.5	(1.2)
Long-term liabilities:			
Other payables		0.6	8.3
<b>Subtotal</b>		<b>(2.4)</b>	<b>3.4</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>144.4</b>	<b>133.4</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(53.1)	(26.8)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(53.1)</b>	<b>(26.8)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
(Decrease) Increase in current and long-term loans		46.5	25.0
Payment of dividends		(112.2)	(20.0)
Payment of interest on capital		(15.6)	(10.6)
Sale of treasury share		1.3	5.2
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(80.1)</b>	<b>(0.4)</b>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A., net assets		-	(52.6)
<b>NET INCREASE IN CASH AND BANKS</b>		<b>11.2</b>	<b>53.6</b>
Cash and banks at the beginning of year		231.6	136.1
Cash and banks at the end of year		242.8	189.7
<b>CHANGE IN CASH AND BANKS</b>		<b>11.2</b>	<b>53.6</b>
SUPPLEMENTARY CASH FLOW DISCLOSURE:			
Income and social contribution taxes paid		36.5	26.6
Interest on paid on loans and financing		3.3	3.6
Swap and forward contracts paid		14.1	6.8



## INVESTOR RELATIONS

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**Coordinators**

*This press release contains forward-looking statements. Such statements are not statements of historical fact, and reflect the beliefs and expectations of the Natura's management. The words "anticipates", "wishes", "expects", "estimates", "intends", "forecasts", "plans", "predicts", "projects", "targets" and similar words are intended to identify these statements, which necessarily involve known and unknown risks and uncertainties. Known risks and uncertainties include, but are not limited to, the impact of competitive products and pricing, market acceptance of products, product transitions by the Company and its competitors, regulatory approval, currency fluctuations, production and supply difficulties, changes in product sales mix, and other risks. This press release also includes pro-forma information prepared by the Company for information and reference purposes only, which has not been audited. Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them in light of new information or future developments.*