



## 3Q05 EARNINGS RELEASE

**São Paulo - October 26, 2005** – Natura Cosméticos S.A. (São Paulo Stock Exchange: NATU3) announces today its results for the third quarter 2005 (3Q05). The financial and operating information below, except where otherwise indicated, is presented on a **consolidated basis**, according to the Brazilian Corporate Law.

### FINANCIAL SUMMARY - CONSOLIDATED

In R\$ million	3Q05	3Q04	% change	9M05	9M04	% change
Units sold - items for resale (in millions) - Brazil <sup>1</sup>	54.1	43.6	24.1%	148.4	119.9	23.8%
Gross Revenues	809.8	645.7	25.4%	2,214.0	1,738.4	27.4%
Net Revenues	571.4	448.2	27.5%	1,556.2	1,205.9	29.1%
Gross Profit	391.7	306.3	27.9%	1,057.0	809.7	30.5%
<i>Gross margin (%)</i>	68.6%	68.4%	-	67.9%	67.1%	-
Ebitda <sup>2</sup>	145.7	104.5	39.4%	369.6	289.0	27.9%
<i>Ebitda margin (%)</i>	25.5%	23.3%	-	23.7%	24.0%	-
Net Income	100.9	77.4	30.4%	258.4	200.9	28.7%
<i>Net margin (%)</i>	17.7%	17.3%	-	16.6%	16.7%	-
Total consultants <sup>3</sup> in Brazil (in thousands)	475.1	392.1	21.2%	475.1	392.1	21.2%
Total consultants <sup>3</sup> in Latin America <sup>4</sup> (in thousands)	34.0	24.2	40.9%	34.0	24.2	40.9%

(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 product, among others.

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

(3) Position at the end of the period of the 13<sup>th</sup> sales cycle.

(4) Argentina, Chile, Peru and Mexico.

## **COSMETICS, FRAGRANCE AND TOILETRIES (CF&T) SECTOR IN BRAZIL – NATURA’S TARGET MARKET FIGURES (8 mos 2005 x 8 mos 2004)**

According to data from sector associations Sipatesp/Abhipec<sup>1</sup> the CF&T target market<sup>2</sup> net revenues grew by 17.1% on an eight-month basis in 2005 compared to the same period of 2004, reaching R\$6,081.0 million (8 mos 04: R\$5,193.6 million).

Natura’s market share of this target market grew by 2.1 percentage points, from 18.9% in the first eight months of 2004 to 21.0% in the same period of 2005.

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

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

## **CONSOLIDATED GROSS REVENUES**

3Q05 consolidated gross revenues were R\$809.8 million, up 25.4% over the same period of 2004 (R\$645.7 million). In the first nine months of 2005, gross revenues amounted to R\$2,214.0, 27.4% growth compared to the same period last year.

Natura’s share in this market continued its consistent growth, as reflected in the previous item with the CF&T target market figures.

At the end of September 2005, total number of consultants reached 509.1 thousand, up 22.3% Y-o-Y.

## **COST OF SALES**

The **cost of sales** declined in relation to net revenues from 31.6% in 3Q04 to 31.4% in 3Q05.

Basically, all cost of sales items maintained their percentage over net revenues, in the periods under comparison, as per the table below:

<b>Composition of Cost of Sales (% of net revenues)</b>				
<b>Item</b>	<b>3Q05</b>	<b>3Q04</b>	<b>9M05</b>	<b>9M04</b>
RM/PM*	24.9	25.0	25.4	25.9
Labor	2.7	2.5	2.6	2.5
Depreciation	1.1	1.2	1.1	1.3
Others	2.8	3.0	3.0	3.1
<b>Total</b>	<b>31.4</b>	<b>31.6</b>	<b>32.1</b>	<b>32.9</b>

\* Raw material/packaging material.

**Selling expenses**, in relation to net revenues posted a slight reduction from 31.5% in 3Q04 to 31.2% in 3Q05. This reduction was primarily due to (i) decrease in expenses related to the logistical process, mainly of collecting orders (call center), and the redesign of such process already shows gains in productivity and (ii) lower marketing expenses, resulting from a different distribution in media expenses over the previous year.

**Administrative expenses** in relation to net revenues changed from 14.8% in 3Q04 to 12.9% in 3Q05. It is worth noting that the administrative expenses of these two quarters are not entirely comparable, due to the inclusion of some non-recurring entries, both in 3Q04 and 3Q05. If these non-recurring entries had been excluded, administrative expenses would have risen by 1.2% over 2004, in line with the company's strategy of intensifying its internationalization and innovation efforts.

In the first nine months, these expenses remained stable representing 13.9% of net revenues in 2004 and 2005.

## **EBITDA AND NET INCOME**

3Q05 **EBITDA** amounted to R\$145.7 million, up 39.4% compared to 3Q04 (R\$104.5 million). EBITDA margin changed from 23.3% in 3Q04 to 25.5% in 3Q05.

9M05 EBITDA totaled R\$369.6 million, 27.9% growth over 9M04 (R\$289.0 million). EBITDA margin posted a slight reduction from 24.0% to 23.7% Y-o-Y.

3Q05 **net income** totaled R\$100.9 million, up 30.4% compared to R\$77.4 million posted in 3Q04. Lower net income growth compared to EBITDA growth resulted primarily from the increase of the average rate of IR/CSLL (income tax/social contribution). This increase in the average rate of IR/CSLL was mostly due to: (i) the lower proportion of goodwill amortization on the income tax and social contribution calculation base and (ii) an increase in losses, generated in the international operations as a result of the opening of new subsidiaries.

## **INVESTMENTS**

Investments in the first nine months amounted to R\$83.8 million. In September the third automatic separation line (picking) was started. After stabilization of this third line, the separation capacity of orders will rise to roughly 80 thousand orders a day, from 44 thousand orders a day. R\$34.0 million were invested in the acquisition of new machines and shapes.

## INTERNATIONAL OPERATIONS

### Argentina, Chile and Peru

	Financial Highlights - US\$ million (Argentina, Chile and Peru)					
	3Q05	3Q04	% change	9M05	9M04	% change
Units sold - items for resale (in millions)	1.8	1.3	39.2%	4.8	3.2	47.3%
Net revenues	7.3	5.1	44.1%	18.9	12.7	48.9%
Income (loss) from operations	-0.7	-0.6	-	-2.4	-2.1	-
<i>Operating margin</i>	<i>-10.2%</i>	<i>-12.5%</i>	<i>-</i>	<i>-12.9%</i>	<i>-16.3%</i>	<i>-</i>

Note: Figures shown on the table above do not include Mexico operations. Structuring expenses regarding new operations in other Latin America countries were excluded (US\$ 0.3 million and US\$ 0.1 million in 3Q05 and 3Q04, respectively and US\$0.7 million and US\$ 0.2 million in 9M05 and 9M04, respectively).

3Q05 net revenues from **Argentina, Chile and Peru** operations grew, in dollars, by 44.1%. Considering the growth in local currency weighted by the share in dollars of each operation, the growth reached 36.9% in 3Q05.

The operating loss posted in the quarters under comparison went from US\$0.6 million in 3Q04 to US\$ 0.7 million in 3Q05. Despite an increase in losses, in absolute terms, the operating margin improved under the compared periods. It is worth highlighting that the company continued to invest heavily in the development of new sales sectors and in sales growth.

At the end of September, 2005, the number of consultants in Argentina, Chile and Peru grew by 38.6%, Y-o-Y.

### Other Operations

Operations in **Mexico** started up on August 1<sup>st</sup>, 2005, therefore do not account for a significant share of the business yet. However, performance up to the end of 3Q05 is in line with the company's expectations.

Operations in **France** are in accordance with the company's expectations, both related to the store performance and the company's brand building.

## **International Expansion Process**

The international expansion process generated net expenses of R\$9.9 million in 3Q05 (3Q04: R\$5.4 million). In 9M05 this amount totaled R\$28.5 million (9M04:R\$9.9 million), with a highlight for the new operations (France and Mexico). For 2005, total net expenses estimated for the expansion process is R\$41.0 million (2004: R\$12.2 million).

## **CASH FLOW**

In the first nine months of 2005, gross cash generation<sup>1</sup> stood at R\$327.9 million, 28.7% higher than that posted in the same period of last year. Of this total, R\$50.7 million were allocated to working capital and to long-term assets and liabilities, in which inventories represented the great majority.

It is worth highlighting that the balance of inventories at the end of 3Q05 increased by 43.3% vs. 3Q04, whereas at the end of 2Q05 this increase stood at 71.6% over 2Q04, reflecting an improvement in the management of this asset. By carrying larger inventories, the company reduced the percentage of unfulfilled orders, which shows that the policy of adjusting the dimensions of coverage was correct.

The amount invested in the purchase of property, plant and equipment amounted to R\$83.8 million, resulting in a free cash flow<sup>2</sup> of R\$193.4 million in the period.

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)

## CONFERENCE CALL & WEBCAST

**Portuguese: Friday – October 28, 2005**  
**08:00AM – US EST**  
In Brazil: 11-4613-0501  
International: 1-412-858-4600

**English: Friday – October 28, 2005**  
**10:00AM – US EST**  
In Brazil: 11-4613-0501  
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 (CONSOLIDATED)

### Natura Cosméticos S/A - Consolidated

<i>(in R\$ million)</i>	3Q05	%NR	3Q04	%NR	% change	9M05	%NR	9M04	%NR	% change
Gross sales to domestic market	786.1	97.1%	628.6	97.4%	25.1%	2,149.0	97.1%	1,688.8	97.1%	27.3%
Gross sales to foreign market	23.4	2.9%	16.9	2.6%	38.5%	64.0	2.9%	49.1	2.8%	30.3%
Other sales	0.3	0.0%	0.2	0.0%	46.0%	0.9	0.0%	0.5	0.0%	90.2%
<b>GROSS OPERATING REVENUES</b>	<b>809.8</b>	<b>100.0%</b>	<b>645.7</b>	<b>100.0%</b>	<b>25.4%</b>	<b>2,214.0</b>	<b>100.0%</b>	<b>1,738.4</b>	<b>100.0%</b>	<b>27.4%</b>
Taxes on sales, returns and rebates	(238.4)	-29.4%	(197.5)	-30.6%	20.7%	(657.7)	-29.7%	(532.5)	-30.6%	23.5%
<b>NET OPERATING REVENUES</b>	<b>571.4</b>	<b>100.0%</b>	<b>448.2</b>	<b>100.0%</b>	<b>27.5%</b>	<b>1,556.2</b>	<b>100.0%</b>	<b>1,205.9</b>	<b>100.0%</b>	<b>29.1%</b>
Cost of sales	(179.7)	-31.4%	(141.8)	-31.6%	26.7%	(499.2)	-32.1%	(396.1)	-32.9%	26.0%
<b>GROSS PROFIT</b>	<b>391.7</b>	<b>68.6%</b>	<b>306.3</b>	<b>68.4%</b>	<b>27.9%</b>	<b>1,057.0</b>	<b>67.9%</b>	<b>809.7</b>	<b>67.1%</b>	<b>30.5%</b>
OPERATING (EXPENSES) INCOME										
Selling	(178.3)	-31.2%	(141.0)	-31.5%	26.5%	(488.5)	-31.4%	(371.5)	-30.8%	31.5%
General and administrative	(73.5)	-12.9%	(66.5)	-14.8%	10.7%	(215.7)	-13.9%	(168.0)	-13.9%	28.3%
Management compensation	(2.5)	-0.4%	(2.2)	-0.5%	12.6%	(6.8)	-0.4%	(6.2)	-0.5%	10.8%
Othe operating expenses	(2.6)	-0.5%	-	0.0%	n/a	(5.4)	-0.3%	-	0.0%	n/a
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>134.8</b>	<b>23.6%</b>	<b>96.7</b>	<b>21.6%</b>	<b>39.4%</b>	<b>340.6</b>	<b>21.9%</b>	<b>264.0</b>	<b>21.9%</b>	<b>29.0%</b>
Financial expenses	(12.9)	-2.3%	(9.1)	-2.0%	42.7%	(36.4)	-2.3%	(29.6)	-2.5%	23.1%
Financial income	13.1	2.3%	10.8	2.4%	21.6%	39.5	2.5%	31.0	2.6%	27.5%
<b>INCOME FROM OPERATIONS</b>	<b>134.9</b>	<b>23.6%</b>	<b>98.4</b>	<b>22.0%</b>	<b>37.1%</b>	<b>343.8</b>	<b>22.1%</b>	<b>265.5</b>	<b>22.0%</b>	<b>29.5%</b>
Non-operating income	(0.2)	0.0%	(0.9)	-0.2%	-77.7%	(2.4)	-0.2%	(0.8)	-0.1%	191.1%
<b>INCOME BEFORE DEBENTURES PARTICIPATION</b>	<b>134.7</b>	<b>23.6%</b>	<b>97.5</b>	<b>21.8%</b>	<b>38.2%</b>	<b>341.4</b>	<b>21.9%</b>	<b>264.6</b>	<b>21.9%</b>	<b>29.0%</b>
Debentures participation	-	0.0%	-	0.0%	n/a	-	0.0%	(7.2)	-0.6%	-100.0%
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>134.7</b>	<b>23.6%</b>	<b>97.5</b>	<b>21.8%</b>	<b>38.2%</b>	<b>341.4</b>	<b>21.9%</b>	<b>257.5</b>	<b>21.4%</b>	<b>32.6%</b>
Income and social contribution taxes	(33.9)	-5.9%	(20.1)	-4.5%	68.4%	(83.0)	-5.3%	(56.6)	-4.7%	46.6%
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>100.9</b>	<b>17.7%</b>	<b>77.4</b>	<b>17.3%</b>	<b>30.4%</b>	<b>258.4</b>	<b>16.6%</b>	<b>200.9</b>	<b>16.7%</b>	<b>28.7%</b>
Minority interest	-	0.0%	-	0.0%	n/a	(0.0)	0.0%	-	0.0%	n/a
<b>NET INCOME</b>	<b>100.9</b>	<b>17.7%</b>	<b>77.4</b>	<b>17.3%</b>	<b>30.4%</b>	<b>258.4</b>	<b>16.6%</b>	<b>200.9</b>	<b>16.7%</b>	<b>28.7%</b>
<b>Depreciation</b>	<b>11.2</b>	<b>2.0%</b>	<b>8.7</b>	<b>2.0%</b>	<b>27.9%</b>	<b>31.3</b>	<b>2.0%</b>	<b>25.8</b>	<b>2.1%</b>	<b>21.3%</b>
<b>Ebitda</b>	<b>145.7</b>	<b>25.5%</b>	<b>104.5</b>	<b>23.3%</b>	<b>39.4%</b>	<b>369.6</b>	<b>23.7%</b>	<b>289.0</b>	<b>24.0%</b>	<b>27.9%</b>

## ANNEX 2 – BALANCE SHEET (09/30/2005 AND 06/30/2005)

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

<b>ASSETS</b>	<b>Sep/05</b>	<b>Jun/05</b>	<b>LIABILITIES</b>	<b>Sep/05</b>	<b>Jun/05</b>
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash and banks	47.5	33.4	Loans and financing	33.7	36.5
Temporary cash investments	193.2	209.5	Domestic suppliers	77.6	93.1
Trade accounts receivable	238.8	241.9	Foreign suppliers	5.3	9.2
Inventories	182.1	168.7	Payroll and related charges	76.5	54.6
Recoverable taxes	29.6	22.9	Tax payable	76.6	58.9
Advances to employees	7.1	4.8	Dividends	0.3	91.8
Related parties	0.0	0.0	Interest on capital	8.8	11.4
Deferred income and social contribution taxes	26.6	22.1	Freights payable	11.6	10.4
Other receivables	13.0	12.9	Reserve for losses on swap contracts	3.4	3.1
<b>Total current assets</b>	<b>737.7</b>	<b>716.2</b>	Insurance payable	1.8	0.4
<b>LONG-TERM ASSETS</b>			Advances to employees	5.9	4.7
Receivables from shareholders	0.1	0.2	Other payables	33.3	29.3
Temporary cash investments	3.8	0.0	<b>Total current liabilities</b>	<b>334.7</b>	<b>403.5</b>
Deferred income and social contribution taxes	26.6	25.1	<b>LONG-TERM LIABILITIES</b>		
Recoverable taxes	8.7	7.2	Loans and financing	150.4	138.6
Escrow deposits	27.7	26.9	Reserve for contingencies	82.6	76.6
Other receivables	0.6	2.1	Other payables	2.9	2.4
<b>Total long-term assets</b>	<b>67.5</b>	<b>61.4</b>	<b>Total long-term liabilities</b>	<b>236.0</b>	<b>217.7</b>
<b>PERMANENT ASSETS</b>			<b>MINORITY INTEREST</b>	<b>0.0</b>	<b>0.0</b>
Investments	6.2	7.3	<b>SHAREHOLDER'S EQUITY</b>		
Property, plant and equipment	344.0	327.4	Capital	230.8	230.8
<b>Total permanent assets</b>	<b>350.2</b>	<b>334.7</b>	Capital reserves	117.9	116.9
			Profit reserves	93.3	93.3
			Retained earnings	144.3	53.7
			Treasury shares	(1.5)	(3.5)
			<b>Total shareholders' equity</b>	<b>584.8</b>	<b>491.2</b>
<b>TOTAL ASSETS</b>	<b>1,155.4</b>	<b>1,112.4</b>	<b>TOTAL LIABILITIES</b>	<b>1,155.4</b>	<b>1,112.4</b>



## ANNEX 3 – STATEMENT OF CASH FLOW (CONSOLIDATED)

<b>Natura Cosméticos S/A - Consolidated - R\$ million</b>	<b>9M05</b>	<b>9M04</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net income</b>	<b>258.4</b>	<b>200.9</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	31.3	25.8
Monetary and exchange variations, net	1.9	7.6
Reserve for losses on swap and forward transactions	12.0	3.0
Reserve for contingencies	16.6	0.6
Reserve for obsolete inventories	2.0	6.9
Other reserves	9.8	0.0
Deferred income and social contribution taxes	(10.2)	(11.8)
Disposal of permanent assets	6.3	0.8
Debentures participation, net of taxes	0.0	5.7
	<b>328.2</b>	<b>239.5</b>
<b>(INCREASE) DECREASE IN ASSETS</b>		
Current assets:		
Accounts receivable	11.2	(9.2)
Inventories	(62.1)	(53.1)
Other receivables	(1.2)	(1.5)
Long-term assets:		
Escrow deposits	(1.6)	(9.0)
Other receivables	(2.7)	(12.0)
<b>Subtotal</b>	<b>(56.3)</b>	<b>(84.8)</b>
<b>INCREASE (DECREASE) IN LIABILITIES</b>		
Current liabilities:		
Suppliers	(4.6)	20.2
Payroll and related charges	11.1	21.2
Taxes payable	(1.6)	(25.0)
Other payables	(4.5)	(10.0)
Long-term liabilities:		
Other payables	1.0	25.6
<b>Subtotal</b>	<b>1.5</b>	<b>31.9</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>273.4</b>	<b>186.6</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(83.8)	(44.1)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(83.8)</b>	<b>(44.1)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
(Decrease) Increase in current and long-term loans	47.2	(41.6)
Payment of dividends	(203.8)	(130.0)
Payment of interest on capital	(28.6)	(11.4)
Investment grants	0.1	0.0
Sale of treasury share	4.4	0.0
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(180.6)</b>	<b>(183.0)</b>
Merger of Natura Empreendimentos S.A. and Natura Participações S.A., net assets	0.0	43.9
<b>NET INCREASE IN CASH AND BANKS</b>	<b>9.0</b>	<b>3.3</b>
Cash and banks at the beginning of year	231.6	136.1
Cash and banks at the end of year	240.6	139.5
<b>CHANGE IN CASH AND BANKS</b>	<b>9.0</b>	<b>3.3</b>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE:</b>		
Income and social contribution taxes paid	61.0	46.3
Interest on paid on loans and financing	5.2	9.3
Swap and forward contracts paid	14.8	9.2



## INVESTOR RELATIONS

**Phone: 5511-4446-2180**

Helmut Bossert, [helmutbossert@natura.net](mailto:helmutbossert@natura.net)

**Manager**

Ricardo Capella, [ricardocapella@natura.net](mailto:ricardocapella@natura.net)

Sandra Matsumoto, [sandramatsumoto@natura.net](mailto:sandramatsumoto@natura.net)

**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.*