

# About this Report

This edition of Natura's Annual Report contains the most recent version of the Global Reporting Initiative (GRI) indicators, the GRI-G3. For the first time, the GRI indicators were fully integrated into the main body of the report, allowing joint analysis of the economic, financial, social and environmental performance of our activities.

Another important highlight was dividing the report into chapters and referring to each of our public relationship principles. In this way we highlight the importance that we place on the establishment and maintenance of quality relationships with our public. In order to evolve in streamlining reported information, we decided to involve them in preparing this Annual Report.

In 2006, we started conferring with employees of the Brazil operation, and we will gradually reach out to other groups in the coming years. As a way to jumpstart this more inclusive discussion, a response-card survey is included at the end of this report, which is open to everyone interested in expressing their opinion.



WE ARE AN ORGANIZATIONAL STAKEHOLDER OF THE GLOBAL REPORTING INITIATIVE (GRI), AND WE SUPPORT ITS MISSION TO DEVELOP GLOBALLY ACCEPTED DIRECTIVES FOR SUSTAINABILITY REPORTS BY MEANS OF A PARTICIPATIVE STAKEHOLDER PROCESS.

## Scope of this Report

This Report contains information about the results obtained in fiscal year 2006 for our operations in Brazil, Argentina, Chile, Mexico, Peru and France. Since we centralize our production activities in Brazil, all the GRI-G3 indicators were considered for this part of the operation. For the other operations, only the most relevant indicators were considered. To facilitate location of the indicators, each indicator's number appears in parentheses right after the subject to which it refers (see GRI Index).

The criteria for selecting the information reported in the printed version (relevance analysis) prioritized the relevance of topics related to Natura's Socio-Environmental Strategic Options (internal analysis) and the existence of demand by any public with which it has a relationship (external analysis).

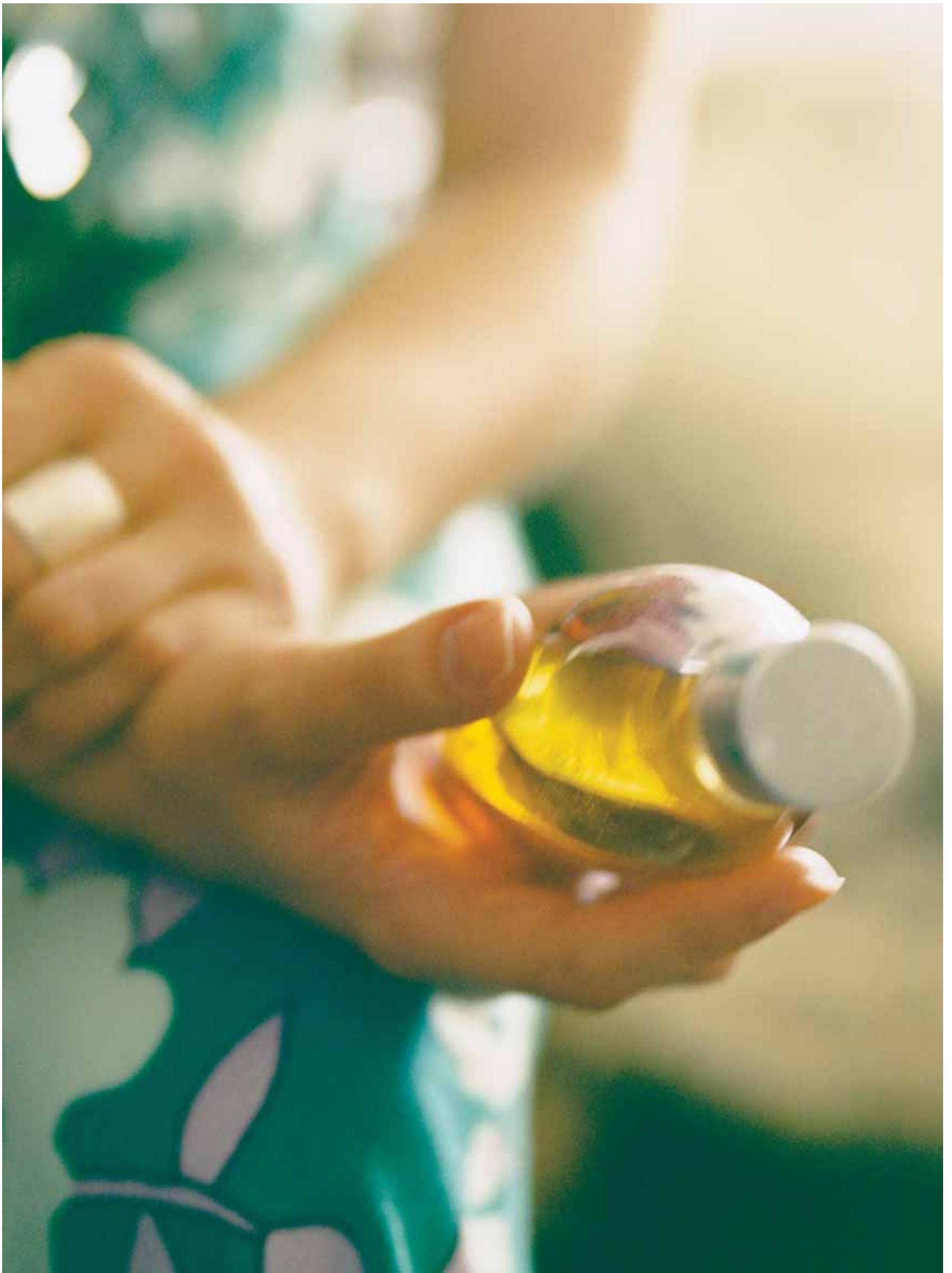
To faithfully portray our performance, we adopted domestic and international models of reference. To describe our economic and financial performance, we follow the standards of the Securities and Exchange Commission (CVM), the Brazilian Association of Listed Companies (ABRASCA) and the transparent communication principles of the Brazilian Association of Business Communication (ABERJE). We use the GRI model for aspects of corporate responsibility and sustainability.

The on-line version of this report can be found at [www.natura.net/relatorioanual](http://www.natura.net/relatorioanual) and contains all the GRI-G3 indicators. The team responsible for preparing this report may be contacted at the e-mail [relatorioanual@natura.net](mailto:relatorioanual@natura.net).

### Comparison of the Environmental Impact of Publications (%)

Version	Increase of the Impact 2006\2007
Shareholders	not used in 2006
Employees	0.0
Consultants	not used in 2006
Opinion Makers	-10.0
Financial Markets	-33.3
Vision Challenged and Braille	100.0
<b>Total</b>	<b>-20.0</b>

*As of 2001, Natura began incorporating the Life Cycle Evaluation to quantify the environmental impact of its actions. This methodology considers all the stages of the production chain – from the extraction of raw materials until final disposal.*





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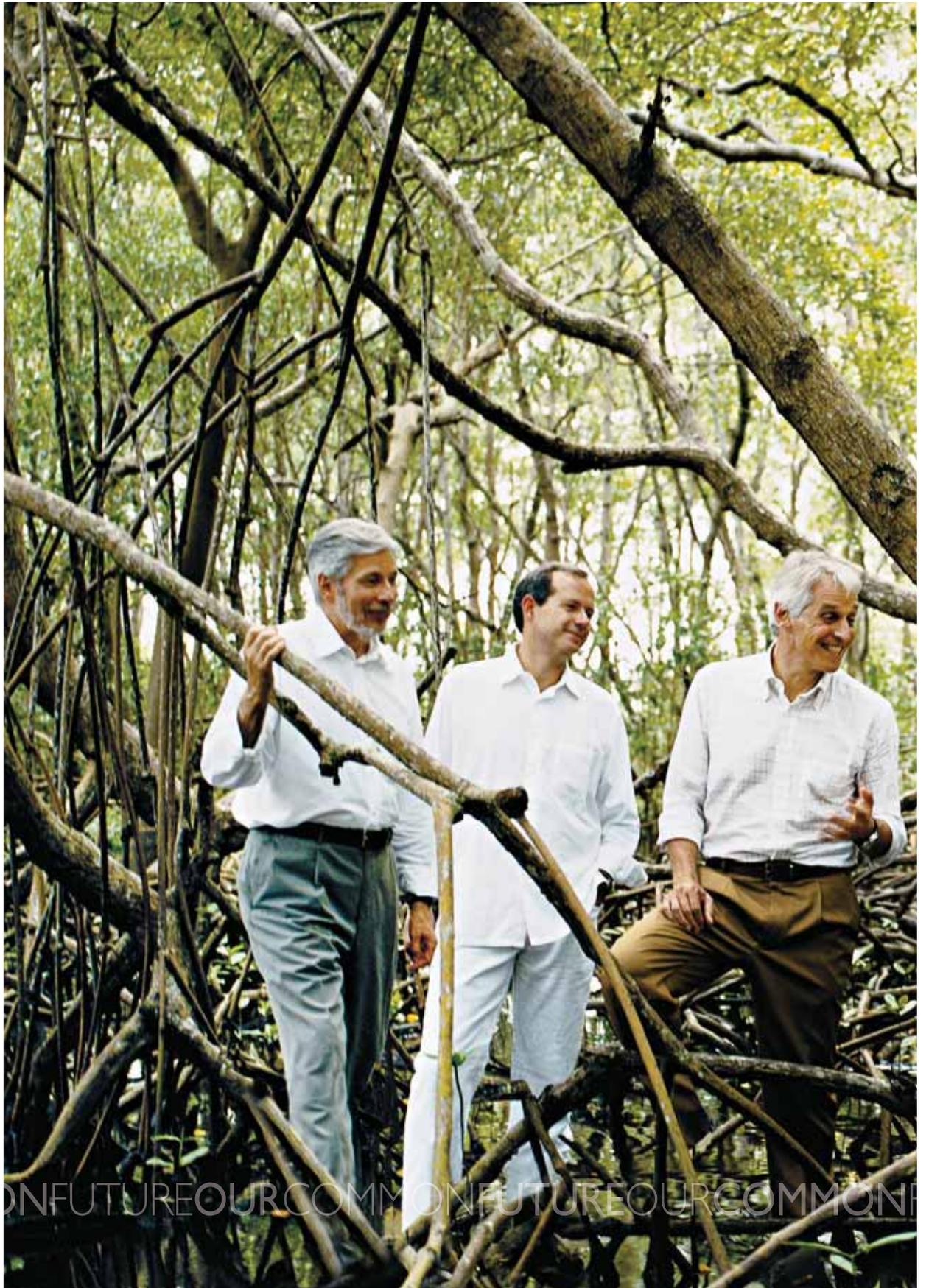
**GRI Index 129**

**Credits 130**





Message  
from the President



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

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

## OUR COMMON FUTURE

perception only reinforces our desire to advance further down this path.

The results obtained in 2006 are very good. Natura's gross revenues grew 19.9% over gross revenues in 2005. International revenues grew 44.3%. Our EBITDA was R\$ 654.5 million. The distribution channel formed by our Consultants grew 16.2% in Brazil, climbing to 561,000 people. In the other countries in Latin America where we are present, we already surpassed 56,000 Consultants. We generated more than R\$ 1.6 billion in direct income for this universe of 617,000 people that is dedicated to social transformation and spreading our values.

In four years, Natura increased its Brazilian market share from 12% to 22.8%. The total number of resale items jumped from 98 million in 2002 to 241 million in 2006, and in the same period the number of employees increased from 2,800 to 4,300.

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

True to our essence, we will continue to invest in innovative management, science and technology. For Natura, technological development includes the mobilization of expansive social networks that are capable of integrating scientific knowledge with the wisdom of traditional communities, while simultaneously promoting the sustainable use of nature's resources. In 2006, our investments in research and development were R\$ 87.8 million, a 30.8% increase over 2005. We initiated the construction of a new Research Center in Campinas (São Paulo), which should be inaugurated in 2008, and we opened an advanced technology center in Paris.

We continued to invest in the sustainable use of Brazil's biodiversity, despite insufficiency of the legal framework that regulates access to genetic heritage and fair remuneration of traditional knowledge. Despite the fact that this insufficiency represents an important impediment to the country's development, we understand that the continuation of our transparent practices and extended dialogue with all the social agents involved, assures us conditions to take advantage of the huge competitive advantage provided by Brazil's rich biodiversity. In anticipation of legislative development, in 2006 we became the first Brazilian company to sign agreements regarding remuneration for widespread traditional knowledge, establishing pioneering



partnerships with the Associação das Ervateiras do Mercado do Ver-o-Peso [Association of Herb Producers of the Ver-o-Peso Market] and the Associação de Produtores de Boa Vista, of Acará [Association of Producers of Boa Vista], both in Pará.

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

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

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

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

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

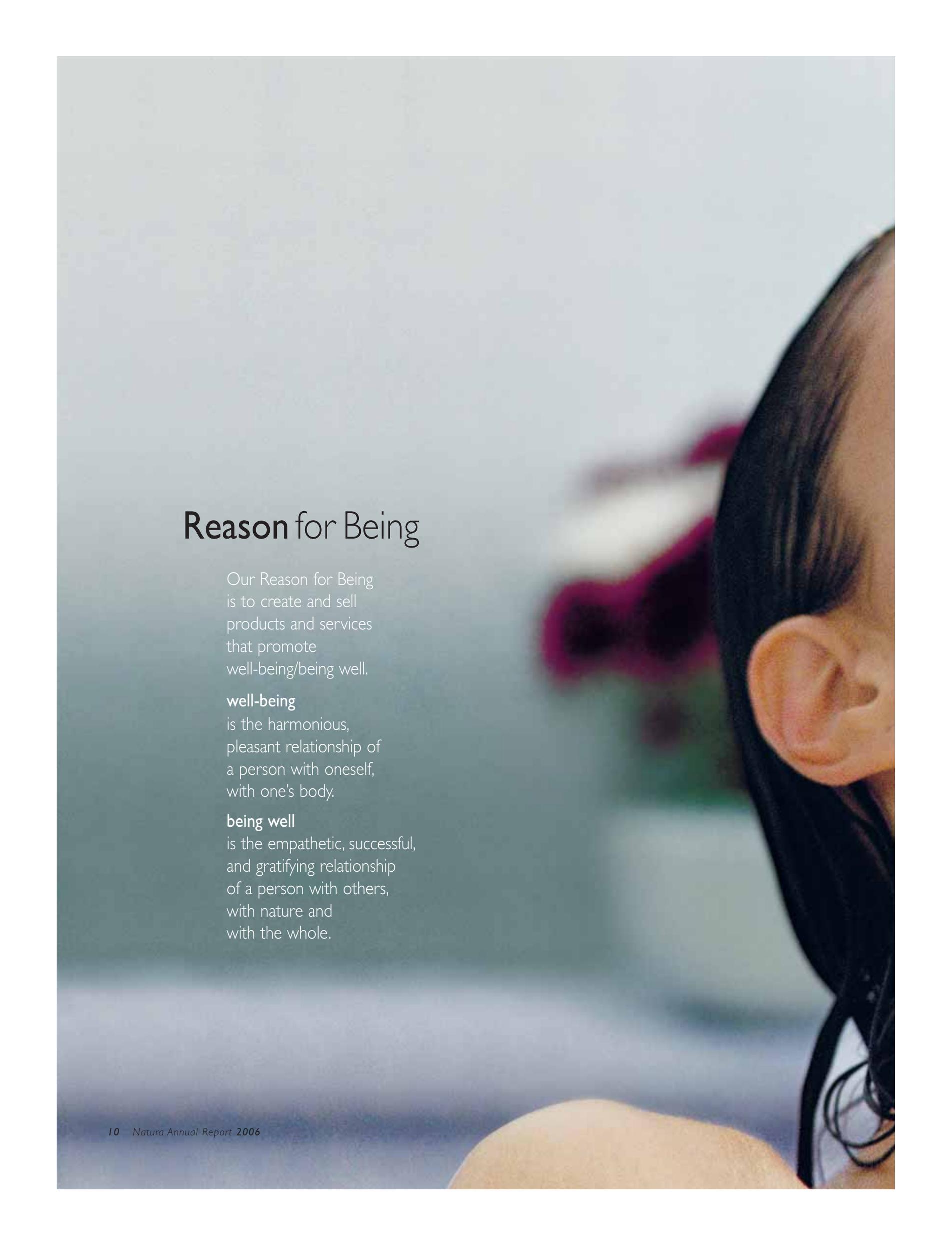
**Antonio Luiz da Cunha Seabra**  
Co-President of  
the Board of Directors

**Guilherme Peirão Leal**  
Co-President of  
the Board of Directors

**Pedro Luiz Barreiros Passos**  
Co-President of  
the Board of Directors

**Alessandro  
Giuseppe Carlucci**  
President and CEO





## Reason for Being

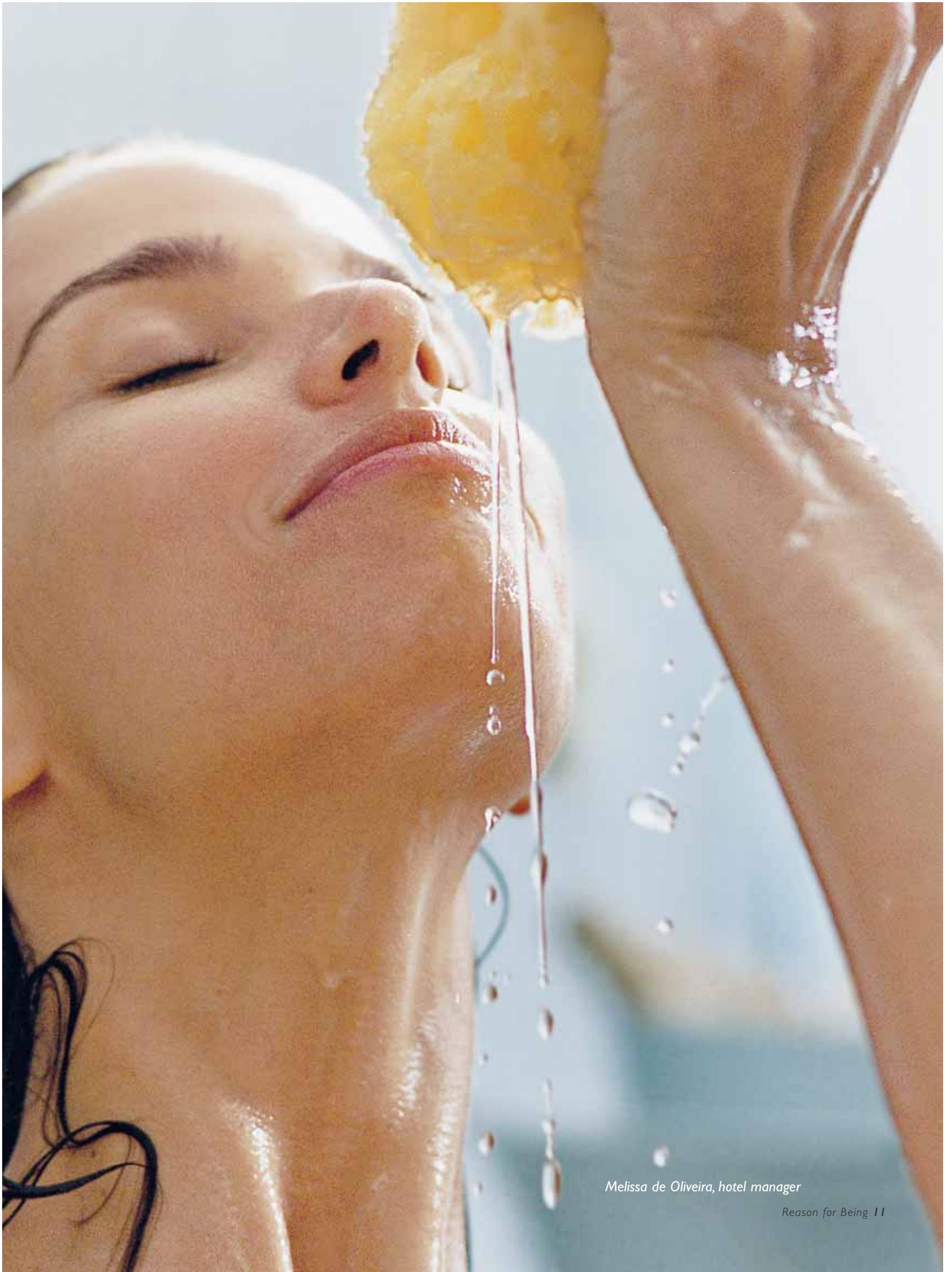
Our Reason for Being is to create and sell products and services that promote well-being/being well.

**well-being**

is the harmonious, pleasant relationship of a person with oneself, with one's body.

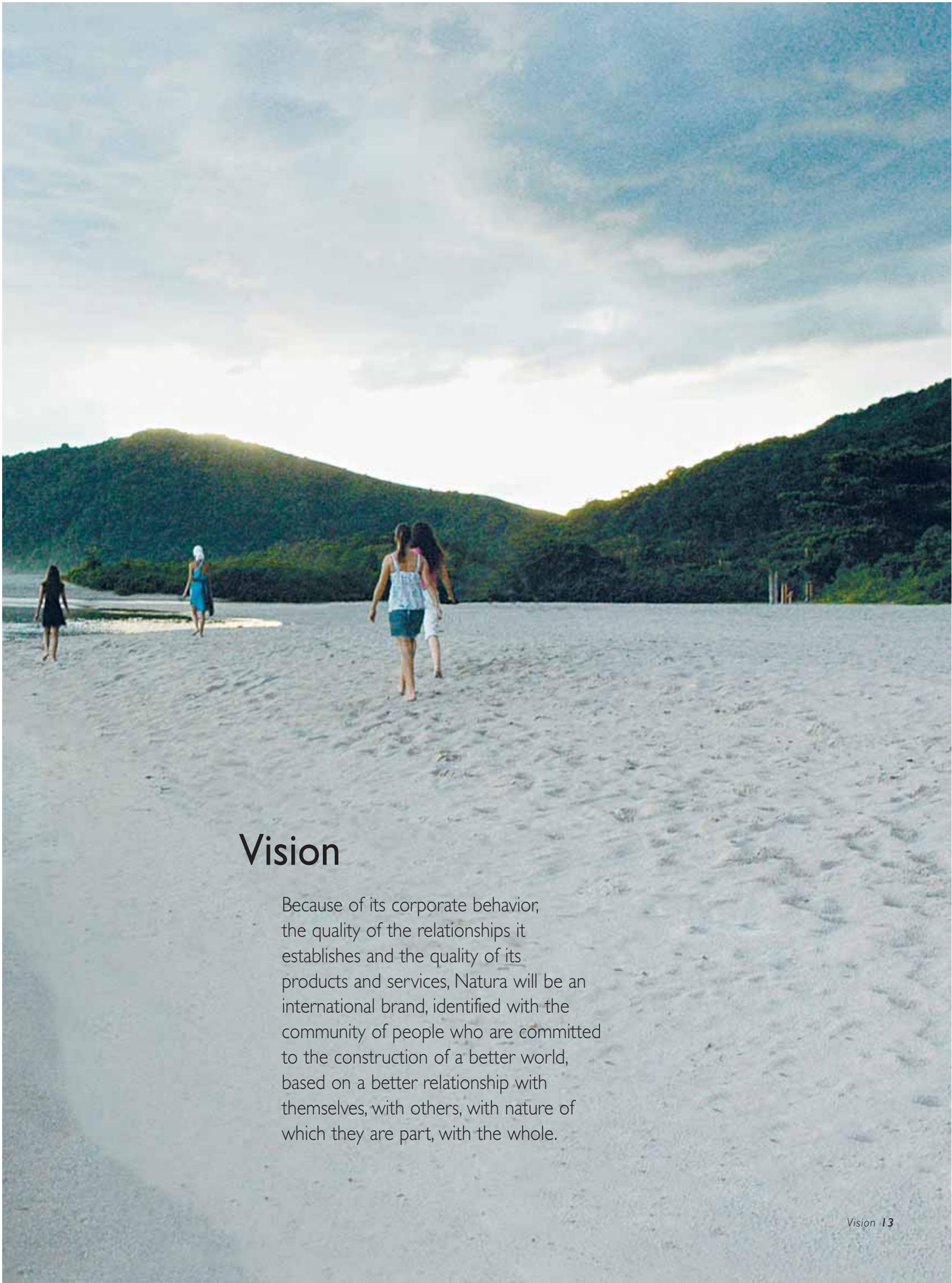
**being well**

is the empathetic, successful, and gratifying relationship of a person with others, with nature and with the whole.



*Melissa de Oliveira, hotel manager*

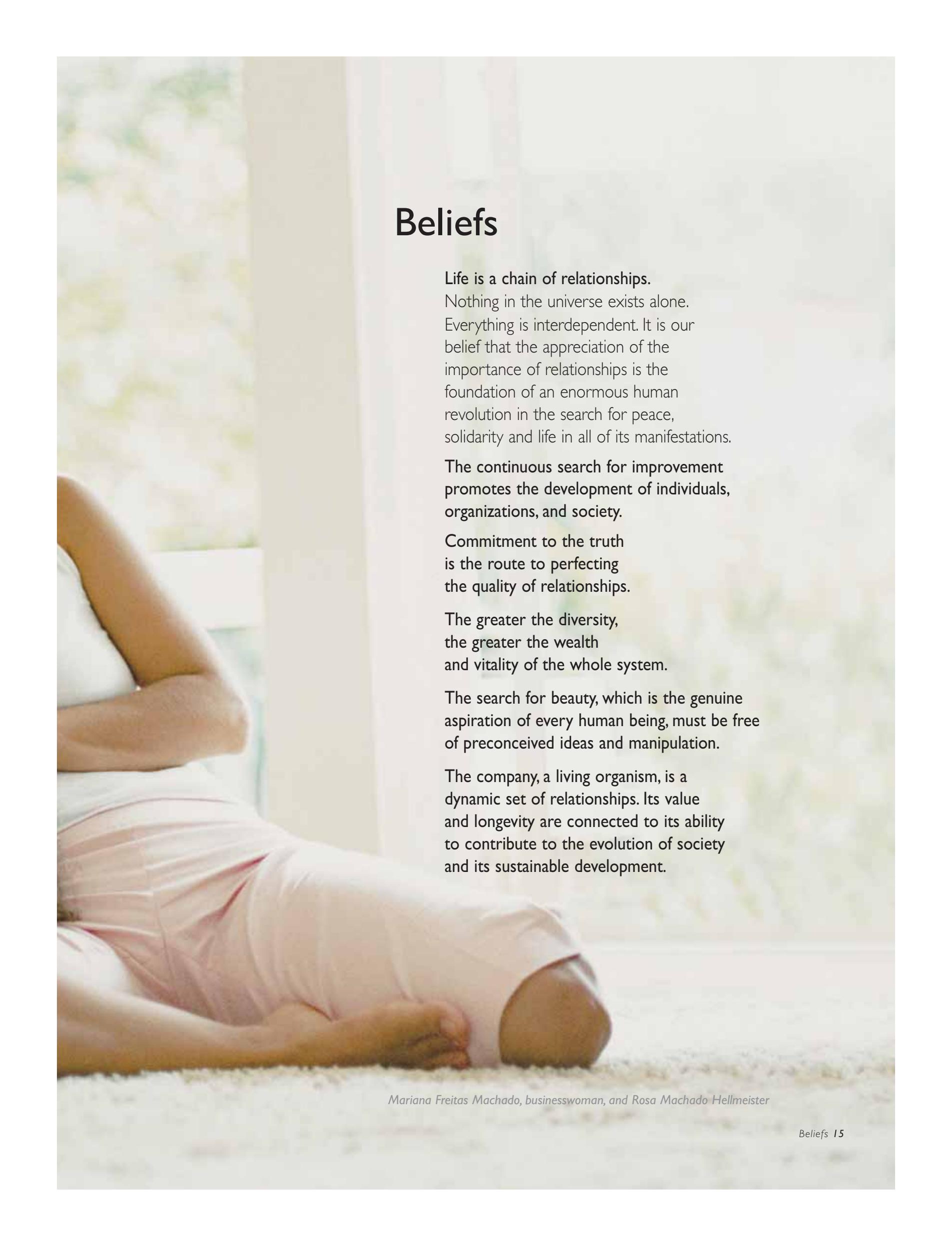




## Vision

Because of its corporate behavior, the quality of the relationships it establishes and the quality of its products and services, Natura will be an international brand, identified with the community of people who are committed to the construction of a better world, based on a better relationship with themselves, with others, with nature of which they are part, with the whole.



A person wearing a white dress is lying on their side on a white, textured rug. The background is a bright, out-of-focus room with a window showing greenery outside. The overall mood is peaceful and contemplative.

## Beliefs

**Life is a chain of relationships.**

Nothing in the universe exists alone. Everything is interdependent. It is our belief that the appreciation of the importance of relationships is the foundation of an enormous human revolution in the search for peace, solidarity and life in all of its manifestations.

**The continuous search for improvement promotes the development of individuals, organizations, and society.**

**Commitment to the truth is the route to perfecting the quality of relationships.**

**The greater the diversity, the greater the wealth and vitality of the whole system.**

**The search for beauty, which is the genuine aspiration of every human being, must be free of preconceived ideas and manipulation.**

**The company, a living organism, is a dynamic set of relationships. Its value and longevity are connected to its ability to contribute to the evolution of society and its sustainable development.**

*Mariana Freitas Machado, businesswoman, and Rosa Machado Hellmeister*



*Espaço Natura,  
Cajamar, São Paulo*



Organization  
Profile



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*Employees at the lotion factory in  
Cajamar, São Paulo*



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NATURA IS PROUD TO HAVE  
ATTAINED A NOTABLE  
POSITION IN THE BRAZILIAN  
CORPORATE ENVIRONMENT IN  
JUST UNDER FOUR DECADES  
OF EXISTENCE.

Natura is proud not only because of the positive evolution of its financial results, but also because of the application and diffusion of

socially responsible and environmentally sustainable company practices that are part of our dream of contributing to the construction of a better world, as stated in our beliefs. We are a company that is moved by our passion for cosmetics as a vehicle of self-awareness and human relationships.

Headquartered in Cajamar in the state of São Paulo, with a modern center that includes research, production and logistics facilities, we also operate with administrative, industrial and commercial units in other locations in Minas Gerais, Pará, Pernambuco, Rio de Janeiro, Rio Grande do Sul, São Paulo and Brasília. Considering our presence in all the markets in which we operate, we have more than 5,000 employees. In addition to Brazil, we are present in Argentina, Chile, Mexico, Peru, Venezuela and France. More than 617,000 Consultants distribute our products through direct sales.

A publicly owned company since 2004, our shares are listed on the New Market of the São Paulo Stock Exchange (Bovespa). In 2006 our consolidated gross revenues were R\$ 3.9 billion, 19.9% higher than gross revenues reported in 2005. In Brazil we are a leader in the cosmetics sector, and our brand is among the most admired brands in the market. Over the last four years, our share of the Brazilian market jumped 12% to 22.8%.



# History

**1974** Option for direct sales and creation of Natura Consultants.

**1979** Natura enters into the men's market with the launch of the Sr. N line. Sistema Natura is formed with the creation of new companies.

**1981** Entry into the make-up and perfume markets.

**1982** Start of operations in Chile, the company's first initiative outside of Brazil.

**1983** Natura becomes a pioneer among Brazilian manufacturers of continuous use goods in its sales of refill products. Launch of the Sève line, which opens the bath oils niche.

**1984** Launch of the Erva Doce line.

**1986** Launch of Chronos, an anti-aging treatment and the first product in a line of facial moisturizers.

## 1969 - ANTONIO LUIZ DA CUNHA SEABRA FOUNDS NATURA, AT THAT

**1995** Creation of the Crer para Ver Program, with the objective of contributing to improving public education in Brazil.

**1998** Creation of the Board of Directors.

**2000** Launch of the Natura Ekos line, with the sustainable use of biodiverse Brazilian resources.

**2001** Inauguration of Espaço Natura Cajamar in the municipality of the Greater Metropolitan Region of São Paulo. Natura publishes the first Annual Report in Latin America that follows the Global Reporting Initiative (GRI) model, which develops voluntary models of reports on the social and environmental impact of companies' activities.

- 
- 1989** Merger of the companies that formed Sistema Natura.
- 1990** Natura outlines its Reason for Being and its Beliefs: the importance of relationships, the commitment to the truth, continuous improvement, the encouragement of diversity, valuing beauty without stereotypes or manipulations, and the company as a promoter of social enrichment.

**1992** The Truly Beautiful Woman concept is created, which expresses the idea that feminine beauty does not depend on age, but on self-esteem.

**1994** Launch of the Mother and Baby line, with the goal of contributing to strengthening the bond between parents and children. Natura innovates by proposing the Integrated Massage Method based on Shantala techniques to promote the mother-child relationship. Natura initiates operations in Argentina and Peru.

## TIME CONSISTING OF ONE STORE AND A LABORATORY IN SÃO PAULO.

**2004** The company goes public, listing its shares on the New Market of the Bovespa. Natura obtains NBR ISO 14001 certification.

**2005** Inauguration of Casa Natura in Paris (France), and the start of operations in Mexico. Launch of Chronos Spilol, the first anti-aging cosmetic that uses a native biodiverse Brazilian resource, extracted from jambu (*Spilanthes oleracea*), a plant from the Amazon. Natura obtains NBR ISO 9001 certification.

**2006** Elimination of animal testing.

Inauguration of the Technology Center and start of direct sales in Paris.

Inauguration of the first Casa Natura do Brasil, in Campinas (SP).

Start-up of operations of the soap factory in Benevides (PA).

Pioneering profit-sharing agreement in Brazil based on access to various types of traditional knowledge with genetic heritage.



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# Competitive Advantages

## Products and Concepts

Our products are important expressions of our identity. They are developed as a tool for self-knowledge and as a vehicle of our sustainable practices and beliefs.

An example of this was the 2006 launch of the Diversa make-up line, which was unique in its use of refills for unusual items, such as lipstick. This make-up line is important in terms of minimizing environmental impact. Its formulas, developed with advanced technology, are comprised of biodiverse Brazilian ingredients that have been obtained in a sustainable manner.

We also expanded the use of refills in other lines, such as deodorants. We re-launched the packaging of some products, which now have recycled resins in their composition, thus improving the quality and attractiveness of our portfolio. We also developed other packaging with shorter life cycles and better biodegradability.

In the perfume category, in which we are leaders in the Brazilian market, we have returned to a more intense rhythm of innovation with the launch of the Natura Humor line, whose theme is the day-to-day of relationships. Other important launches complemented the Ekos line: Essência do Brasil Breu Branco and Essência do Brasil Pripioca.

## Research and Development

Innovation is an essential factor for Natura's growth and the continuation of its business. It plays a role not only in our products, but in other important aspects of our activities, such as the management of our brand, the way in which we relate with our publics and the use of traditional knowledge for product development. This last aspect is an important advantage in fulfilling our strategic directive to use biodiverse Brazilian assets and inputs for the development of technologies, products and concepts. Generating wealth for supplier communities and promoting the adoption of sustainable practices in

the field allows us to progress in our commitment to sustainable development.

Included in this directive are the use of biodegradable formulations, recycled and recyclable packaging, expanded use of refills, use of plant-based inputs, guarantee of product efficacy and safety, implementation of the open innovation model, and building partnerships with universities and research centers.

By meeting these strategic objectives, we set ourselves apart as one of the Brazilian companies in the cosmetics, fragrances and personal hygiene products sector that invests the most in research and development. In 2006, allocations in the area corresponded to 3.2% of gross revenues, compared to 2.9% the previous year, which corresponds to an absolute value invested of R\$ 87.8 million, a 30.8% increase over 2005. The result of this investment was the launch of 225 new products in 2006, versus 213 in the previous fiscal year.

This year, we began the construction of a research and technology center in Campinas (SP) that is capable of housing nearly 300 researchers and will be ready in 2008. We also inaugurated an advanced research center in France, whose main objective is to maintain a close relationship with the development of new technologies in cosmetics, and we decided to install a laboratory in Benevides, in the metropolitan region of Belém (PA), for the development of essential oils. This center will operate in conjunction with the new soap factory, which is Natura's first industrial unit outside the state of São Paulo. We also advanced in our partnership with the Biotechnology Center of the Amazon in the undertaking of a pilot project for the development of fixed oils produced from Brazil's biodiverse resources.

A step in the same direction was the launch of the new version of the program Natura Technology Innovation Campus, which involves scientific cooperation between Natura and science and technology institutions in Brazil and throughout the world. With these investments, our strategy of network operation in the area of research is clear. Currently, 20% of the technology budget is already



## ANIMAL TESTING

In keeping with our beliefs and with the evolution of the ethical standards of society, for more than six years we have been searching for alternatives for the total elimination of testing on animals. During this time, we invested in the search, validation and implementation of alternative methods accepted worldwide, in order to guarantee the safety of our products used by consumers.

These technical-scientific advances set us apart in terms of excellence in alternatives to testing performed on animals. We maintain a laboratory for in vitro analysis of raw materials and products on artificially cultivated human or animal cells. We also invested approximately R\$ 1.5 million per year in the development of tests and professional training. Along these same lines, in 2006 we inaugurated the Advanced Technology Center in Paris, France (GRI PRI).

Our commitment to ban animal testing applies to the entire supply chain. We do not purchase inputs tested on animals, even during research and development stages of new products exclusive to Natura. We also encourage our suppliers to apply this ban to their entire production system, even those products intended for other companies.

**2006 COMMITMENT**  
TO COMPLETELY ELIMINATE  
ANIMAL TESTING.

**GOAL ACHIEVED**  
IN 2006, WE FULLY ACHIEVED THIS  
OBJECTIVE BY COMPLETING THE  
LAST 15 EXPERIMENTS THAT WERE  
BEGUN PREVIOUSLY.

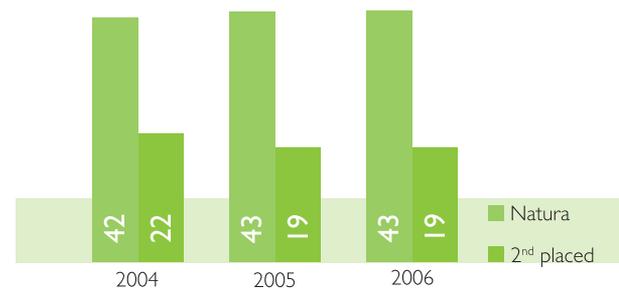
directed outside our laboratories, and the objective is to reach 50% in the coming years.

## Brand

We continually invest in brand management so that Natura's statements increasingly reflect our essence. In 2006, the Natura brand remained strong in Brazil and evolved significantly in the markets of Argentina, Chile and Peru, according to consumer perception studies done at the end of the year.

In a Brazilian survey, 74% of consumers contacted gave the highest mark to Natura in Global Brand Evaluation – 14 percentage points above the second-place company. Natura also appears as the leader in "loyalty" items: the brand's products are the ones that the consumers who were contacted used most at the time, that they would repurchase the most, and that they would most recommend to others.

### Brand Preference (%)



Source: Brand Essence 2006 - Ipsos Insight - Brazil

## Responsible Management

In Brazil and in our international operations, we behave in accordance with responsible management principles. Our decisions are guided by our respect for the rights, values and interests of all those who are directly affected by our operations. For Natura, responsible management is based on the ethical and transparent relationship with all our publics, and on our corporate goal of commitment to sustainable development, i.e., one that promotes the economic, social and environmental dimensions of all human activities.

Thus, in recent years, we have adopted initiatives that resulted in the strengthening and deepening of our commitment to sustainability. In 2002, we created the Sustainability Committee, which helped to define the strategies and discuss the application of responsible management in our business activities.

Another result of this initiative was that in 2004 the company's balanced scorecard was created to reflect the three dimensions of sustainability – economic, social and environmental – resulting in our current strategic map that includes goals associated with these dimensions and, thus, influencing the actions of the entire company. To incorporate our principles into strategic planning, corporate goals and internal processes, we created the Sustainability Management System.

Through methodology, processes and indicators, the System helps us evaluate the company's socio-environmental performance in conjunction with strategic planning, guiding daily practices and permeating the decisions of people in all areas of Natura.

To articulate the strategic objectives and concrete accomplishments, we are moving forward with Movimento Natura, which was launched last year. Movimento Natura is a program that invites our Consultants to participate in projects with social and environmental impact as mobilizing agents for their customers and their communities.

In controversial issues on which there is no consensus in the scientific community about the consequences to the environment and on human beings from the use of certain substances, Natura agrees to adopt, wherever possible, the Principle of Precaution. We require that our fragrance suppliers follow the guidelines indicated by the European Cosmetics, Perfumery and Toiletries Association (COLIPA). Moreover, to guarantee safety to human health and the environment, we have policies eliminating or restricting the use of some inputs from our portfolio of products, and we prohibit the use of raw materials obtained from plants that were cultivated using practices that involve Genetically Modified Organisms (GMOs). We also continue to analyze the life cycle of all our products, packaging and materials used.

In recognition of the company's commitment to sustainability, in 2006 Natura's shares continued to be listed on the Corporate Sustainability Index (ISE) of the São Paulo Stock Exchange (Bovespa). The index was created in 2005, in accordance with methodology

developed by the São Paulo School of Business Administration of the Getulio Vargas Foundation (FGV-Eaesp), to identify the companies with the best performance at all levels of corporate activity.

One tool that has proven to be useful in supporting managers in planning and visualizing initiatives is the Corporate Responsibility Investment Matrix. The matrix allows us to assess how much Natura invests in actions aimed at improving people's relationships and quality of life. The amounts invested appear in the table below and the descriptions of the actions are available throughout the report. Please refer to the appropriate section.

#### Corporate Responsibility Investment Matrix (R\$ thousands) (GRI EN30)

	2004	2005	2006
Employees, family members and third parties	6,248.6	8,231.7	11,637.5
Consultants	170.9	214.0	1,387.6
Consumers	-	194.1	380.0
Suppliers	102.1	158.7	130.0
Supplier Communities	745.0	896.3	1,141.7
Surrounding Communities	449.2	427.5	433.9
Government and Society	2,140.3	3,820.5	7,453.9
Environment	308.0	1,111.7	442.7
<b>TOTAL Invested in the Various Publics</b>	<b>10,164.1</b>	<b>15,054.5</b>	<b>23,007.3</b>
Management Expenses	2,277.0	2,559.6	5,799.7
<b>TOTAL Natura Resources</b>	<b>12,441.1</b>	<b>17,614.1</b>	<b>28,807.0</b>
Percentage of Net Revenues	0.7%	0.8%	1.0%
Net resources collected by Consultants in the Crer para Ver [Believe to See] Program <sup>(1)</sup>	2,971.8	3,041.7	5,382.4
Tax incentives invested			
Rouanet Law	1,591.2	1,726.9	1,936.3
Value-added tax on sales and services in MG	-	996.9	1,500.0
1% Income Tax to CMDCA <sup>(2)</sup>	347.0	-	160.2
1% Income Tax to CONDECA <sup>(3)</sup>	-	-	388.0
<b>OVERALL TOTAL</b>	<b>17,351.1</b>	<b>23,379.7</b>	<b>38,174.0</b>

1. For more information, refer to the Company section.

2. CMDCA – Municipal Councils of Rights of Children and Adolescents.

3. CONDECA – State Council of Rights of Children and Adolescents.



## Corporate Governance

In 2006, Natura continued to streamline its corporate governance. Ongoing progress marks the history of our governance, which began to take shape in the mid-1990s. The company going public in 2004 and the trading of company shares on the New Market – which is the highest corporate governance level of the São Paulo Stock Exchange – crowned a steady developmental process, including the creation in the 1990s of the Board of Directors and its subsidiary committees, which remain active.

On the New Market, companies agree to issue only voting shares and to keep a minimum of 25% of them in circulation, in addition to guaranteeing minority shareholders the same terms obtained by majority shareholders in any transfer of control.

In 2005, it was named the first President and CEO from outside the group of controlling shareholders. Thus, separation of the management and ownership of the company was completed. The founding shareholders participate on the Board of Directors, which is comprised of two more outside directors and is advised by four committees: Audit, Risk Management and Finance, Organization and People, and Corporate Governance.

In 2006, the Ethics Committee was created to hear and evaluate specific cases that are beyond the scope of the Ombudsman.



Members of the Executive Committee,  
from left to right: Alessandro Carlucci,  
Paulo Lalli, Mauricio Bellora, David Uba,  
Moacir Salztein, Eduardo Luppi,  
Cláudia Falcão and Pedro Vilares

## Management Board

Alessandro Carlucci - President and CEO

David Uba - Vice President of Finance and Information

Eduardo Luppi - Vice President of Innovation

Maurício Bellora - Vice President of Brazil Operations

Paulo Lalli - Vice President of Operations and Logistics

Andréa Sanchez - Brand Director

Angel Medeiros - Logistics Director

Antônio Siqueira - Legal Director

Arno Araújo - Sales Director

Cláudia Falcão - Organization and People Director

Daniel Gonzaga - Research and Technology Director

Denise Figueiredo - General Manager of the France Operation

Denise Alves - Business Unit Director

Eduardo Costa - Product Marketing Director

Eduardo Zornoff - Commercial Innovation and  
Relationship Marketing Director

Fernando Mesquita - Corporate Governance Secretary

Fernando Pantaleão - Director of New Operations

Flávio Pesiguelo - Human Resources Director  
of the Brazil Operation

Heriovaldo Silva - General Manager of the Peru Operation

Italo Flammia - Information Technology Director

Joel Ponte - Director of Development of Sub-brands  
and Consumer Science

Jorge Casmerides - Financial Director for Latin America

José Páez - General Manager of the Mexico Operation

Marcello Rodrigues - Director of Supplies

Marcos Egidio Martins - Director of Sustainability

Marcos Vaz - Director of Technical Services

Moacir Salztein - Director of Strategic Planning

Mônica Gregori - Business Unit Director

Pedro Villares - Director of Operations in Latin America

Renata Ribeiro - Director of International  
Business Development

Renato Abramovich - Sales Director

Roberto Zardo - Customer Services Director

Rodolfo Guttilla - Director of Corporate Affairs  
and Government Relations

Valéria Grossmann - Business Unit Director

Victor Fernandes - Director of Development

## Risk Management

Our risk management system covers primarily financial risks and risks regarding products, safety, information technology, the environment and consistency between values and practices. During this fiscal year, we initiated procedures to place this management within a spectrum of impact/probability. For very high-impact risks we developed our own methodology of control and management. For low- and medium-impact risks, we continue with traditional processes, highlighting the role of internal auditing and a tactical and operational risk management policy that is being gradually improved.

We have a specific risk management area that is coordinated by the Risk Management Committee, which is an arm of the Board of Directors.

## Financial Risks

We monitor exchange-rate risk by allowing limited and minor impacts on the company's profit in the event of an abrupt alteration of the correlation between the *real* and strong currencies.

This evaluation may result in, for example, the decision to purchase dollars on the Mercantile and Futures Exchange (BM&F) as protection against the impact on the company's results of an eventual, more pronounced exchange-rate variation on raw materials, whose prices follow the fluctuation of strong currencies. Such operations are exclusively technical – in no event are we trading on the BM&F in a speculative fashion.

Debts in foreign currencies are largely protected by exchange-rate hedge operations that are consistent with the policy of limiting any impact on profits.

## Products

Natura has a product safety committee, which includes participation of the office of the vice president of research and development, scientists, physicians and specialized consultants. The committee defines product safety policies and monitors the toxicological assessment of all the components used in the formulas (GRI PRI).

## Information Technology

The entire information technology infrastructure is outsourced. We have a Contingency Data Processing Center to guarantee the continuity of business even in the case of an accident. There are also processes and infrastructure to protect against infiltration of our information systems.

## Environment

In 2006, we obtained re-certification according to NBR ISO 14001, on the basis of which we maintain the Natura Environmental Management System. With the system, we monitor environmental risks.

## Shareholder Structure

The year 2006 was marked by initiatives designed to increase liquidity of the company's shares. In order to increase the number of shareholders, at the Special Shareholders' Meeting of March 29 a split of shares in the proportion of 1:5 was approved, with the resulting adjustment of the price of the master lot on the stock exchange.

At the end of the fiscal year, the number of Natura's shareholders totaled 9,705\*, of which 89% are individuals. Compared to 2005, the number of shareholders increased by 258%, and individual shareholders increased by 290%.

\*Excludes treasury shares and company shareholders holding more than 5% of capital stock.

The increased financial volume of Natura's shares traded over the last two years points to the increased liquidity of securities, as shown in the table below. The daily average volume of our shares traded increased from R\$ 5.5 million in 2005 to R\$ 14.7 million in 2006, reflecting an increase of 168%.

	2005	2006
Total Volume Traded R\$ million*	1,357.2	3,592.4

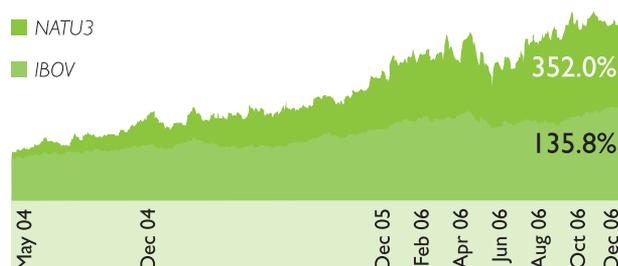
\*Total financial volume traded with NATU3 shares on the Bovespa.

With the increased liquidity, Natura's shares, which were already listed on the IBrX-100 (the index that lists the 100 most liquid shares on the Bovespa), the Special Tag Along Stock Index (ITAG) and the Special Corporate Governance Stock Index (IGC), were included on two more stock indices of the Bovespa: the Ibovespa and the IBrX-50 (which lists the 50 most-liquid securities on the Bovespa).

Moreover, for the second consecutive year Natura's shares continued to be listed on the ISE – Corporate Sustainability Index of the Bovespa. Since 2005 the company's securities have also been included on the theoretical portfolio of the Morgan Stanley Composite Index (MSCI), which is a reference index for foreign investors.

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

**Natura Appreciation (Natu3) vs. Ibovespa Base 100 (5/25/2004)**



On December 31, 2006, Natura's capital was comprised of 428 million shares of common stock, distributed as follows:

Shareholders	Number of Shares	Percentage
Controlling Shareholders	313,219,430	73.15%
Treasury Shares	679,317	0.16%
Managed shares	4,473,330	1.04%
Shares in Circulation	109,821,383	25.65%
<b>Total Shares</b>	<b>428,193,460</b>	<b>100%</b>

## Remuneration to Shareholders

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

The Board of Directors sent a proposal to shareholders at the Regular Shareholders' Meeting on April 2, 2007, for payment of additional dividends in the amount of R\$ 213.8 million, bringing the net total to R\$ 354.4 million. These amounts correspond to 77% of consolidated adjusted net income in 2006.

## Investor Relations

Our tendency toward open dialogue with our publics is also expressed in how we relate to shareholders and potential investors in our attitude of availability to all our publics.

We encourage shareholder participation in our meetings and in the quarterly disclosures of results. On these occasions, shareholders can dialogue directly with the company's management, which always attends our events.

As it has been doing since the company went public, this year Natura organized meetings with the Association of Capital Market Analysts and Investment Professionals (APIMEC), the National Investor Institute (INI), and it participated in the Expomoney event, using both direct communication as well as other instruments in its communication with various markets, for example the IR website ([www.natura.net/investidor](http://www.natura.net/investidor))<sup>17</sup>.

In events with institutional investors, Natura attended the major conferences of international financial institutions, highlighting presentations it made to groups of global investors in conferences in Paris (France) and New York (USA).



EKOS

EKOS

*Breu Branco*

*Piriprioca*

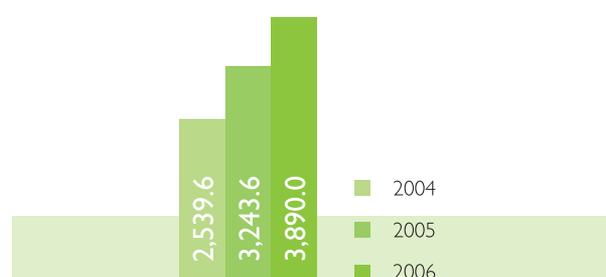
# Results

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

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

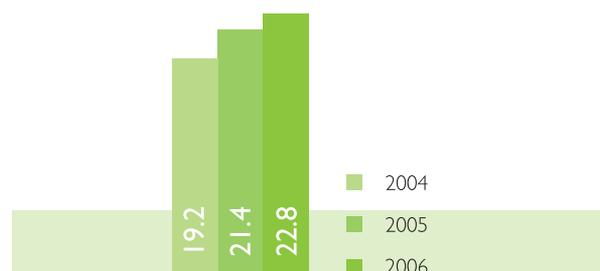
In 2006, our EBITDA totaled R\$ 654.5 million, 16% higher than in 2005. The net income of R\$ 460.8 million grew 16.1% in the period. EBITDA and net profit margins were 23.7% and 16.7%, respectively, slightly lower than the 2005 numbers of 24.7% and 17.4%. This drop is partly due to the planned increase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

Change in Consolidated Gross Income (R\$ million)

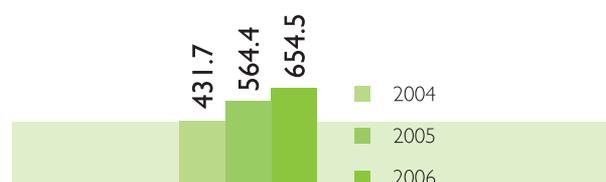


CAGR (2004 - 2006) = 23.8%

Change in Market Share (%)



Change in EBITDA (R\$ million)



CAGR (2004 - 2006) = 23.1%

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

The Cost of Goods Sold (COGS) was 32.3% of net earnings, slightly higher than the 32% of 2005. Sales and administrative expenses also posted a growth in 2006, going from 44.3% in 2005 to 45.5%.

One of the pillars of our company operation is the integration of environmental and social results into the financial results, some events in 2006 deserve to

be highlighted. In the environmental arena, we progressed in several processes, such as the implementation of a system to analyze emissions and identify opportunities to reduce gases from the supply chain to final disposal, and to manage action plans, with the goal of becoming "carbon-neutral" by 2008, thereby mitigating and offsetting the environmental impact of all our operations.

The consumption of water per unit sold fell 7% and the average water reuse index fell from 55% to 42%. Our energy consumption per unit of product sold decreased 1% in 2006.

The share of refills per items sold in Brazil rose from 17.4% to 19.8%, which represents a significant reduction in the environmental impact of our products, considering that the average mass of refill packaging is 54% less than that of regular product packaging. Also because of refills, we achieved a 7% reduction in the average environmental impact from our products sold and support materials by declared content.

In the social realm, the voluntary sale of products in the Crer para Ver program totaled R\$ 5.4 million in 2006, a growth of 76.9% over 2005. These funds were earmarked to various educational projects. The Youth and Adult Education Campaign, developed in partnership with the Ministry of Education, reached the significant milestone of almost 79,000 enrollments and re-enrollments nationwide.



# Main Events

## Highlights

- Inauguration of an advanced research center and the start of direct sale trials in France.
- Start-up of construction of a research and technology center in Campinas (SP), with capacity for almost 300 researchers.
- Elimination of animal testing.
- Inauguration of Casa Natura in Campinas (SP).
- Growth of 44.3% in gross revenues of international operations.
- Expansion of distribution center in Matias Barbosa (MG).
- Launch of the Natura Diversa line, with sustainable use of biodiverse ingredients and innovation in the use of refills. The number of launches during the year was a record 225 items.
- Reduced turnover in Brazil, from 7.6% in 2005 to 6.7% in 2006.
- Organization of Natura Mundi, a project developed to guarantee efficiency in the shared management system, even with the large growth of employees on staff.
- Start-up of operations of the factory in Benevides (PA). The new unit innovates in the application of sustainable development

in directly acquiring fruits and seeds from a network of local family-based farmers for the manufacture of plant-based raw materials.

- Launch of Revista Natura, with 2 million copies distributed each sales cycle in Brazil and in international operations, published on recycled paper and, in addition to the catalogue of products, with conceptual editorial content.
- Pioneering profit-sharing agreement in Brazil based on access to traditional knowledge associated with genetic heritage, signed with the Herb-Producers Association of the Ver-o-Peso Market of Belém (PA).
- 78,900 enrollments and re-enrollments in the Youth and Adult Education program, promoted by Natura Consultants.

## Challenges

- The decline in the approval index in the organizational climate survey in Brazil, from 70% in 2005 to 69% in 2006, indicates the need for continuity of an effective action plan in the medium and long term.
- Economic-financial results for the fourth quarter were below expectations, indicating opportunities to improve the company's profitability.
- Increase in the number of terminated calls to Natura's Customer Service Center (SNAC) during the transition period to a new service provider.

# Awards and Recognition

Natura's activities and its ethical and transparent relationship with its various publics have positively impacted society. In 2006, we received the following awards and recognitions, among others:

## MOST ADMIRER COMPANY

NATURA WAS ONCE AGAIN CONSIDERED THE MOST ADMIRER COMPANY IN BRAZIL BY 2,000 EXECUTIVES CONSULTED IN A SURVEY OF *CARTA CAPITAL* MAGAZINE AND THE INTERSCIENCE INSTITUTE. WE BELIEVE THAT THIS RECOGNITION IS PARTIALLY DUE TO THE FACT THAT WE TAKE ADVANTAGE OF EVERY OPPORTUNITY TO COMMUNICATE AND DISSEMINATE OUR VISION OF THE WORLD, IN ADVERTISING CAMPAIGNS, MARKETING ACTIVITIES, SPONSORSHIPS AND COMMERCIAL OR INSTITUTIONAL PUBLICATIONS.

## Best and Biggest

Pharmaceutical, Hygiene and Cosmetics Industry Company of the Year (for the 4th time)  
*Exame* Magazine

## DCI Award

Companies of the Year – most admired in Cosmetics, Hygiene and Toiletry category  
*DCI* Journal

## São Paulo ABERJE Award

Internal journal category, with the case O Novo Ser Natura Colaborador  
Brazilian Business Communication Association (ABERJE)

## The Best Companies of Dinheiro

Pharmaceutical, Hygiene and Toiletry Industry Company of the Year  
*Isto É Dinheiro* Magazine and Deloitte

## Valor 1000 Award

Hygiene and Cosmetics Industry Company of the Year  
*Valor Econômico* Newspaper

## Annual Balance Sheet Award

Hygiene and Toiletries Industry Company of the Year  
*Gazeta Mercantil* Newspaper

## FGV Corporate Excellence Award

Chemical Industry Company of the Year  
Instituto Brasileiro de Economia/Fundação Getulio Vargas

## IR Magazine Brazil Awards

Best Corporate Governance  
*IR* Magazine

## Best Companies to Work At

Ranked among the 150 best companies to work at and among the 50 best companies for women to work at  
*Exame* Magazine *Guide -Você S.A.*

## The Best Companies to Work at in Latin America

Ranked among the 100 best companies to work for in Latin America, included in the lists of Brazil and Peru  
Great Place to Work Institute

## ON-LINE CONTENT

The complete list of awards and recognitions received by Natura in recent years is available in the on-line version of this report at:

[www.natura.net/relatorio/reconhecimentos](http://www.natura.net/relatorio/reconhecimentos)

## Main Indicators

Main Performance Indicators	2004	2005	2006	2007 Goals	Page
<b>Economic-Financial Performance</b>					32,106
Change in Consolidated Gross Income (R\$ million)	2,539.6	3,243.6	3,890.0		
Change in EBITDA (R\$ million)	431.7	564.4	654.5		
Change in EBITDA Margin (%)	24.4	24.7	23.7		
Change in Net Revenues (R\$ million)	1,769.7	2,282.2	2,757.0		
Consolidated Business Volume (R\$ million)	3,531.1	4,496.2	5,407.2		
Net Profit (R\$ million)	300.3	396.9	460.8		
Distribution of Resources to Shareholders (R\$ million) <sup>(6)</sup> (GRI ECI)	216.3	319.4	359.4		
<b>Employees</b>					42
Distribution of Resources to Employees (R\$ million) (GRI ECI)	247.3	306.4	379.7		
Number of Employees	3,555	4,128	5,130		
Percentage of Employees with Disabilities (%) <sup>(1)</sup>	3.6	3.6	4.2		
Investment in Education and Training (R\$ thousand)	7,875	12,777	16,446		
Climate Survey – Approval Index (%) <sup>(1)</sup>	73	70	69	To reach 72% satisfaction	
<b>Consultants</b>					54
Distribution of Wealth to Consultants (R\$ million) (GRI ECI)	1,059.3	1,311.7 <sup>(5)</sup>	1,583.9		
Number of Natura Consultants (thousands)	433	519	617		
Number of Enrollments in EJA (Youth and Adult Education) <sup>(1)(3)</sup>	N.A.	66,660	78,936		
Net Proceeds from the Crer Para Ver Program (R\$ thousands) <sup>(1)</sup>	2,971.8	3,041.7	5,382.4		
Satisfaction – Approval Index (%) <sup>(1)</sup>	89	90 <sup>(9)</sup>	90		
Quality of Relationships (%) <sup>(1)</sup>	N.A. <sup>(2)</sup>	90	89	To maintain 89% satisfaction	
<b>Consumers</b>					62
Number of Products Launched <sup>(1)</sup>	182	213	225		
Investment in Innovation (R\$ million)	47.4	67.1	87.8		
Satisfaction – Approval Index (%) <sup>(1)</sup>	96	98	97		
<b>Suppliers and Supplier Communities</b>					70
Distribution of Resources to Suppliers (R\$ million) (GRI ECI)	1,365.9	1,731.7	2,132.3		
Percentage of Suppliers Self-Evaluated in Quality, Environment and Social Responsibility (%) <sup>(1)</sup>	N.A. <sup>(2)</sup>	30	93	100%	
Percentage of Suppliers Inspected in Quality, Environment and Social Responsibility (%) <sup>(1)</sup>	N.A. <sup>(2)</sup>	15	24	35%	
Satisfaction – Approval Index (%) <sup>(1)</sup>	93	83	87	To reach 89% satisfaction	
<b>Surrounding Communities</b>					80
Purchases from Cajamar Suppliers (R\$ million)	8.87	23.94	25.69	To increase by 25%	
Purchases from Itapecerica Suppliers (R\$ million)	1.70	0.27	0.55	To increase by 100%	
Purchases from Benevides Suppliers (R\$ million)	N.A. <sup>(8)</sup>	N.A. <sup>(8)</sup>	0.44	To increase by 60%	
<b>Government and Society</b>					88
Distribution of Wealth to the Government (R\$ million) (GRI ECI)	547.80	727.20	817.14		
Investment in Corporate Responsibility (R\$ thousands) <sup>(1)</sup> (GRI EN30)	17,351.0	23,379.7	38,174.0		
Investment in Sponsorships (R\$ thousands) <sup>(1)</sup>	3,290.9	5,438.0	6,976.4		
<b>Environment</b>					96
<b>Water</b>					
Consumption of Water per Unit Sold (L/un)	0.667	0.633	0.589	To consume a maximum of 150,042 m <sup>3</sup>	
Percentage of Water not Included in Product (%)	90.2	89.1	88.5		
<b>Energy</b>					
Total Energy Consumed per Unit Sold (kjoules/un)	603.7	551.8	546.5	To consume a maximum of 129.3 × 10 <sup>12</sup> joules	
<b>Waste</b>					
Total Weight of Waste per Unit Sold (grams/un) <sup>(7)</sup>	25.7	27.7	28.3		
Percentage of Waste Recycled (%)	73.4	81.1	84.1	87%	
<b>Greenhouse Gas Emission</b>					
Tons of CO <sub>2</sub> e Emitted (ton) <sup>(4)</sup>	N.A. <sup>(2)</sup>	107,525	120,492	To complete the emissions inventory in all processes and implement a plan to be carbon-neutral by 2008	
<b>Biodiversity</b>					
Number of Assets Certified (un)	8	16	22	26	
Percentage of Total Species Certified (%)	23	46	63	74%	
<b>Impact of Products</b>					
Average Environmental Impact of Packaging -ACV (mPt/kg)	N.A. <sup>(2)</sup>	89.3	83.2	To include a table with environmental data of all products launched and new packages starting from second half of year	
Percentage of Refills of Items Sold (%) <sup>(1)</sup>	15.3	17.4	19.8	20%	

1. Indicators regarding the Brazil operation. 2. Indicator was revised in 2005. 3. Includes number of enrollments and re-enrollments during the year. EJA activities began in 2005. 4. The 2005 figure refers to emissions from the Brazil Operation. The scope was expanded in 2006. 5. The figure published in the previous report on pages 53 and 98 was incorrect. The correct amount was published on page 138 of the same report. 6. The figure released in previous years referred to the total net income generated. We believe that the value of dividends and interest on equity capital better reflect the resources distributed to shareholders. 7. The data reported in previous editions were incorrect due to problems in the data-collection system; now they are corrected. 8. The operation in Benevides began in 2006. 9. In last year's report this figure was published as 91%.



*Members of the extractive community  
of São Francisco do Itapuru, Amapá*

# Strategies and Challenges

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

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

Moreover, we will continue to sound out new markets and, as disclosed, we have begun planning to start operations in the United States and in Russia in 2008. Therefore, Natura's experience in France will continue to be a great source of learning.

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

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



*Glucia Lima, consultant,  
and Katia Mitiko, customer*

# Quality of Relationships

Our reason for being is to create and sell products that promote Well-Being / Being Well, which is the harmonious relationship of the individual with himself, with others and with the world of which he is a part.

Starting from this premise, we seek to establish ethical and transparent relationships that promote open and frank dialogue. This practice is what defines our activities in the market and vis-à-vis society.

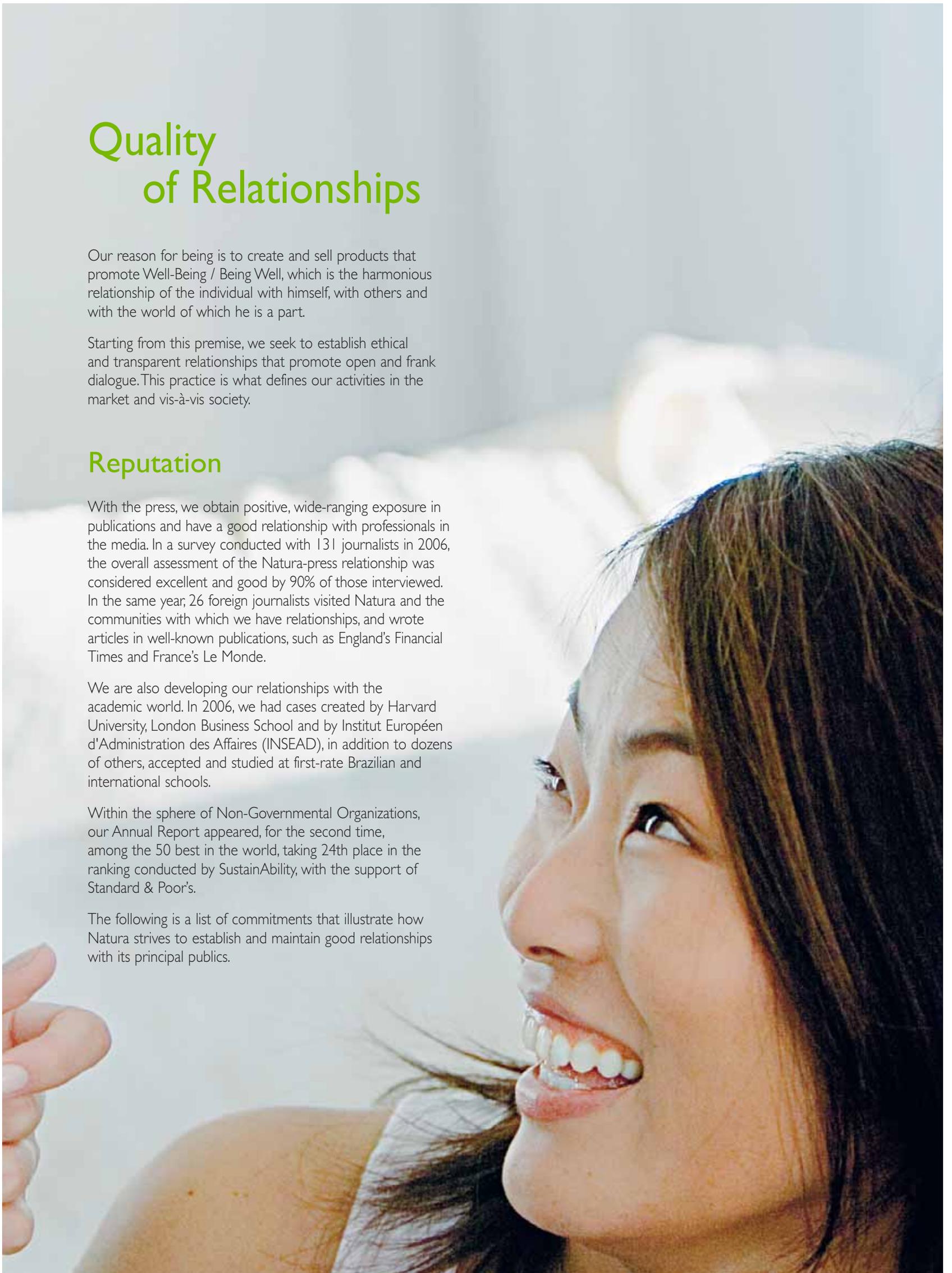
## Reputation

With the press, we obtain positive, wide-ranging exposure in publications and have a good relationship with professionals in the media. In a survey conducted with 131 journalists in 2006, the overall assessment of the Natura-press relationship was considered excellent and good by 90% of those interviewed. In the same year, 26 foreign journalists visited Natura and the communities with which we have relationships, and wrote articles in well-known publications, such as England's Financial Times and France's Le Monde.

We are also developing our relationships with the academic world. In 2006, we had cases created by Harvard University, London Business School and by Institut Européen d'Administration des Affaires (INSEAD), in addition to dozens of others, accepted and studied at first-rate Brazilian and international schools.

Within the sphere of Non-Governmental Organizations, our Annual Report appeared, for the second time, among the 50 best in the world, taking 24th place in the ranking conducted by SustainAbility, with the support of Standard & Poor's.

The following is a list of commitments that illustrate how Natura strives to establish and maintain good relationships with its principal publics.





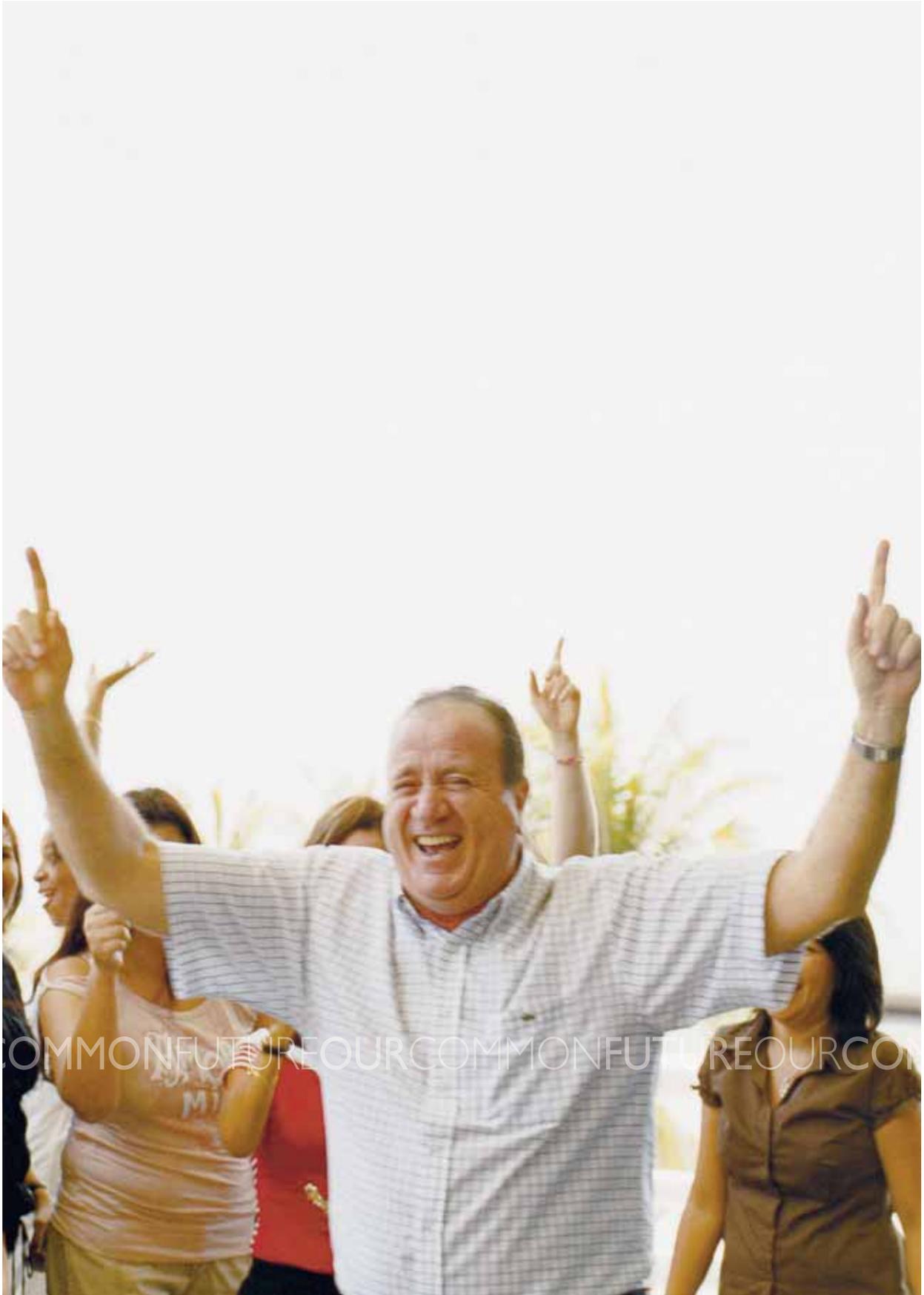
*Sales promoters of Natura  
in the Northeast Market*

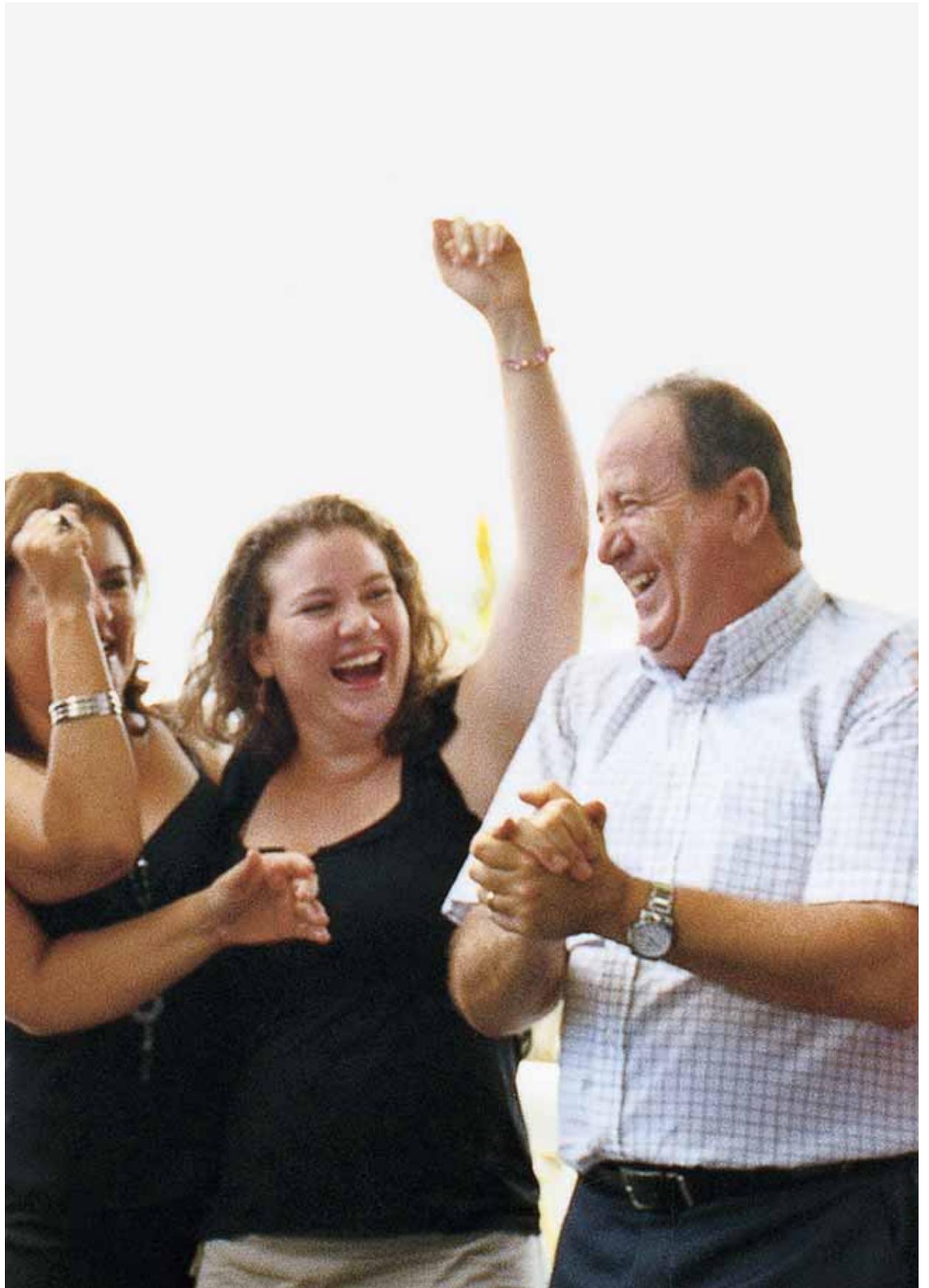
# Employees





OUR COMMON FUTURE OUR COMMON FUTURE OUR COMMON FUTURE





“For me, Natura is a model and example of management and I am extremely proud to work here. I recently had the opportunity to visit a public school in the Metropolitan Region of Recife with my entire team, which was supported by the Crer para Ver project.

It was impressive how the students and teachers welcomed us. They showed off their new facilities equipped with resources generated by Consultants: a library, a reading room, and a complete computer laboratory.

One of the things I learned at Natura is to practice what we preach: we are encouraged to protect the environment. I changed, and I changed my family. We save energy, we don't waste water, and we recycle. They're small steps, but if everyone did the same, we would definitely live in a better world!”

**Odilon Guerra,**  
sales manager, Northeast Region



## Organizational Climate

Our employees are essential to creating the Natura brand. They shape internal culture and, along with other publics, transmit our values. Despite the efforts made every year to guarantee the organizational climate, since 2005 we have not been able to reverse the downward trend in the approval index of the annual organizational climate survey.

**2007 COMMITMENT**  
TO REACH 72% SATISFACTION IN  
THE EMPLOYEES CLIMATE SURVEY.

### Survey of Organizational Climate in Brazil (%)



1. Percentage of employees who gave a score of 4 and 5 (top 2 boxes) on a scale of 5 points.

This was our greatest focus in 2006 and represents a daily challenge that demands attention from all the company's managers. This is a challenge that increases in direct proportion to increases in the number of employees.

### Number of Natura Employees (GRI LA1)

	2004	2005	2006
Brazil	3,177	3,575	4,361
Argentina	205	237	262
Chile	70	93	122
Mexico <sup>(1)</sup>	0	70	141
Peru	103	133	179
Venezuela <sup>(1)</sup>	0	0	35
France <sup>(1)</sup>	0	20	30
<b>Total</b>	<b>3,555</b>	<b>4,128</b>	<b>5,130</b>

1. Operations in Mexico and France began in 2005, and in Venezuela in 2006.

### Other Employment Contracts<sup>(1)</sup> (GRI LA1)

	2004	2005	2006
Interns	39	41	60
Temporary Workers	259	679	321
Third-Party <sup>(2)</sup>	1,051	1,209	1,797

1. Includes operations in Argentina, Brazil, Chile, France, Mexico and Peru.

2. "Third-parties" are residents assigned to company facilities.

Specific actions that will take effect in the short term were designed to involve certain groups of people in improving the organizational climate, including dialogue with the company's own president and CEO. And, since the climate usually deteriorates when there is not enough space, the facilities at Itapecerica da Serra were expanded and a new building was inaugurated in Alphaville.

On the other hand, the drop in turnover despite the growth of employees on staff at Natura in Brazil is a positive sign of our human resource management. Another sign of improved management is the increase in the number of applicants for vacancies opened by the company, which increased 49% over last year.

### Turnover Rate of Employees (GRI LA2)

Operation	2004	2005	2006
Brazil	7.8%	7.6%	6.7%
Argentina	16.0%	11.9%	19.7%
Chile <sup>(1)</sup>	20.2%	25.4%	31.6%
Mexico <sup>(2)</sup>	N.A.	7.1%	36.3%
Peru	15.5%	21.7%	15.0%
France <sup>(3)</sup>	N.A.	N.A.	6.6%

1. The current management goal of the operation in Chile is to reverse the historically high turnover of its sales team.

2. In Mexico operations, which began in 2005, turnover increased significantly due to the high number of dismissals of Sales Promoters; an action plan is already under way to reduce this figure, such as investment in the development of Sales Managers.

3. Operations in France began in 2005.

## NATURA'S RELATIONSHIP PRINCIPLES AND OMBUDSMAN

Natura's Relationship Principles seek to inspire our attitudes by bringing the essence of our brand – Reason for Being, Vision and Beliefs – as concepts to our day-to-day activities. In practice, they act as a tool to support decision-making.

The Ombudsman is a new channel of dialogue and relationship that handles issues directly related to the Relationship Principles, as well as those not covered in management models. Its mission is to receive statements from the various publics and identify opportunities for improvement in internal standards, processes and policies.

Like the Principles, in this first phase the Ombudsman is geared toward employees, interns and third-party residents of the Brazil Operation. Due to the fact that the Ombudsman was implemented in October 2006, it is still too early to report the number of cases of discrimination and the measures or responses to cases of corruption; these indicators will be included in the next Annual Report (GRI HR4 / GRI SO4).

**2006 COMMITMENT**  
TO PUBLISH THE RELATIONSHIP PRINCIPLES DOCUMENT AND IMPLEMENT THE OMBUDSMAN FOR EMPLOYEES.

**GOAL ACHIEVED**  
THE RELATIONSHIP PRINCIPLES AND THE NATURA OMBUDSMAN WERE INTRODUCED AT THE SAME TIME.

**2007 COMMITMENT**  
TO EXTEND THE RELATIONSHIP PRINCIPLES AND IMPLEMENT THE OMBUDSMAN FOR ALL THE PUBLICS IN BRAZIL WITH WHICH WE INTERACT, AND IN INTERNATIONAL OPERATIONS.

## Diversity and Equal Opportunity

**2006 COMMITMENT**  
TO INCREASE THE SHARE OF INDIVIDUALS WITH DISABILITIES ON STAFF TO 5%.

**GOAL NOT REACHED**  
DESPITE THE INCREASE OF 44.5%, WE ARE STILL 0.8% BELOW OUR GOAL.

In terms of diversity, the highlight was the progress we made in hiring disabled individuals. Despite a 22% increase in the total number of employees, we still did not reach the goal of 5% of individuals with deficiencies on staff; this number remained at 4.2%.

Mention should also be made of the Professional Basic Skills program, developed in partnership with SENAI, to train individuals with disabilities to fill vacancies at Natura and in the market in general.

	2004	2005	2006
Number of employees with disabilities	114	128	185
Percentage of total employees	3.6%	3.6%	4.2%
Number of disabled trained	0	20	84

In terms of multicultural issues, we intensified the search for individuals of other backgrounds to fill positions of all levels, and for the Trainee Program. In 2007, in an attempt to increase our number of employees of African descent, we also intensified our efforts to promote partnerships with NGOs and to find new sources of recruitment and selection.



*Exercise at work promotes  
integration of employees*

### Breakdown of Employees in Brazil Operation (GRI LA13) <sup>(1)</sup>

Group	2004	2005	2006
Individuals with disabilities	3.6%	3.6%	4.2%
Women	62.2%	63.1%	63.7%
Black and mixed-race women <sup>(1)</sup>	20.3%	24.0%	21.9%
Black and mixed-race men <sup>(1)</sup>	31.7%	29.4%	21.8%
Over age 45	11.0%	11.0%	10.3%

1. Employees provided their own racial classification based on IBGE criteria, which is the only official criteria available in Brazil. Natura acknowledges that this classification does not respond to the claims for reclassification made by various social movements.

### Monthly Wage Average of the Brazil Operation (in R\$) (GRI LA14) <sup>(1)</sup>

Group	2006
Women (total)	9,585.51
Men (total)	11,676.82
Black and mixed-race women <sup>(1)</sup>	4,755.50
Other women (not black or mixed-race) <sup>(1)</sup>	9,538.13
Black and mixed-race men <sup>(1)</sup>	3,943.53
Other men (not black or mixed-race) <sup>(1)</sup>	11,850.01
Under age 45	2,764.99
Over age 45	4,654.32

1. Employees provided their own racial classification based on IBGE criteria, which is the only official criteria available in Brazil. Natura acknowledges that this classification does not respond to the claims for reclassification of various social movements.

## Education

Another high point of the year was the 28.5% growth in investment in Education and Training in the Brazil operation. Natura's policy is to provide technical training to perform one's duties and to support the personal and professional development of its employees. In 2006, we reached the annual average of 111 hours of training per employees, which was much higher than the minimum goal of 40 hours. <sup>(1)</sup>

### Investment in Education and Training of Employees (R\$ thousand)

Operation	2004	2005	2006
Brazil <sup>(1)</sup>	7,875	12,674	16,286
Argentina	N.A.	10.4	78.8
Chile	N.A.	10.9	10.6
Mexico	N.A.	81.9	45.6
Peru	N.A.	N.A.	24.8

1. The figure includes training the Sales Force (Managers and Sales Promoters)

### Average Hours of Training per Year, per Employees, by Type of Activity, in the Brazil Operation<sup>(1)</sup> (GRI LA10)

Group	2004	2005	2006
Production	78	122	164
Administrative	61	86	82
Management	86	77	61
Upper Management	68	22	38
<b>Total</b>	<b>70</b>	<b>101</b>	<b>111</b>

1. This indicator includes the training of Sales Promoters and the Natura Education Program.





*Marcela Martinelli,  
employee of the  
Pele Technology platform*

## Employees Benefits (GRI LA3)

Natura offers all its employees an end-of-year bonus, family health and dental insurance, and an education incentive program (aimed at employees and their children up to 21 years old), "Natura Education." The Quality of Life Program can be broken down into four parts: Physical and Emotional Health; Social and Family Integration; Work Environment; and Culture and Leisure. In terms of Physical and Emotional Health, the highlight is the Pregnancy Program, which offers a prenatal care and guidance course with a gynecologist, nutritionist, dermatologist and physical therapist. In regard to Social and Family Integration, we offer daycare services to children of employees between the ages of 4 months and 3 years and 11 months – two years more than legally required. The complete list of benefits offered by Natura is available in the on-line version of this report. ¶

### Brazil Operation – Natura Education Program (GRI LA11)

	2004	2005	2006
Scholarships Awarded	230	377	768
% Scholarships Awarded / Enrollments	63.0%	58.5%	67.8%

Courses	2004	2005	2006
Technical / professional	35	74	132
Languages	90	82	245
University entrance examination	0	0	12
University	100	119	204
MBA and graduate level	0	90	175

## International Operations

Natura has no formal policy for local recruitment of upper-management positions. However, in its international operations, most of these positions are held by natives; for example in France, 83% of upper-management employees are French (GRI EC7).

### ON-LINE CONTENT

For additional information about Natura's relationship with its employees, go to:

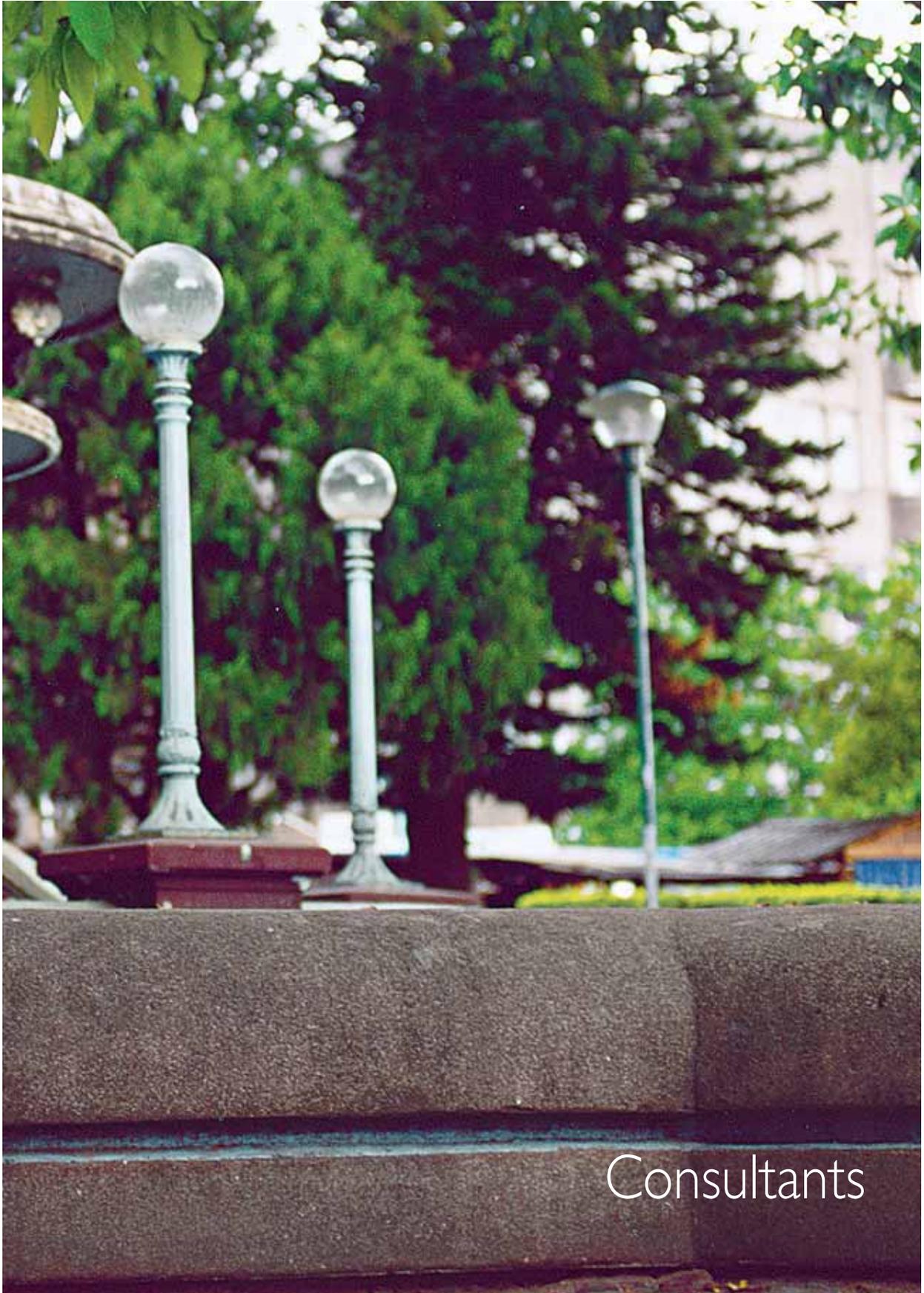
[www.natura.net/relatorio/colaboradores](http://www.natura.net/relatorio/colaboradores)

See International Operating indicators at [www.natura.net/relatorio/country](http://www.natura.net/relatorio/country), for example: [www.natura.net/relatorio/argentina](http://www.natura.net/relatorio/argentina)

GRI EC3 Coverage of obligations of benefits plan • GRI EC5 Change in ratio of lowest wage compared to minimum wage • GRI LA3 Complete list of benefits offered • GRI LA4 Percentage of employees whose contracts are covered by collective bargaining agreements • GRI LA5 Period for notification of operational transfers • GRI LA6 Percentage of employees represented on formal health and safety committees • GRI LA7 Typical job-related injuries and days lost and absentee rate • GRI LA8 Programs related to serious illnesses • GRI LA9 Issues related to health and safety covered by formal agreements with unions • GRI LA12 Analysis of career development and performance • GRI LA13 Representation of minorities on staff by hierarchical level • GRI LA14 Average monthly wage by hierarchical level • GRI HR3 Training in human rights • GRI HR5 Freedom of association and collective bargaining • GRI HR6 and HR7 Child and Forced Labor • GRI SO3 Anti-Corruption training • GRI HR8 Percentage of safety personnel that received training in aspects of human rights • Recruitment and selection • Volunteer program • Diversity guide • Relationship Principles.



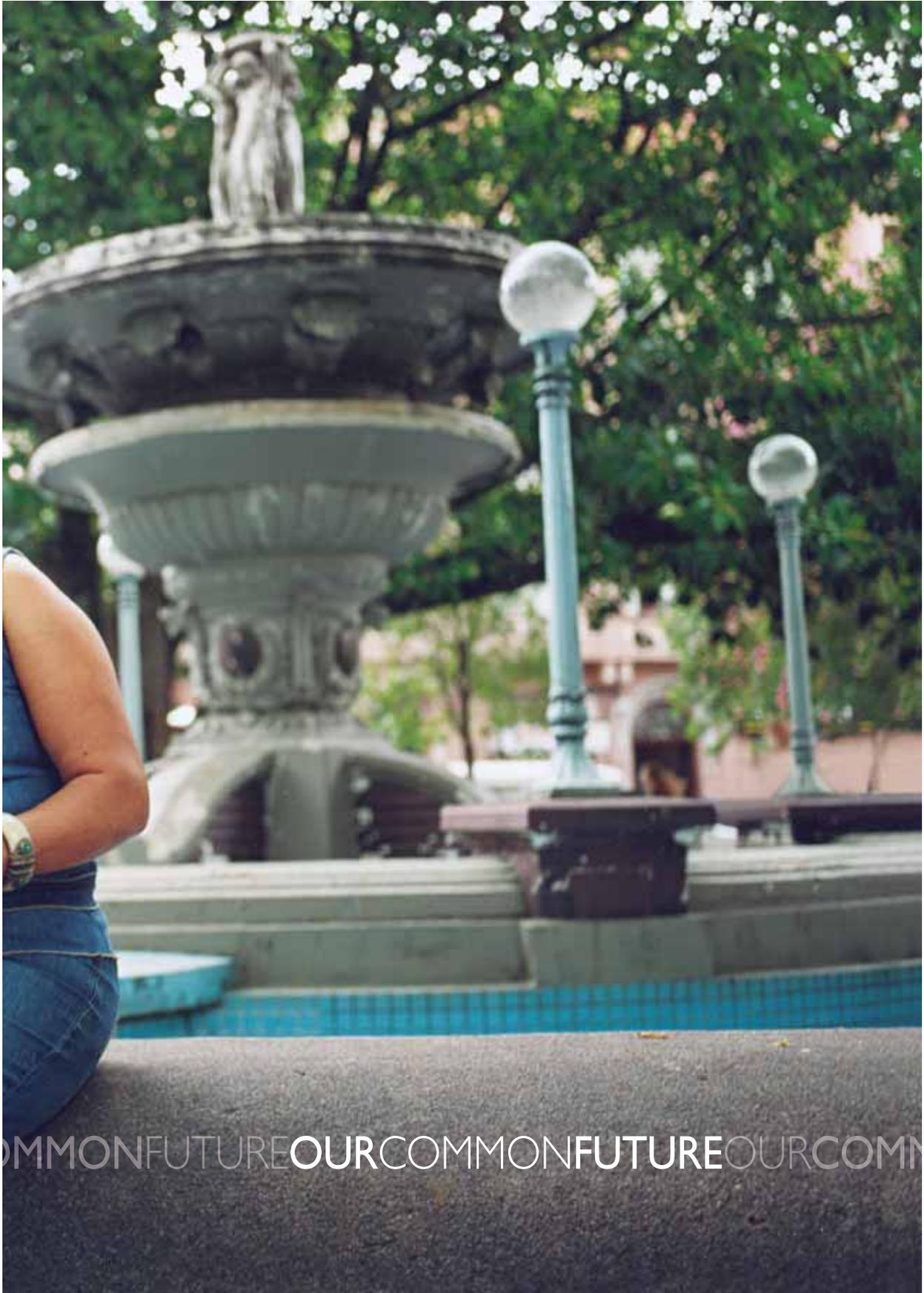




Consultants



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“I’ve been a Natura consultant for almost 30 years. I think I was the first in Santa Maria. I’m very happy to see the state of Natura today, because in addition to good products, Natura cares about human beings and the environment. Natura encourages us to raise socio-environmental awareness among consumers, in the family and among friends. People like this attitude.”

**Sarah Jeaneth Parode Vargas,**  
Natura consultant

“I started as a Natura consultant in 1985. My sister was already selling Natura products, and I wanted to make a little more money. Natura helped me to support and educate my three daughters in medicine.

Natura cares about human beings and protecting the environment. I promise you it’s not just talk when I say I’m excited to be participating in what is happening, when I see Natura giving work opportunities to cashew gatherers, reusing water in its factory, and providing so many people the opportunity to sell Natura’s products and improve their income.”

**Fátima Elizabeth Parode Viegas,**  
Natura consultant



Consultants are Natura's primary link to the final consumer, and because of the unique and very close connection they establish, they take much more than our products to an enormous universe of women and men. It is through these professionals that a sale is transformed into a moment of inspiration, and self-knowledge and engagement become social and environmental causes; in sum, disseminating the concept of Well-being / Being well.

We distributed R\$ 1.6 billion to this public, 17.2% more than in 2005. Productivity per Consultant was R\$ 12,500, slightly surpassing last year's good performance of R\$ 12,300.

**Annual Average Number of Consultants Available in Brazil and in Operations (in thousands)**

	2004	2005	2006
Brazil	407	483	561
Argentina	13	18	24
Chile	5	6	9
Mexico <sup>(1)</sup>	N.A.	1	5
Peru	8	12	18
<b>TOTAL</b>	<b>433</b>	<b>519</b>	<b>617</b>

1. Sales in Mexico began in August 2005.

As a signatory of the Direct Sales Code of Conduct for Direct Sellers and between Companies of the Brazilian Direct Sales Association (ABEVD), Natura trains its Consultants in direct sales activities and to act in accordance with the company's ethical standards.

**2007 COMMITMENT**  
TO MAINTAIN 89% SATISFACTION  
IN CONSULTANT CLIMATE SURVEY.

**Mobilization**

**2006 COMMITMENT**  
TO ENROLL 1,500 CONSULTANTS IN  
THE YOUTH AND ADULT EDUCATION  
CAMPAIGN (EJA).

**GOAL NOT REACHED**  
ALTHOUGH WE CAME IN BELOW THE  
GOAL, WE ARE SATISFIED WITH THE 721  
ENROLLMENTS, AS IT WAS THE FIRST YEAR  
OF THE CAMPAIGN AIMED AT THIS PUBLIC.

Our Consultants also perform the important role of agents of social transformation through Movimento Natura, whose actions cover the three axes of sustainability that are identified by Our Business, Our Planet and Our People. On the economic axis, Our Business, Natura promotes a series of initiatives designed to recognize and value the activity of Consultants. Our Planet expresses our concern for the environment, and its primary action is to encourage the purchase of refillable products\*.

In the social realm, Our People, we created a campaign mobilizing Consultants to encourage individuals who never completed basic education to return to school by enrolling in the Youth and Adult Education (EJA)\*\* in public schools throughout the country. In 2006, in addition to the goal of 15,000 enrollments of the general public, we proposed an additional challenge: that of enrolling 1,500 Consultants in EJA.

Still in the social realm, another important initiative is the incentive for the voluntary sale of products in the Crer Para Ver Program\*\*, the revenue from which is reinvested to finance public education projects.

\*Also see the "Environment" section.

\*\*Also see the "Society" section.

## Channels of Dialogue

Natura's relationship with Consultants is cultivated several ways, the most direct being Natura Meetings, which are held with Sales Promoters once every 21-day sales cycle. Information about promotions arrives in three ways: the *Natura Consulting* brochure, the main channel of communication with Consultants; the Consulting website; and *Revista Natura* which, although aimed at the final consumer, is an important relationship and sales tool for Consultants.

In 2006, the Consultant website was revamped with updated visuals and easier navigation. It can be used to plan sales (result X products to be sold); manage information about clients; and log personal alerts – in addition to the traditional operations of on-line service, and sending orders and information about promotions and products.

### Orders Made through the Consulting Website



Another important channel is the Natura Service Center (CAN), a free telephone service that logs orders and helps manage Consultant satisfaction. By means of a staff trained to provide information and to receive claims, suggestions and complaints, CAN handles all the reports and follows processes until their resolution.

### Daily Average of Calls Taken / CAN



In 2006 we invested in upgrading the service and changed the technological platform. This will increase the capacity to receive calls, as well as personalize and reduce service time. This change involved replacing the service provider, and the transition, involving more than 2,000 operators, did create some difficulties (GRI PR5). ¶

### Natura Consultants Satisfaction Survey (%) (GRI PR5)

	Jan/2005	Jan/2006	Jan/2007
Quality of relationship	N.A.	90	89
Overall satisfaction <sup>(1)(2)</sup>	89	90 <sup>(1)</sup>	90

1. In the 2005 report, the figure was 91%.

2. Percentage of Consultants satisfied and totally satisfied (top 2 boxes).

### ON-LINE CONTENT

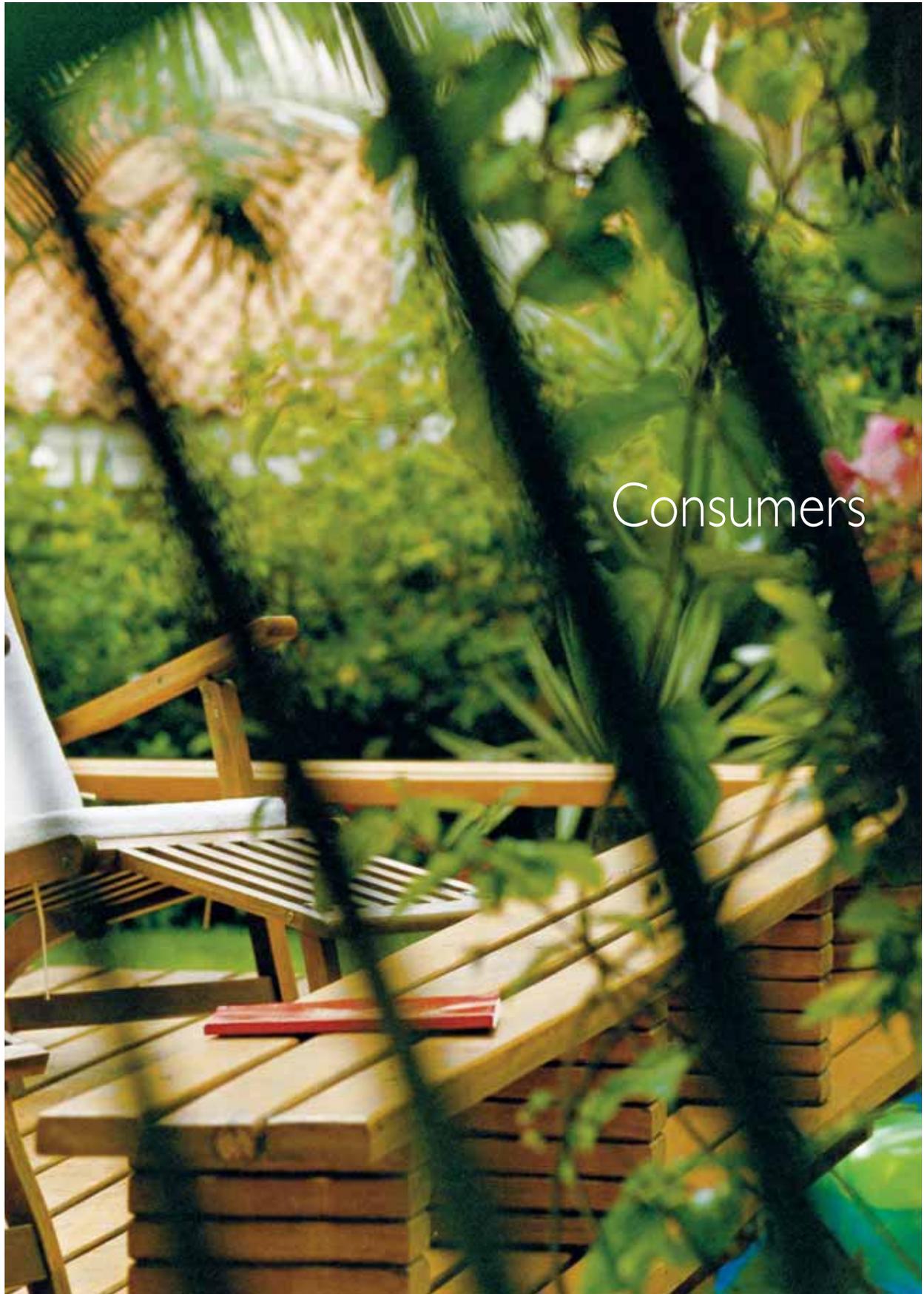
For additional information about Natura's relationship with Consultants, go to:

[www.natura.net/relatorio/consultoria](http://www.natura.net/relatorio/consultoria)

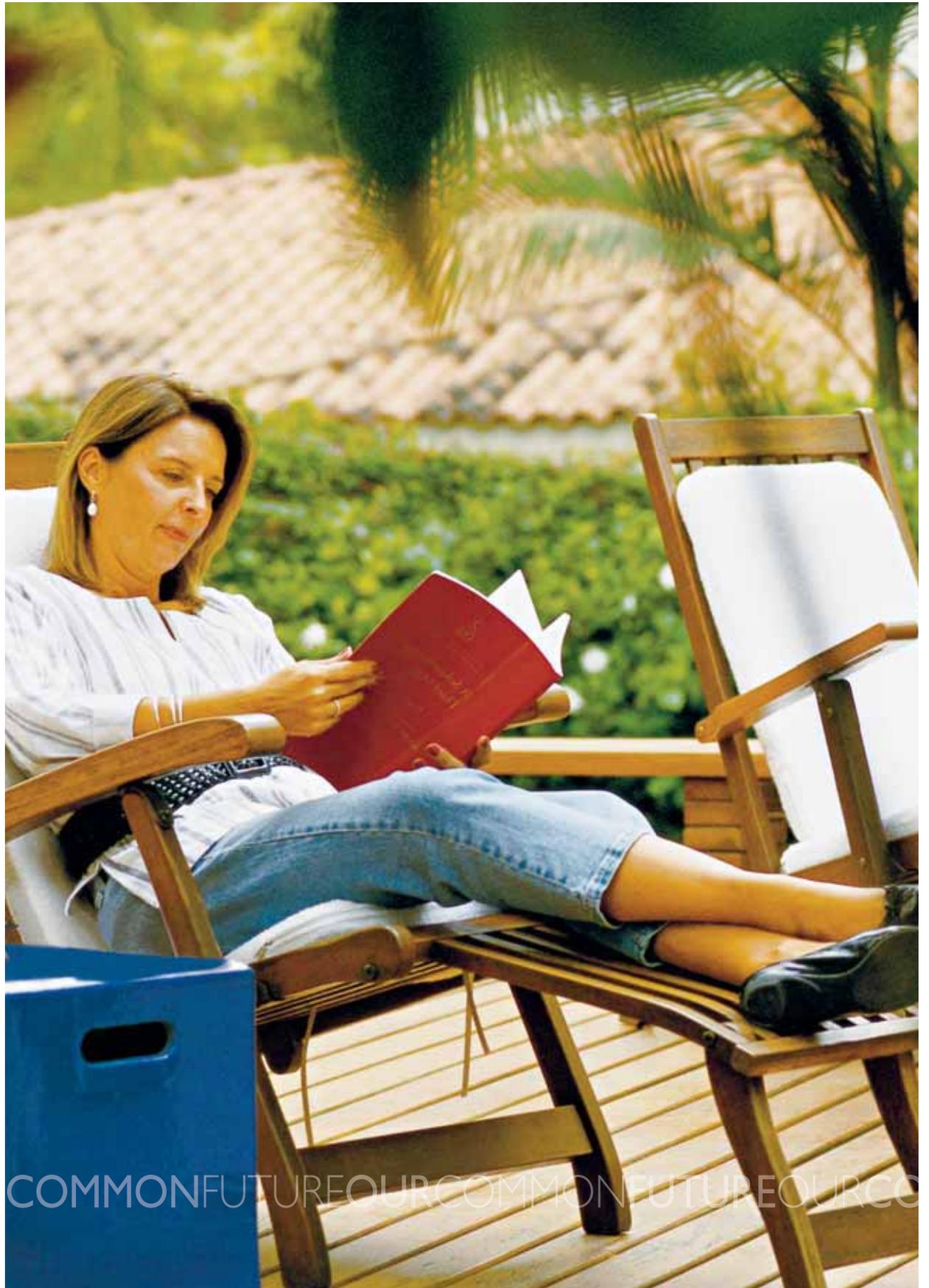
See International Operating indicators at [www.natura.net/relatorio/country](http://www.natura.net/relatorio/country), for example: [www.natura.net/relatorio/argentina](http://www.natura.net/relatorio/argentina)

**GRI PR5** Consultants' Evaluation of Natura Service Center • **GRI PR8** Claims and Privacy Policy • **GRI HR6** Child Labor • **GRI HR7** Forced Labor.





Consumers



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“Natura products are uniquely Brazilian and I like Brazilian things. I also like Natura’s socio-environmental policy. The responsible use of cashews and Brazilian flora should serve as a model.

The environmental future of the planet is worrisome, but if each of us does a little, it will get better. Each one of us has to take some responsibility. I recycle my household garbage and I try not to waste water.

I also believe that everyone should contribute with some community-minded work. I work with children with cancer in a public hospital in São Paulo. Just like individuals, companies have to get involved. I think Natura, in this aspect, is an example to be followed.”

**Maria Amélia Julião,**  
Natura consumer

#### 2006 COMMITMENT

TO INTRODUCE GUIDELINES FOR COMMUNICATION MANAGEMENT, FOLLOWING AESTHETIC PRACTICES, ETHICAL PRINCIPLES AND PRINCIPLES OF TRANSPARENCY.

#### GOAL ACHIEVED

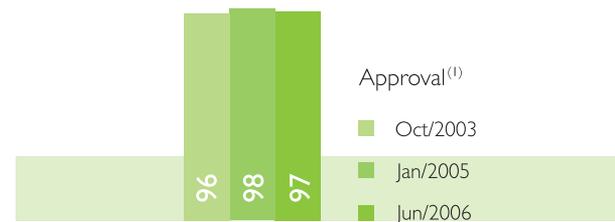
THE GUIDELINES WERE INCLUDED IN THE ADVERTISING MANAGEMENT SYSTEM. WE ALSO RELEASED THE GLOBAL PLAN, THE BOOK AND THE ADVERTISING MANUAL.

Respect for the consumer is one of Natura's principles. Safety and suitability in the use of our products is guaranteed by a structured process that adheres to international regulations. The process is coordinated by the Product Safety Committee, which is comprised of professionals from various areas.

Before reaching the public, all of Natura's new formulas are tested, and the tests are monitored by dermatologists or, in some cases, by multidisciplinary teams. Tests of children's products, for example, are also monitored by pediatricians, and tests for products that are used around the eyes are monitored by ophthalmologists (GRI PR1).

Every year we conduct extensive research on satisfaction, investigating aspects related to products, prices and time periods, relationships with our Consultants, delivery, post-sale, customer service, and communication materials and channels. In 2006, the research increased the number of markets studied in the five regions of Brazil and adopted a new scale to measure satisfaction.

#### Consumer Satisfaction Survey (%) (GRI PR5)



1. In studies conducted up to January 2005, the data refers to the percentage of consumers "satisfied" and "totally satisfied" (top 2 boxes). As of 2006, the data refers to the percentage of grades 8, 9 and 10 (top 3 boxes).

#### Revista Natura [Natura Magazine]

The highlight of the year was the launch of *Revista Natura*, replacing the *Vitrine* catalogue, which, in addition to products, also includes editorial material. Printed on recycled paper with a total print run of 2 million copies, *Revista Natura* is the main medium of communication with consumers.

Another important launch was the magazine *Natura Homem* [Natura Man], geared toward male consumers. To approach this group, specific marketing actions were established and Consultant training was initiated.

Natura complies with the standards of the Self-Regulated Advertising Council (CONAR), and the codes of conduct of the Brazilian Association of Advertisers and the Brazilian Association of Consumer Protection, and words all its promotions clearly and correctly, always honoring what was advertised, even if the published price is lower than the correct price. The error rate, in any case, is less than 1% of all the information in promotions published annually (GRI PR6).

## Channels of Dialogue

Natura strives for ongoing excellence in providing services that increase consumer satisfaction. To ensure direct contact with our consumers, we maintain the Natura Consumer Service Center (SNAC), which, besides providing information, receives praise, suggestions and complaints. Natura guarantees the privacy of its customer information in its contracts with the outsourced companies that provide customer service.

Concern for safety also resulted in the creation of the Cosmetic Vigilance System, which is a pioneering effort in Brazil to catch possible adverse reactions to products during the marketing phase. Complaints are received by SNAC and, if necessary, sent on to a dermatologist.

### SNAC – Natura Consumer Service Center (calls in thousands) (GRI PR5)

	2004	2005	2006
Total	1,950	1,885	2,204
Answered	1,905	1,791	1,664
Not answered	45	94	540

The number of calls not answered is outside Natura's standard of relationship with its customers. The table above reflects calls abandoned while waiting during the second half of 2006, when we were transitioning customer service providers and upgrading the technological platform.

We are currently working to restore and improve our historical average and ensure the quality of service.

## ON-LINE CONTENT

For additional information about Natura's relationship with its customers, go to:

[www.natura.net/relatorio/consumidores](http://www.natura.net/relatorio/consumidores)

See International Operating indicators at [www.natura.net/relatorio/country](http://www.natura.net/relatorio/country), for example: [www.natura.net/relatorio/argentina](http://www.natura.net/relatorio/argentina)

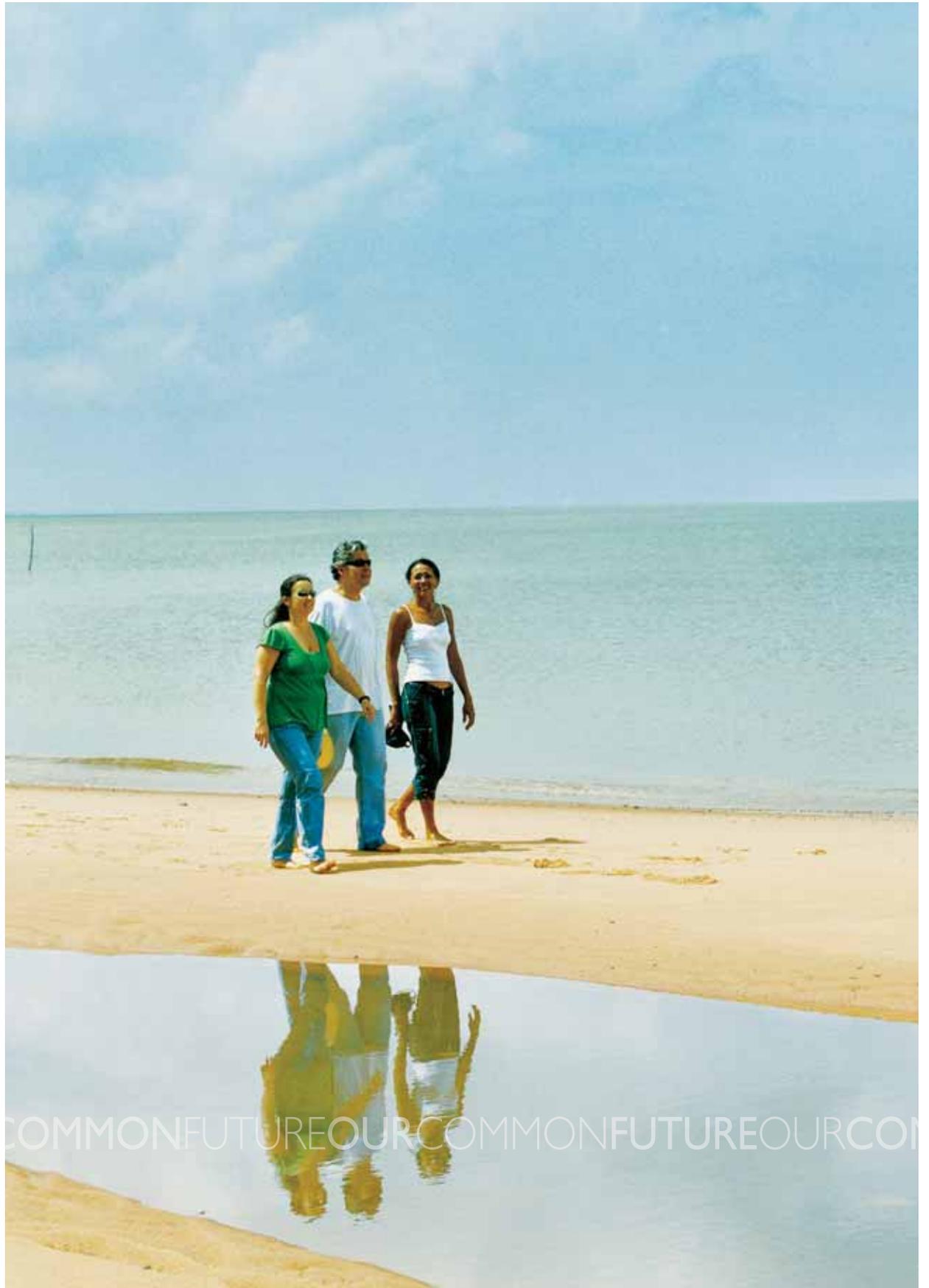
**GRI PR2** Cases of non-compliance – health and safety • **GRI PR3** Labeling • **GRI PR4** Non-compliance in product labeling • **GRI PR5** Consumer Evaluation of Natura Consumer Service Center (SNAC) • **GRI PR7** Cases of non-compliance – marketing communications • **GRI PR8** Privacy policy • **GRI PR9** Cases of non-compliance – supply and use of products.





# Suppliers and Supplier Communities

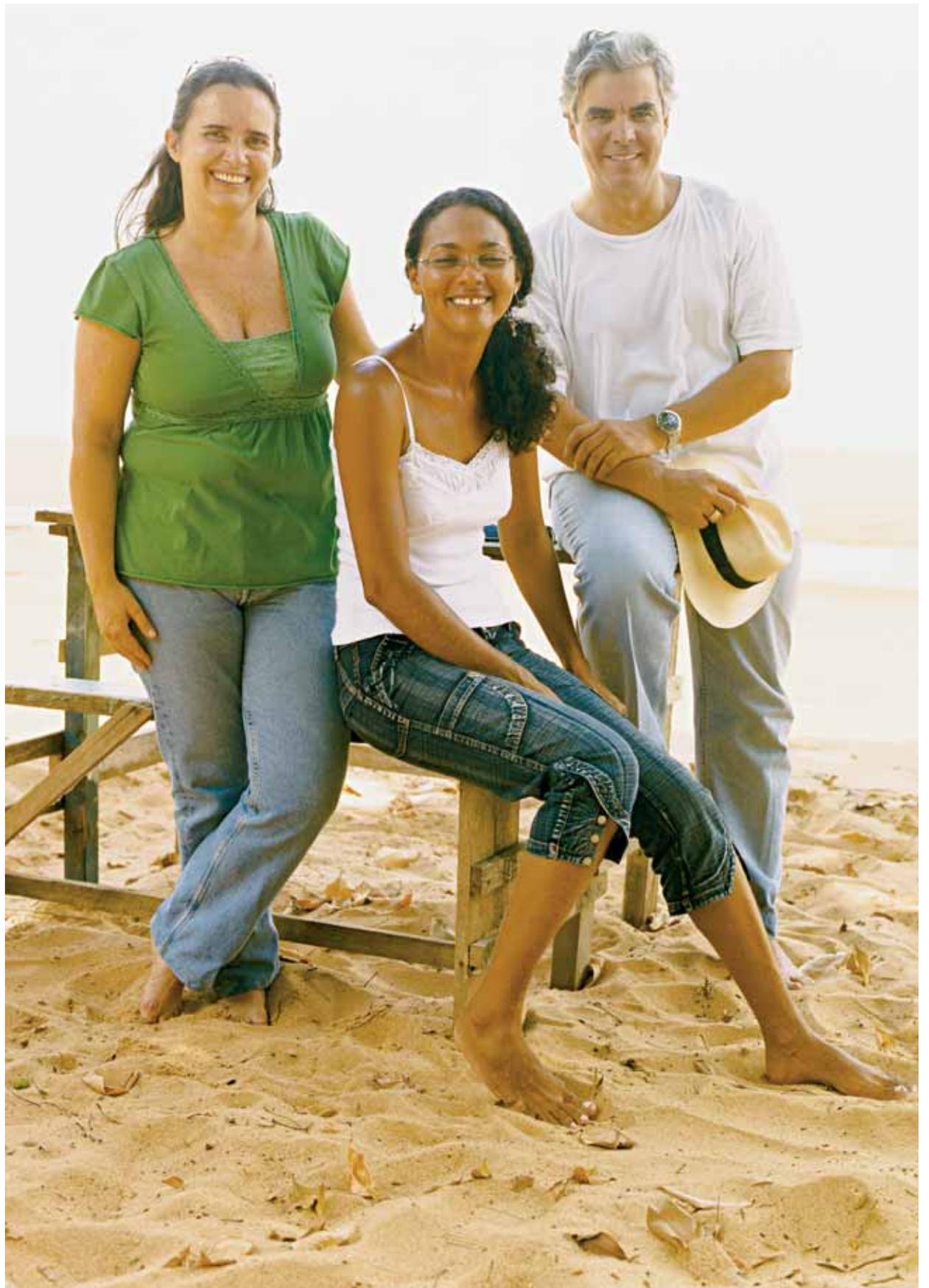




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A vertical photograph of a beach with a blue sky and ocean. The sky is a vibrant blue with some white clouds. The ocean is a light blue-green color. The beach is a golden-yellow sand. The photograph is positioned on the right side of the page, extending from the top to the bottom.

“In my opinion, one of Natura’s main differentiating factors is its greater presence in the supplier communities. While the dialogue between partners and with the communities can still be improved, Natura’s relationship model with the supplier communities is very interesting. There is growing and positive global sensitization to the question of sustainability, but the focus is still centered on the environment. Natura, as well as Beraca, is focused primarily on the human being.”

**Helene Menu,**  
project coordinator  
for Beraca

“Natura’s presence contributed not only to improvements in planting techniques and developing pirioca, but to improving all other related types of crops. We also have a leadership training program in partnership with Natura. I haven’t even mentioned the wonderful personal friendships that people make with Natura personnel. They charm us and we them. And together we have developed several social projects.”

**Adriana Maria Gomes de Lima,**  
administrative coordinator of  
Movimento de Mulheres das Ilhas de Belém  
[Women’s Movement in Ilhas de Belém]

“Our relationship with Natura is a long-term commitment based on shared values. Like Givaudan, Natura is a company dedicated to ethical and social actions in its business activities. We also have our concern for the human being in common. The partnership with Natura allows us to conduct our business with excellence, it reinforces our values, and makes the dream of a better and happier world come true.”

**Attilio Pisa Neto,**  
vice president of fine perfumes  
for Givaudan in Latin America

Our suppliers are essential to the construction of the sustainable business model that we are pursuing. That is why we look for partners that share our beliefs and values, and agree with our sustainability policies. Therefore, in 2004, we created the QLICAR Program (Quality, Logistics, Innovation, Cost, Contractual Terms, Service and Traceability), which establishes relationship principles guided by economic and socio-environmental aspects that suppliers must follow to get certified.

**Percentage of Suppliers Self-Evaluated and Inspected in Quality, Environment and Social Responsibility (GRI HR2)**

	2004	2005	2006
Suppliers Self-Evaluated	0%	30%	93%
Suppliers Inspected	0%	15%	24%

In 2006, in continuation of the Program, we developed a classification system based on innovative and logistical aspects that is designed to better understand the supply chain and implement specific training plans. With equipment manufacturers, for example, we made an effort to heighten their awareness so that they will produce machines that consume less water, energy, and refrigerant gas, and so that they will use recycled materials in their manufacturing and packaging processes.

**2007 COMMITMENT**  
 TO GUARANTEE THAT 100% OF THE SUPPLIERS EVALUATE THEMSELVES REGARDING QUALITY, THE ENVIRONMENT AND SOCIAL RESPONSIBILITY.  
  
 TO INSPECT 35% OF SUPPLIERS, ESPECIALLY IN CASES OF POTENTIAL SOCIO-ENVIRONMENTAL RISK.

**Evolution of Relationships with Suppliers**



**Outsourcing**

The policy of industrial outsourcing requires taking advantage of the productive skills and capacities of suppliers, both domestic and foreign. The result of this entire process will be to make outsourcing a competitive advantage through the development of lasting partnerships.

For every outsourcing activity we will guarantee the correct and constant analysis of technical, strategic, financial, social and environmental impacts. We have already begun monitoring our main suppliers' indicators for energy and water consumption. The main products whose manufacture we currently outsource include our lines of bar soaps, some of our liquid soaps, shampoos and conditioners.

## Human Rights

All service contracts signed by Natura contain specific clauses to prevent the practices of child or forced labor. In 2007, the suppliers with a historically significant risk of this type will be formally inspected. (GRI HR6 and GRI HR7).

## Channels of Dialogue

**2007 COMMITMENT**  
TO ACHIEVE 89% APPROVAL IN  
THE SATISFACTION SURVEY.

There is an ongoing effort to improve our communication and relationships with our suppliers. We are investing in improving internal processes to guarantee agility in the registration and preparation of contracts, punctuality in payments, and transparency and speed in communicating the results of competitive bidding processes.

To accomplish this, in 2006 we created the Supplier Liaison Office, which has already had positive results, as shown in the graph below.

Overall Satisfaction – Approval (%) <sup>(1)</sup>



1. Percentage of suppliers satisfied and totally satisfied (top 2 boxes).

## Supplier Communities

Natura's supply areas are selected on the basis of a diagnosis that considers criteria such as current and potential sustainable production, local development, logistics and supplies, and institutional, regulatory and legal issues. Once selected, we establish a transparent relationship with the local communities and encourage their development. In supplier communities with biodiverse Brazilian assets, we support the development of projects with funds that come from profit-sharing for access to Brazilian biodiversity.

In communities that are considered to be priority communities, we undertake the creation of a sustainable development plan, which is contracted out through a bidding procedure. The plan is solely to make access to resources of the Natura Sustainable Development Fund viable, and it must include a strategy that prevents the community from developing medium- or long-term dependence on Natura (GRI SO1).





## NATURA AND VER-O-PESO MARKET

To nurture our technological platform, which is based on the sustainable use of forest assets, Natura invests resources in research and seeks inspiration from many sources, such as academic and popular literature, raw materials suppliers, farming and extractive communities, and local markets. With the goal of learning about the management practices and cultural traditions associated with developing essential oils from *priprioca*, Natura has gone on many missions, such as to Ilha de Silves in the state of Amazonas, and the research center at Universidade de Campinas (Unicamp) in the state of São Paulo. We also visited the Ver-o-Peso Market in Belém, Pará.

In October 2005, research conducted by Natura was called into question by the Brazilian Bar Association/Pará Division. Using that as a springboard, and in keeping with our transparency practices, we initiated dialogue with all the social agents involved in the matter and made our position public regarding the inadequacy of legislation regulating access to genetic heritage and fair compensation for traditional knowledge.

In anticipation of legislative development, in 2006 Natura became the first Brazilian company to sign agreements for remuneration of widespread traditional knowledge, establishing pioneering partnerships with the Association of Herb Producers of the Ver-o-Peso Market and the Association of Producers of Boa Vista, both in Pará.

We have been a part of the life of Pará for several decades now, and have contributed to generating income for the many groups of people with which we have relationships – including almost 20,000 Natura Consultants – and for society as a whole. In 2007 we will sign a professional training agreement for R\$ 560,000 with the Association of Herb Producers of the Ver-o-Peso Market that is designed to improve the handling of herbs (GRI EC8).

In 2007, we will extend the QLICAR certification program to these areas, and we will start periodic evaluations to monitor the physical, human, natural, social and financial capital – as well as the other features evaluated in suppliers in general. This will be a formal evaluation conducted during meetings in the presence of all parties involved.

We are also investing in establishing an industrial facility in Benevides in the Metropolitan Region of Belém, our first facility outside the state of São Paulo. There, a soap factory and an oil extraction factory will acquire oilseeds and fruit from approximately 2,500 small producers throughout 23 municipalities of the state for the production of oils used in our products (GRI EC6 and GRI EC9).

We will continue investing in the sustainable use of Brazilian biodiversity, as we believe that it represents a great competitive advantage for Brazil. In 2006, we created the Supplier and Surrounding Communities Liaison Office, whose main work during the year was the negotiation of nine profit-sharing contracts for presentation to the Genetic Heritage Management Council (CGen), in accordance with Provisional Measure 2186-16/2001.

We genuinely and intensely believe that “a good forest is a standing forest,” and that it is our duty to bequeath a world that is ecologically balanced, economically prosperous and socially just to future generations.

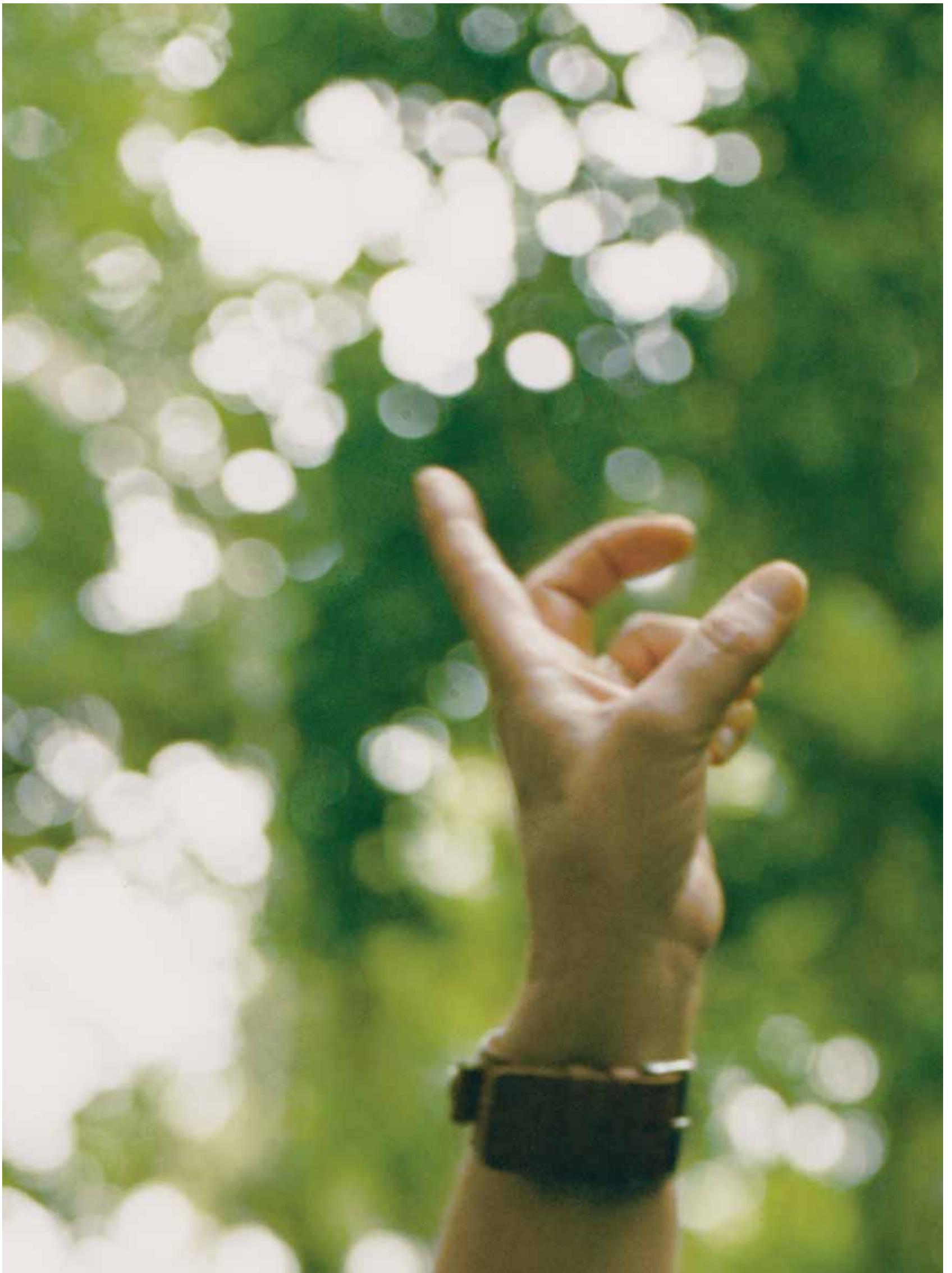
### ON-LINE CONTENT

For additional information about Natura's relationship with its suppliers, go to:

**[www.natura.net/relatorio/fornecedores](http://www.natura.net/relatorio/fornecedores)**

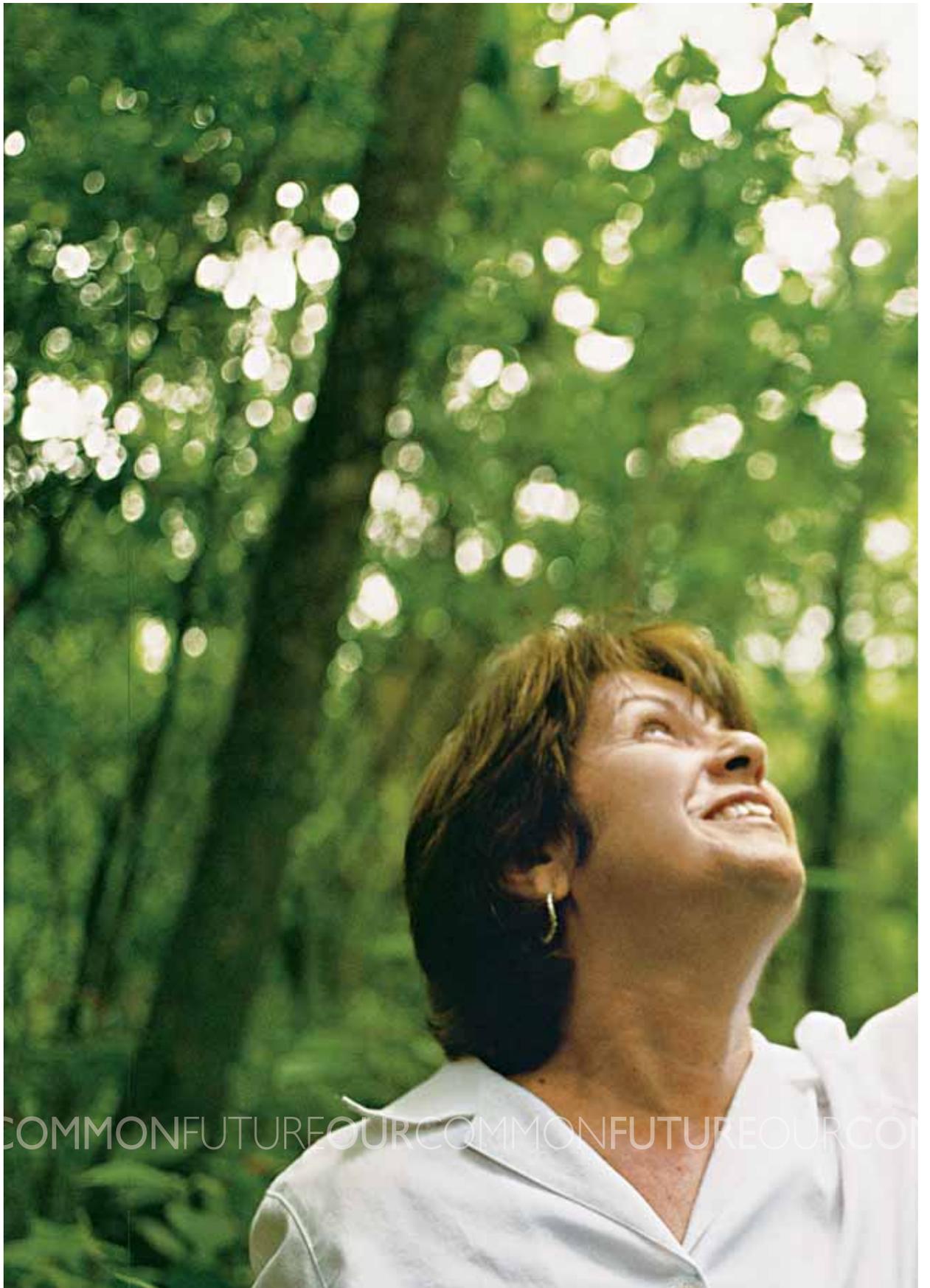
See International Operating indicators at [www.natura.net/relatorio/country](http://www.natura.net/relatorio/country), for example: [www.natura.net/relatorio/argentina](http://www.natura.net/relatorio/argentina)

Requirements of Natura Regulatory Integrated System for suppliers • **GRI HR1** Contracts that include human rights clauses • **GRI HR9** Indigenous rights • Water and energy consumption of primary suppliers.

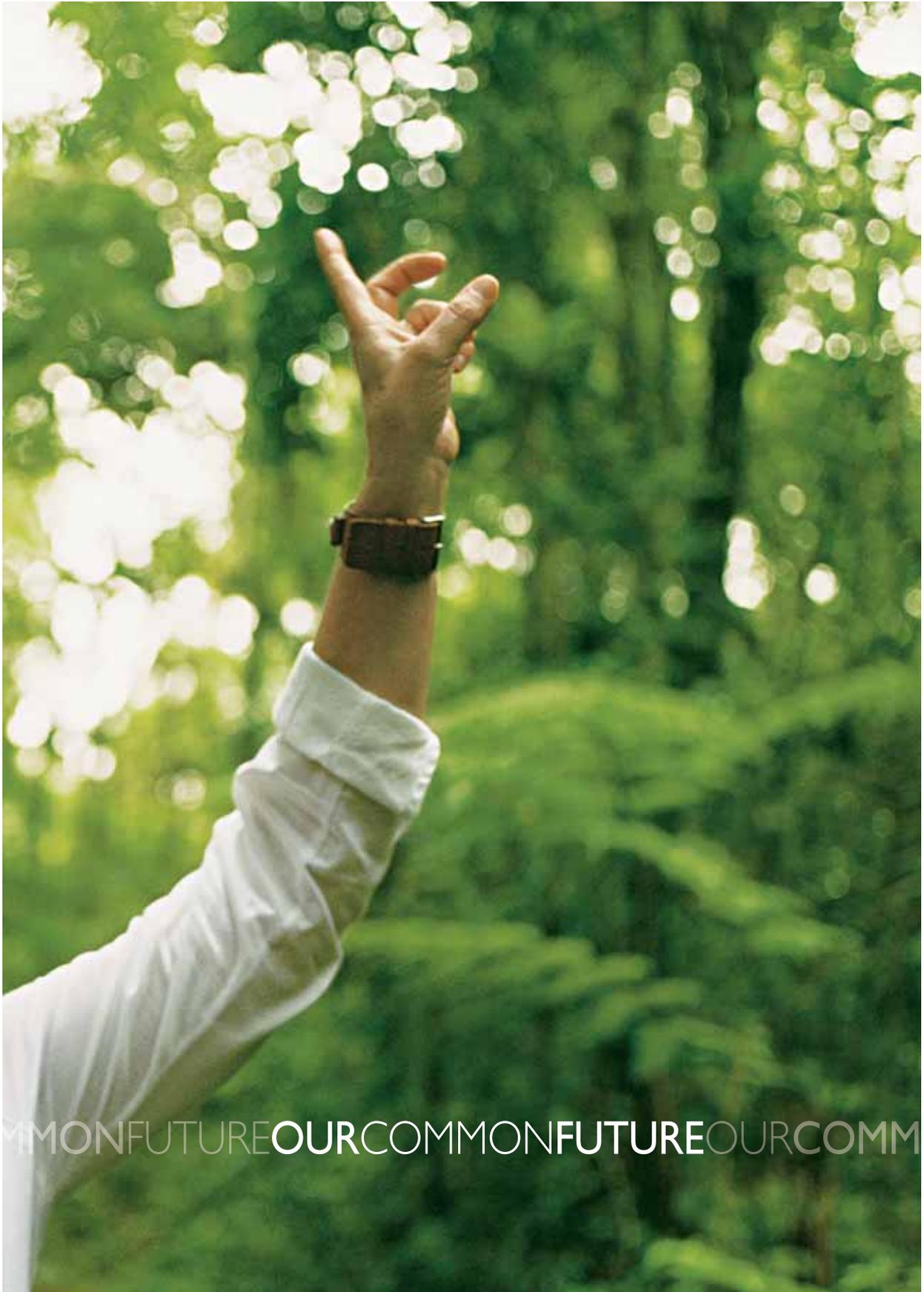




Surrounding  
Communities



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COMMON FUTURE OUR COMMON FUTURE OUR COMM



*Rosemeire Anastácio de Jesus,  
an inhabitant of Cajamar, embraces Mariluce Varalda*



“Natura is very important, both to Cajamar and to the existence of our organization. Mata Nativa [Native Forest] was the result of Natura coming to Cajamar.

Natura is our oldest and most important partner. Natura gives us free rein and really listens to us. We rely on Natura for the development of our projects that spread our values, such as respect for diversity, solidarity and the importance of citizen participation.

The way to reverse the deterioration of living conditions on the planet is precisely that of investing in citizenship and in citizen participation in community issues. It is even a question of need, because if the planet’s wealth is in the hands of a few, then everyone is in the same boat.”

**Mariluce Varalda,**  
founder and director of the  
NGO Mata Nativa, in Cajamar

Natura wants to be a part of the communities where it is present, and in addition to increasing economic and social development, it searches for measures that mitigate the socio-environmental impact caused by its operations. We try to have a positive influence on development in the communities where this impact is stronger, as agents searching for solutions for the future.

This is the case in the municipalities of Benevides in Pará, of Cajamar and Itapecerica da Serra in São Paulo. These are communities in which we develop and support the introduction of Agenda 21 - the action plan for sustainable development defined in the 2<sup>nd</sup> United Nations Conference on Environment and Development, ECO-92.

**2007 COMMITMENT  
TO INCREASE PURCHASES  
FROM LOCAL SUPPLIERS:**

- 25% FROM CAJAMAR
- 100% FROM ITAPECERICA DA SERRA
- 60% FROM BENEVIDES

**Purchases from Suppliers of Surrounding  
Communities (R\$ million)**

	2004	2005	2006
Cajamar	8.87	23.94	25.69
Itapecerica da Serra	1.70	0.27	0.55
Benevides <sup>(1)</sup>	N.A.	N.A.	0.44

*1. The operation in Benevides started in 2006.*

## Cajamar, São Paulo

In Cajamar, the adoption of Agenda 21 is under the leadership of a three-part group, comprised of representatives from private business, civil society and local government. In 2006, the group's main task was to heighten the community's awareness of the importance of its participation in forming the city's master plan, and then to mobilize that plan.

For nine months, in a process coordinated by the local Town Hall and with the support of the managing group, information and ideas were collected, organized and debated in all the districts. Approximately 1,300 people participated in the process, with countless suggestions. The result was a diagnosis of the demands of all the districts that should be included in preliminary drafts of the master plan, to be discussed in 2007.

Also worth note is the financing of a diagnosis of the municipal education network undertaken by the Education Planning and Research Laboratory of Unicamp, which defined the municipal education indicators to be used. In 2007, these indicators will be posted in high-traffic public locations so that the community can track them and suggest changes.

Another project that took shape in 2006 was the training of local entrepreneurs to eventually become suppliers for Natura. Three of them were already identified as potential suppliers: a taxi cooperative, a motoboy [delivery boy on motorbikes] cooperative, and a bakery of the Sítio Agar agency, which takes in HIV-positive children (GRI EC6).

## Itapecerica da Serra, São Paulo

In Itapecerica da Serra, Natura's activities take place in the Potuverá neighborhood where its facilities are located, with almost 10,000 inhabitants. There, we invest in social leadership training courses, in order to disseminate concepts from Agenda 21.

In cooperation with the Municipal Office of Planning and the Environment, we support the technical training of municipal managers of the municipal selective collection program, and the creation of the group that will make up the cooperative for door-to-door collection. In 2006, we also supported the training of 39 of the city's public schools that, monitored by a consulting firm specializing in the field, implemented selective trash collection and sustainable consumption projects.

## Benevides, Pará

In 2006, we opened the Benevides Industrial Facility in Pará, housing a soap factory and an oil extraction factory. That facility will produce a good part of the plant-based raw materials that we have used since 2005 to manufacture all our soap lines.

The Benevides soap factory has innovated in implementing sustainable development by choosing a business model that supports relationships with the communities, cooperatives and small-scale farmers that produce the resources it uses. This benefits close to 2,500 local producers in 21 of the surrounding municipalities. As the project progresses, we will gradually begin to directly acquire the fruits and seeds used in the manufacture of the plant-based raw material (GRI EC6).

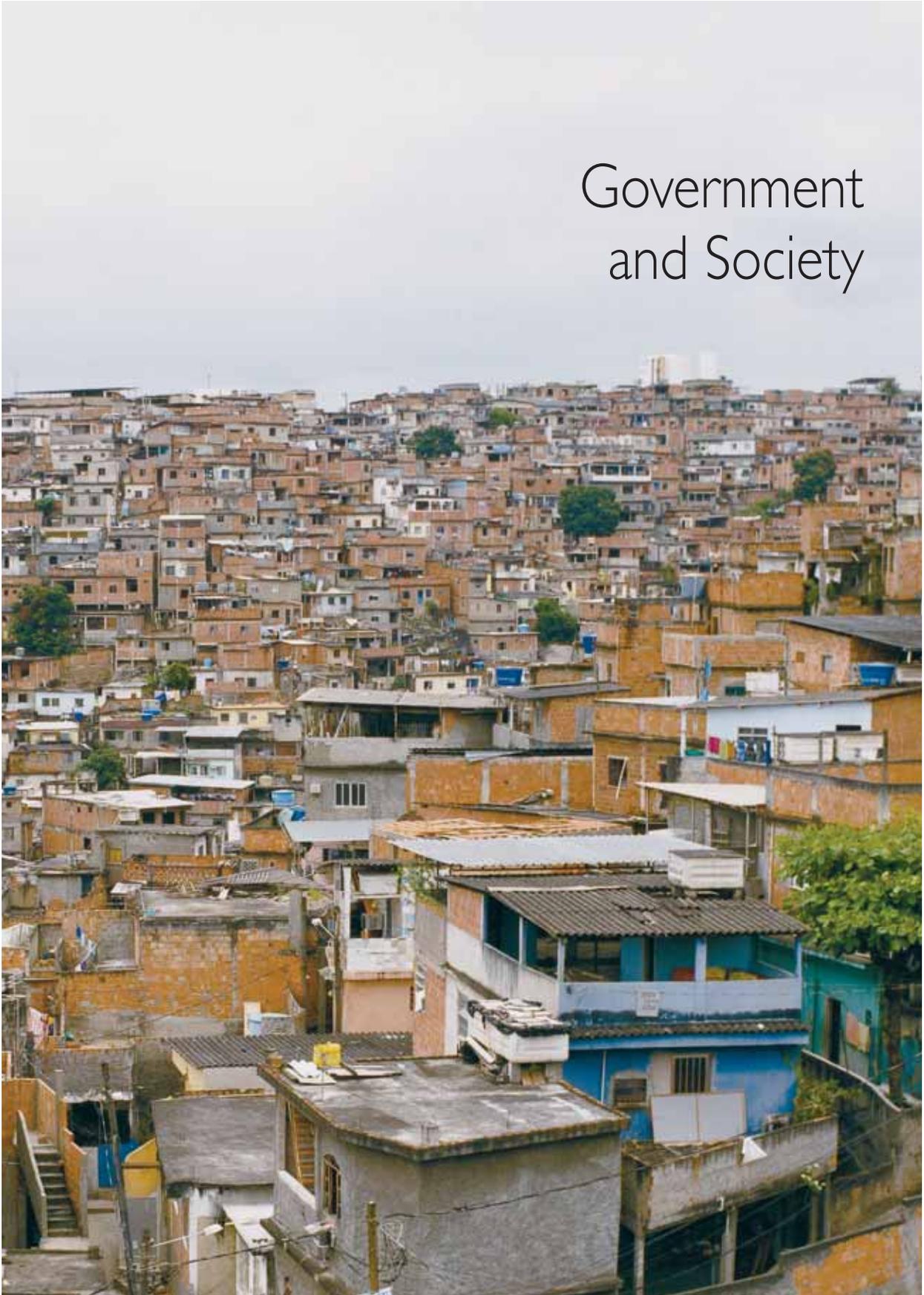
Its establishment supports our belief in sustainability and shows that it is possible to generate business in which all the parties benefit. The sustainable exploitation of native species will increase their cultivation and contribute to the preservation of these areas.

Good for the environment, good for our community and good for our business.





# Government and Society





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“Our partnership with Natura is less than one year old, but it has been very productive and synergetic. We’re learning with Natura and helping Natura better understand the social transformation processes of youths in the favelas [slums] and surrounding areas, which is our focus throughout Brazil.

Natura is the private company that seems most like an NGO in Brazil, and as we want to transform AfroReggae into a socially minded company, we are sensing that Natura’s model, even though it is for-profit and ours isn’t, is the best model for us.

The violence that ravages our country is a reflection of the lack of investment in the lives of individuals and communities. By investing in people and communities, Natura does its part to make things better.”

**José de Oliveira Júnior,**  
executive coordinator of AfroReggae



## Government

Natura maintains an ethical and transparent relationship with all spheres of power, and is a signatory of documents and agreements that promote ethics in relationships between business and government. In 2006, we released our Corporate Policy of Financial Contributions to Parties and Candidates, which prohibits the destination of any financial resource or the like to parties or candidates, during and outside the electoral period. Instead, we decided to use funds to create and promote citizenship programs such as the Responsible Vote campaign, which targets employees, consultants and other publics with which we have relationships (GRI SO6).

Although we have not yet published our policies on corruption, graft and lobbying, we operate strictly within current legislation. In 2006, no complaints or incidents involving corruption, receipt or payment of bribes, misconduct or conflict of interest in the exercise of influence by any governmental entity were filed in relation to Natura (GRI SO4 and GRI SO5).

The Governmental Relations area is the established channel of dialogue, and our agenda includes topics of both direct interest and large-scale social interest, such as the sustainable use of biodiversity and the distribution of profits resulting from its use.

This year we maintained our excellent relationship with the Genetic Heritage Management Council (CGen), which is an important agent in creating the regulatory framework on biodiversity, and we made our perspective regarding Brazilian legislation on this issue clear: it is still inconsistent and important changes remain to be made. Natura upholds the principles of the Biodiversity Convention and specifies its position in favor of legislative changes in its dialogues with the government and with society.

To increase industry and sector competitiveness, we participated in discussions of specific issues that are related to our business through our associations with sector entities, such as the Brazilian Association of the Cosmetics, Toiletries and Fragrance Industry (ABIHPEC) and the Brazilian Direct Sales Association (ABEVD).

## Society

### 2006 COMMITMENT

TO OBTAIN 15,000 RE-ENROLLMENTS IN YOUTH AND ADULT EDUCATION (EJA) BY MEANS OF THE CONSULTANT MOBILIZATION CAMPAIGN.

### GOAL ACHIEVED

WE EXCEEDED ALL EXPECTATIONS AND OBTAINED 21,847 RE-ENROLLMENTS AND 57,089 NEW ENROLLMENTS, FOR A TOTAL OF 78,936.

Natura believes that the value and longevity of companies is related to their ability to contribute to the evolution of society and its sustainable development. In 2006, in fulfilling our role of an agent of social transformation, we continued to develop several projects that have social impact.

## Education

The major highlight was the Youth and Adult Education campaign (EJA)\*, which was developed in partnership with the Ministry of Education, and which reached the milestone of more than 140,000 enrollments and re-enrollments in public schools nationwide in the last two years. The success of this mobilization led to the development of another program, the Incentive to Read Project.

Developed in partnership with the NGOs Ação Educativa and Alfabetização Solidária, and Centro de Estudos e Pesquisas em Educação, Cultura e Ação Comunitária, through the PIL this initiative made 50 literary titles available to 1,500 public schools attended by students enrolled in the EJA.

Mention should also be made of two teacher-training projects. "Em Cada Saber um Jeito de Ser" is developed by the Regional Institute for Appropriate Small Farming and Animal Husbandry. It directly benefits 160 teachers and indirectly benefits more than 3,700 students in the Bahian cities of Sento Sé, Senhor do Bonfim and Filadélfia.

“Roda Gaúcha” is developed by the Center for Protection of Children’s and Adolescents’ Rights of Ijuí, directly benefiting 235 teachers and indirectly benefiting 2,200 students in the state education network of Ijuí (RS).

In the field of higher education, the highlight is Natura’s support of the Ecological Research Institute (Ipê) in creating and implementing a school to train leaders in environmental conservation and sustainability. Located in Nazaré Paulista, in São Paulo, the institution will offer Masters degree-level courses in the areas of conservation of biodiversity and sustainable development.

\*See also the *Consultants section*.

## Crer para Ver [Believing is Seeing]

The voluntary sale of products under the Crer para Ver Program reached R\$ 5.4 million in 2006, growth of 76.9% over 2005. Aside from the EJA projects, funds were invested in primary and middle school teacher-training projects, including the “Chapada Project.”

The project directly benefits 378 education directors, supervisors and coordinators in primary and middle school education, who disseminate this knowledge to a network of 5,000 teachers and 118,000 students in the public schools in 27 municipalities of the Chapada Diamantina region in Bahia.

Also within the scope of Crer para Ver, the second edition of the “Crer para Ver – Inovando a EJA” award was launched, which recognizes initiatives that help improve the quality of the EJA. Of the 84 projects submitted from various parts of the country, the following were awarded: “Leitura e Informação” from Tocantins; “Ler para Ver” from Paraná; and “O Tema Gerador no Ensino de EJA” from São Paulo.

## Sponsorships

In the cultural arena we chose to support initiatives that provide visibility to Brazil’s musical heritage. Natura Musical is a cultural sponsorship program that identifies, supports and highlights actions that represent the quality and diversity of Brazilian music. This is the music that is sent out to the world, valuing our roots and our way of being.

Sponsorships occur with the use of funds coming from tax incentives, and projects are selected by means of

public bidding procedures, which are overseen by an independent commission. In 2006, 23 projects were sponsored, bringing to 60 the total number of projects included since the start of the program.

Sponsorship of the tour “Nenhum Motivo Explica a Guerra,” of the group AfroReggae, was the main highlight during the year. The project traveled through seven Brazilian capital cities, and in addition to the shows, it included workshops in percussion, theater, street basketball, graffiti and a circus for the police, needy and middle-class children.

In the area of sustainable development, we prioritize initiatives that stimulate the creation of jobs and income, and that promote the protection of degraded areas and threatened species. In 2006, Natura signed a program sponsorship agreement with ARPA to protect 500,000 square kilometers of the Amazon forest in Brazil through actions to expand the infrastructure of already-existing conservation units and to create new conservation units.

Created in 2003, ARPA is a program of the Ministry of the Environment (MMA) that was implemented by the Brazilian Environmental Institute and Renewable Natural Resources (Ibama) and by the state and municipal governments of Amazônia, with support from the Global Environment Fund (GEF), the World Bank, KfW (German Development Bank), WWF-Brasil, the Brazilian Biodiversity Fund (Funbio), GTZ (German Cooperation Agency) and from civil society organizations.

### ON-LINE CONTENT

For additional information about Natura’s relationship with the government and society, go to:

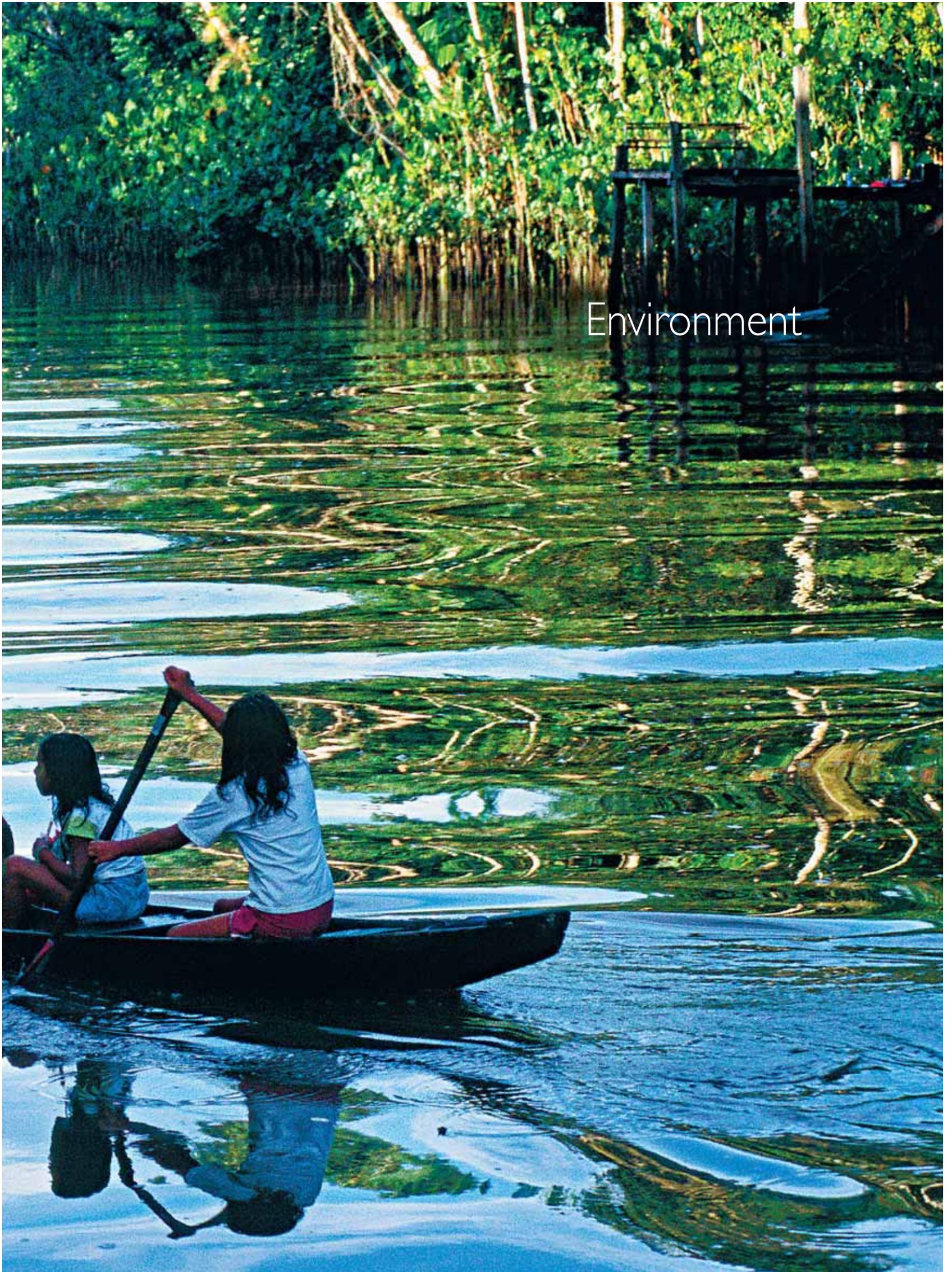
[www.natura.net/relatorio/governosociedade](http://www.natura.net/relatorio/governosociedade)

See International Operating indicators at [www.natura.net/relatorio/country](http://www.natura.net/relatorio/country), example: [www.natura.net/relatorio/argentina](http://www.natura.net/relatorio/argentina)

Other projects sponsored and supported by Natura in 2006 • Representations in entities of distinction and associations • **GRI EC4** Significant financial aid received from government • **GRI SO7** Unfair competition • **GRI SO8** Non-compliance with laws and regulations • Relationships with Society – Conferences held in 2006 • Natura Campaign Donation Policy.

See additional information at [www.natura.net/patrocínio](http://www.natura.net/patrocínio)





Environment

As an environmentally responsible company, Natura seeks to minimize its activities that could potentially harm the environment, and to disseminate the practices and knowledge it has acquired in the experience of environmental management to other companies. Our environmental policy includes responsibility toward future generations, environmental education, and management of the life cycle of products and services, inputs and waste.

Inside our factories and offices, management of quality and the environment is handled jointly by the Natura Regulatory Integrated System (SINN). The system includes aspects of management that were developed based on ISO 9001:2000 and ISO 14001:2004 standards, in criteria of excellence of the National Quality Foundation (FNQ), and on best market practices. In 2006, our ISO 9001 and 14001 certifications were maintained.

In its use of biodiverse Brazilian assets, as one of its business strategies Natura opted to invest in a platform of products based on the sustainable use of natural resources and on valuing regional and local cultural traditions – the Ekos line. It was using this approach that in 2006 we signed ground-breaking agreements with the Association of Herb Gatherers of the Ver-o-Peso Market and the Association of Producers of Boa Vista, of Acará, both in Pará, and we became the first Brazilian company to offer remuneration for widespread traditional knowledge.



## Biodiversity

### 2006 COMMITMENT

TO INCLUDE SIX ASSETS IN PHASE 3 OF THE CERTIFICATION PROCESS.

### GOAL ACHIEVED

THE FOLLOWING WILL GO TO PHASE 3: LEMON GRASS, CHAMOMILE, BURITI, COFFEE, CUMARU AND PRIPRIOCA. WE NOW HAVE 22 ASSETS THAT HAVE BEEN CERTIFIED, OR 63% OF THE TOTAL OF 35 NATIVE OR EXOTIC SPECIES THAT WE USE.

### 2007 COMMITMENT

TO INCLUDE FOUR MORE ASSETS IN PHASE 3 AND OBTAIN CERTIFICATION FOR 74% OF THE BIODIVERSE ASSETS THAT WE USE.

The sustainable use of biodiversity, based on reducing the imbalance between the degree of exploitation of natural resources and their regeneration capacity, is one of the guiding environmental principles of Natura. To guarantee that the inputs coming from Brazilian flora are extracted in an environmentally correct and socially just way in the locations of origin of each raw material, we created the Asset Certification Program, which promotes sustainable forest management and cultivation in the areas of native forests and plants, in accordance with standards of excellence approved worldwide.

Forest management is certified in accordance with the principles and criteria of the Forest Stewardship Council (FSC). Agricultural management is certified in accordance with the principles and criteria of the Sustainable Agriculture Network (SAN) and of the Biodynamic Institute. The certification process for the latter has three phases.

In addition to acting as a reliability indicator for the market, the Certification Program is an important mechanism for creating citizenship by valuing the inclusion of groups of family farmers and traditional communities in the chain of partners and suppliers. Thus, we create alternatives for inclusion of this public in the business chain, generating income and stimulating local organization (GRI EN12).

These partners are distributed throughout various regions of Brazil. Some live in areas protected by the National System of Conservation Units, such as two extractive communities in the Amazon, namely São Francisco, in the Iratapuru Sustainable Development State Reserve in Amapá, and the communities of the Médio Juruá Extractive Reserve in Amazonas (GRI EN13).

In order to guarantee that suppliers honor these sustainability principles, Natura supports the development and introduction of organic and biodynamic production models, sustainable agriculture and agroforest systems. All of them use techniques that can help increase soil fertility and preserve biodiversity, such as the ecological management of plagues and diseases, crop rotation, traditional management, use of green fertilization and intercropping (GRI EN14).

Natura has various inputs and assets in its product lines that come from Brazil's biodiverse assets, including the Brazil nut and maté, which are on the list of species threatened with extinction by IBAMA and by The World Conservation Union (IUCN). Both species are acquired by Natura in areas certified by the FSC that comply with legal requirements, company and worker relationships and environmental impacts. Moreover, we developed a specific project to study the conservation of these species, in partnership with the Brazilian Agricultural Research Corporation (EMBRAPA) (GRI EN15).

#### Certifications

	2005	2006
Total Assets Certified	16	22
Percentage of total species certified	46%	63%

## Greenhouse Gases

In fulfillment of our commitment stated in the last Annual Report, in 2006 we implemented the Natura Greenhouse Gas System. The system records emissions, identifies opportunities to reduce gases from the supply chain to final disposal, and manages action plans. This gives us one more tool to continue to reduce impacts from our operation. Thus, we have taken on the commitment to make Natura's operations carbon-neutral by 2008.

A multidisciplinary group prepared the annual emissions balance sheet. The principal results appear below (GRI EN16 and GRI EN17).

	2004 <sup>(2)</sup>	2005	2006
Total CO <sub>2</sub> e emissions (tons) <sup>(1)</sup>	N.A.	107,525	120,492

1. CO<sub>2</sub>e (or CO<sub>2</sub> equivalent): measurement used to compare greenhouse gas emissions based on each one's global warming potential.

2. Natura's Inventory of Greenhouse Gas Emissions was formulated in 2005; thus, data from 2004 are not available.

### 2006 COMMITMENT

TO IMPLEMENT THE NATURA GREENHOUSE GAS SYSTEM.

### GOAL ACHIEVED

SYSTEM IMPLEMENTED BASED ON THE SCOPE OF THE 2004 GREENHOUSE GAS PROTOCOL.

### 2007 COMMITMENT

TO COMPLETE THE INVENTORY OF EMISSIONS IN ALL OUR PROCESSES AND IMPLEMENT A PLAN FOR US TO BECOME CARBON-NEUTRAL BY 2008.

The increase of emissions in 2006 is primarily due to the expanded scope of the inventory, which started including suppliers not inventoried in 2005, new facilities operating in Brazil and international operations. The increase is also due to the 17% growth in number of units sold – which increases both the emissions of the productive processes and the final disposal of products. However, some suppliers implemented improvements in their processes, which helped to reduce emissions from the supply chain.

### Percentage of CO2e – by Activity



(\*) Fixed sources, exportation, business trips, treatment of effluents

## Environmental Impact of Products

Since 2003, Natura has analyzed the environmental aspects of its packaging by means of an assessment that considers all the life-cycle stages (ACV) of packaging materials, from the extraction of natural resources to final disposal. In 2006, we progressed in how we monitor the indicator: we started dividing the environmental impact of packaging by its content.

In 2006, with the help of the entire supply chain, we gathered a great deal of information about the raw materials used by Natura. With this information we were able to calculate new environmental performance indicators for all the items in our portfolio, complementing the life cycle analysis in the product development process.

We are also committed to decreasing environmental impacts calculated by the weighted average of products sold. The average environmental impact of packaging by quantity of product dropped 7% compared to 2005. In this analysis we considered all the products sold in 2006 and our principal support materials, such as *Revista Natura*, Cardboard Boxes and Samples. (GRI EN26)

	2004	2005	2006
Environmental impact of packaging by quantity of product (mPt/kg)	N.A.	89.3	83.2

Also in 2006, we created a pilot project to encourage Consultants to start collecting packaging from their clients in 2007, and to send it to recycling cooperatives on collection trucks that have partnered with Natura. Thus, in addition to reducing environmental impact, we will foster social inclusion and the generation of income (GRI EN27).

### 2007 COMMITMENT

STARTING IN THE SECOND HALF OF THE YEAR, INCLUDE A TABLE WITH ENVIRONMENTAL DATA ON THE PRODUCTS IN ALL LAUNCHES AND NEW PACKAGES.

## Refills

In yet another ground-breaking initiative, in 1983 Natura began to sell refills, whose average mass is almost 54% less than that of regular packaging. Since that time, 2,200 fewer tons of packaging have been placed in the market. Consultants were extremely committed to the refill sale campaign, which is part of Movimento Natura, and is an important incentive for the purchase of these products.

#### 2006 COMMITMENT

TO INCREASE THE PERCENTAGE OF REFILLS ON ITEMS SOLD IN ALL OPERATIONS.

#### GOAL NOT REACHED

DESPITE THE INCREASE IN ALL THE OPERATIONS, CHILE AND MEXICO DID NOT REACH THE GOALS ESTABLISHED.

#### 2007 COMMITMENT

TO INCREASE THE PERCENTAGE OF REFILLS ON ITEMS SOLD IN THE BRAZIL OPERATION TO 20%.

## Environmental Impact of Transport

Because of the environmental impact from our logistical processes, Natura decided to certify its carriers to monitor their emission of greenhouse gases. Through QLICAR, carriers are assessed and scored on several aspects, such as the upkeep of vehicles and fuel use.

In 2006, we implemented a project to convert the fuel in the fleet of Transportadora Dias, our partner servicing the region of the capital of São Paulo. The fuel of its small-capacity vehicles was converted from gasoline to natural gas (95%) and alcohol (5%) (GRI EN29).

Refill Percentage on Items Sold (%)

	2004	2005	2006
Brazil	15.3	17.4	19.8
Argentina	14.3	14.8	17.1
Chile	2.2	4.4	9.0
Mexico <sup>(1)</sup>	N.A.	5.8	7.9
Peru	7.9	12.5	15.5
France <sup>(1)</sup>	N.A.	8.2	19.5

1. Operations in Mexico and France began in 2005.



## Use of Water and Effluents

Natura's management of water use is based on systematic measurements taken by water meters, mass balance and weekly reports to the parties responsible for usage. Despite the commitment by the user areas and the monitoring of action plans by upper management, we did not achieve the goals established.

This discrepancy is partially due to factors such as the 3.2% growth of the production volume, changes in the mix of products and the learning curve for the factory's new water purification system. These same factors also contributed to our not reaching the goal of reducing the volume of water not included in the product.

**2006 COMMITMENT**  
TO ACHIEVE TOTAL WATER USE  
OF 138,540 CUBIC METERS.

**GOAL NOT REACHED**  
TOTAL WATER USE REMAINED  
2.4% ABOVE THE GOAL.

**2006 COMMITMENT**  
TO REDUCE THE PERCENTAGE OF  
THE VOLUME OF WATER NOT USED  
IN THE PRODUCT TO 87%.

**GOAL NOT REACHED**  
THE VOLUME OF WATER NOT INCLUDED  
IN THE PRODUCT REMAINED 1.5% ABOVE  
THE GOAL.

**2007 COMMITMENT**  
TO USE A MAXIMUM TOTAL VOLUME  
OF 150,042 CUBIC METERS OF WATER.

The measures adopted to reduce consumption include not only the installation of more water meters to monitor use more closely, but also several projects to obtain optimum use of water in sanitary and factory equipment cleanings. During the year we established the reuse water project in Itapecerica da Serra, and we obtained authorization to water the gardens of Cajamar with recycled water.

### Water Use (m<sup>3</sup>) (GRI EN8)

	2004	2005	2006
Total water use	116,367	136,677	141,883

**Note:** An increase of 52 m<sup>3</sup>/day to 160 m<sup>3</sup>/day was authorized at the Itapecerica site.

### Total Water Reuse and Recycling (GRI EN10)

	2004	2005	2006
Recycled and reused water (m <sup>3</sup> )	29,065	48,760	40,209
Percentage of total reused water treated in effluent treatment station	39.5%	55%	42%

	2004	2005	2006
Water not included in the product (%)	90.2%	89.1%	88.5%

### Significant Discharges in Water (m<sup>3</sup>) (GRI EN21)

	2004	2005	2006
Total volume of effluents treated	82,786	93,402	101,740

## Energy

Using specific software, the energy use management system consolidates data gathered from various measurement methods. In addition to energy use itself, there is also information on demand, power and voltage, among others. With this tool, data on energy use can be given to the responsible parties to achieve the goals. The use of LPG and diesel are also monitored by meter readings.

**2007 COMMITMENT**  
TO CONSUME THE MAXIMUM TOTAL  
VOLUME OF 129.3 X 10<sup>12</sup> KJOULES  
OF ENERGY.

In 2006, actions to reduce energy use included the installation of solar energy equipment in Cajamar for heating water in the factories' restaurant and dressing rooms. For 2007, we will develop studies and projects for the use of liquefied natural gas in various internal services, as well as biodiesel in generators and firewood in furnaces (GRI EN5).

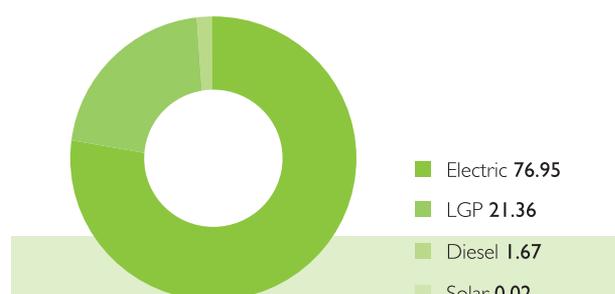
In 2006, we focused efforts on internal manufacturing processes to minimize the creation of waste at the source, with a focus on the reduction of four-fold materials, such as boxes from suppliers. We also replaced the assembly system and the type of box we use to send products to Consultants; with this measure, we reduced the use of material and thus waste by 10 tons/month.

### Direct Energy Consumption, Broken Down by Sources (Joules)<sup>(1)</sup> (GRI EN3)

	2004	2005	2006
Primary-source electricity	79.0 × 10 <sup>12</sup>	89.6 × 10 <sup>12</sup>	99.4 × 10 <sup>12</sup>
Self-generated electricity (diesel generator)	0.29 × 10 <sup>12</sup>	0.44 × 10 <sup>12</sup>	1.51 × 10 <sup>12</sup>
Diesel oil used in generators	0.99 × 10 <sup>12</sup>	1.51 × 10 <sup>12</sup>	2.48 × 10 <sup>12</sup>
LPG consumption	24.6 × 10 <sup>12</sup>	28.1 × 10 <sup>12</sup>	29.8 × 10 <sup>12</sup>
Use of solar energy (GRI EN5)	-	13.68 × 10 <sup>9</sup>	19.96 × 10 <sup>9</sup>

1. Consumption by facilities in Itapeperica da Serra and Cajamar, Brazil.

### Energy Breakdown – Natura Group (%)



## Waste

In waste management, Natura assesses its performance in accordance with quantitative and qualitative goals. The indicator of the quantitative goal is the percentage of material loss in relation to the total waste discarded in the environment. The qualitative goal is linked to the percentage of waste recycled.

### 2006 COMMITMENT

TO ACHIEVE A SOLID MATERIAL LOSS PERCENTAGE OF 8.5%.

### GOAL NOT REACHED

EVEN WITH AN INCREASE OF 3.2% ABOVE THE GOAL IN THE VOLUME OF FACTORY PRODUCTION IN CAJAMAR, WE OBTAINED A REDUCTION OF 8.2% IN MATERIAL LOSSES COMPARED TO THE PREVIOUS YEAR.

### 2006 COMMITMENT

TO INCREASE THE WASTE RECYCLING RATE TO 85%.

### GOAL NOT REACHED

THE RATE ACHIEVED WAS 84.1%.

### 2007 COMMITMENT

TO INCREASE THE PERCENTAGE OF WASTE RECYCLED TO 87%.

### Total Quantity of Waste by Type (ton)<sup>(1)</sup> (GRI EN22)

	2004	2005	2006
Class I	815.14	1,151.27	1,323.05
Class II-A <sup>(2)</sup>	3,145.64	4,000.57	4,556.84
Class II-B	494.26	824.09	951.52

1. According to NBR 10,004/2004: Class I Waste: hazardous waste (obsolete cosmetic products, medical and laboratory waste and alcohol); Class II – A Waste: non-inert waste (physico-chemical and biological sludge from ETS, paper, cardboard, sweeping waste, organic waste and household waste); Class II – B Waste: inert waste (glass, metals, plastics and debris).

2. The figures for 2004 and 2005 reported in previous editions were incorrect due to measuring problems, but have now been corrected.

The reduction of waste incinerated and taken to landfills has been an ongoing focus of our actions to improve waste management. We have been searching for waste recycling alternatives that include not only waste processing, but also its reuse in other processes, including composting and co-processing.

#### Final Destinations (%)<sup>(1)</sup>

	2004	2005	2006
Incinerated	5.43	2.82	1.88
Disposed of in landfill	21.20	16.09	13.99
Recycled	73.41	81.09	84.13

1. The drop in waste incinerated and taken to landfills has been the ongoing focus of actions to improve waste management, involving the search for waste recycling alternatives that include not only waste treatment but also its reuse in other processes.

In 2007, in addition to Cajamar and Itapecerica da Serra, we will bring solid waste management to all of Natura's facilities.

#### Percentage of Solid Material Loss<sup>(1)</sup>

	2004 <sup>(2)</sup>	2005	2006
Percentage of solid material loss	N. A.	9.5%	8.7%

1. The percentage of solid material loss is the relative quantity of the total of solid materials that the company acquires and that is considered to be waste at the end of the production process.

2. This indicator was recently monitored.

#### Total consumption of materials by type (except water) (GRI EN1)

Consumption of materials	2004	2005	2006
Kilos	19,776,023	25,005,092	19,025,330 <sup>(1)</sup>
Liters	7,956,295	8,860,798	9,286,746 <sup>(2)</sup>

1. The drop in kilos in the consumption of materials despite an increase in sales was due to outsourcing part of the production at the shampoo factory.

2. The increase of consumption in liters is due to the growing increase of sales, especially of perfumes.

## Non-Business Initiatives

In 2006, we introduced the management plan to reestablish natural vegetation in Itapecerica da Serra and Cajamar. In the forest reserve of Itapecerica da Serra, 15,000 square meters (m<sup>2</sup>) in size, we replaced eucalyptus and pine trees with native trees of the region, such as pepper trees, jatobá trees (*hymenaea courbaril*), cedar trees and yellow ipê trees.

Hoping to re-establish the original composition of the Atlantic Rain Forest, we began to replace exotic trees and eucalyptus trees with native vegetation on the 130,000 m<sup>2</sup> reserve that we maintain in Cajamar.

#### ON-LINE CONTENT

For additional information about Natura's relationship with the environment, go to:

[www.natura.net/relatorio/meioambiente](http://www.natura.net/relatorio/meioambiente)

See International Operating indicators at [www.natura.net/relatorio/country](http://www.natura.net/relatorio/country), for example: [www.natura.net/relatorio/argentina](http://www.natura.net/relatorio/argentina)

Environmental Policy • **GRI EN28** Environmental Compliance • Certification phases for biodiverse assets • **GRI EN11** Areas owned, leased or managed with biodiversity-rich habitats • Official stance on being carbon-neutral • **GRI EN18** Initiatives to reduce gas emissions • **GRI EC2** Risks and opportunities of climate changes • **GRI EN19** Emissions of ozone-depleting substances • **GRI EN20** NO<sub>x</sub>, SO<sub>x</sub> and other significant air emissions • **GRI EN2** Percentage of materials used that are recycled • **GRI EN9** Water sources affected • **GRI EN23** Number and volume of spills • **GRI EN25** Biodiversity of bodies of water • **GRI EN4** Indirect energy use • **GRI EN7** Initiatives to reduce indirect energy use • **GRI EN6** Initiatives to provide energy-efficient products and services • **GRI EN24** Waste transported.



Espuma de Banho

Prípruoca,  
Lava

natura  
EKOS

natura  
polpa de banho cremosa  
para o corpo  
polpa de baño cremosa  
para el cuerpo  
EKOS  
Prípruoca  
200g

natura  
EKOS

# Financial Statements

## Natura Cosméticos S.A.

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

In compliance with legal and statutory rules, we are submitting the balance sheets and financial statements for the years ended December 31, 2005 and December 31, 2006 for your review. In addition to the information contained in the explanatory notes, company management is available to provide any further clarifications.

### Balance Sheets

As of December 31, 2006 and 2005  
(In thousands of Brazilian reais - R\$)

ASSETS	Company		Consolidated	
	2006	2005	2006	2005
<b>CURRENT ASSETS</b>				
Cash and banks	43,176	38,882	65,293	56,198
Cash investments (Note 5)	90,186	237,084	209,863	330,241
Trade accounts receivable (Note 6)	356,181	302,688	374,168	316,264
Inventories (Note 7)	28,659	835	237,091	152,307
Recoverable taxes (Note 8)	1,517	508	38,687	23,967
Advances to employees and suppliers	9,939	3,312	12,705	5,331
Related parties (Note 10)	7,140	4,850	-	-
Deferred income and social contribution taxes (Note 9.a)	17,860	16,404	32,236	25,757
Other receivables	8,462	8,160	20,535	14,799
<b>Total current assets</b>	<b>563,120</b>	<b>612,723</b>	<b>990,578</b>	<b>924,864</b>
<b>NONCURRENT ASSETS</b>				
Long-term assets:				
Receivables from shareholders (Notes 10.f. and 19.b.)	20	130	20	130
Advance for future capital increase (Notes 10.d. and 10.e.)	590	1,007	-	-
Recoverable taxes (Note 8)	1,990	1,432	20,981	9,574
Deferred income and social contribution taxes (Note 9.a.)	20,692	17,680	35,809	29,324
Escrow deposits (Note 16)	193	-	250	-
Advances to suppliers	1,639	-	2,715	-
Other receivables	-	-	557	526
Cash investments (Notes 5 and 16.i.)	-	-	4,336	3,968
Permanent assets:				
Investments (Note 11)	707,422	516,929	630	8
Property, plant and equipment (Note 12)	26,190	14,415	471,901	348,911
Intangible assets (Note 12)	3,550	3,259	25,034	22,126
<b>Total noncurrent assets</b>	<b>762,286</b>	<b>554,852</b>	<b>562,233</b>	<b>414,567</b>
<b>TOTAL ASSETS</b>	<b>1,325,406</b>	<b>1,167,575</b>	<b>1,552,811</b>	<b>1,339,431</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	Company		Consolidated	
	2006	2005	2006	2005
<b>CURRENT LIABILITIES</b>				
Loans and financing (Note 14)	45,052	44,942	75,888	68,309
Domestic suppliers	48,679	38,070	208,739	148,045
Foreign suppliers	-	-	5,518	4,869
Suppliers - related parties (Note 10)	168,927	124,241	-	-
Salaries, profit sharing and related charges (Note 17)	34,229	30,074	88,718	72,328
Taxes payable (Note 15)	80,490	75,536	95,672	89,125
Dividends (Notes 10 and 19.d.)	213,813	195,070	213,813	195,070
Interest on capital (Notes 10, 19.c. and 19.d.)	-	17,699	-	17,699
Accrued freight	18,805	13,786	18,944	13,786
Sundry accruals	2,726	8,863	3,739	9,026
Other payables	17,130	12,780	18,522	13,564
Allowance for losses on swap and forward transactions (Notes 22.b. and 22.d.)	1,993	2,703	2,185	2,703
<b>Total current liabilities</b>	<b>631,844</b>	<b>563,764</b>	<b>731,738</b>	<b>634,524</b>
<b>NONCURRENT LIABILITIES</b>				
Loans and financing (Note 14)	28	44,290	127,077	119,156
Allowance for losses on subsidiaries (Note 11)	4,565	4,202	-	-
Reserve for tax, civil and labor contingencies (Note 16)	34,775	30,253	49,093	61,122
Other payables	3,219	1,806	4,348	3,232
<b>Total noncurrent liabilities</b>	<b>42,587</b>	<b>80,551</b>	<b>180,518</b>	<b>183,510</b>
<b>MINORITY INTEREST</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>8</b>
<b>SHAREHOLDERS' EQUITY (NOTE 19)</b>				
Capital (Note 19.a.)	233,862	230,762	233,862	230,762
Capital reserves (Notes 19.b. and 19.f.)	134,867	120,678	134,867	120,678
Profit reserves (Notes 19.g. and 19.h.)	282,480	172,589	272,056	170,718
Treasury shares (Note 19.e.)	(234)	(769)	(234)	(769)
<b>Total shareholders' equity</b>	<b>650,975</b>	<b>523,260</b>	<b>640,551</b>	<b>521,389</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,325,406</b>	<b>1,167,575</b>	<b>1,552,811</b>	<b>1,339,431</b>

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

## Statements of Income

For the Years Ended December 31, 2006 and 2005

(In thousands of Brazilian reais - R\$, except for earnings per share)

	Company		Consolidated	
	2006	2005	2006	2005
<b>GROSS SALES</b>				
Domestic market	3,731,862	3,127,462	3,754,968	3,149,654
Foreign market	-	-	133,604	92,616
Other sales	1	1	1,388	1,341
<b>GROSS OPERATING REVENUES</b>	<b>3,731,863</b>	<b>3,127,463</b>	<b>3,889,960</b>	<b>3,243,611</b>
Taxes on sales, returns and rebates	(837,107)	(721,114)	(1,132,973)	(961,447)
<b>NET OPERATING REVENUES</b>	<b>2,894,756</b>	<b>2,406,349</b>	<b>2,756,987</b>	<b>2,282,164</b>
Cost of sales	(1,161,087)	(960,012)	(891,317)	(731,134)
<b>GROSS PROFIT</b>	<b>1,733,669</b>	<b>1,446,337</b>	<b>1,865,670</b>	<b>1,551,030</b>
<b>OPERATING (EXPENSES) INCOME</b>				
Selling	(730,986)	(606,509)	(885,749)	(722,474)
General and administrative	(442,924)	(316,767)	(330,845)	(260,545)
Employees profit sharing (Note 17)	(11,866)	(11,209)	(37,353)	(28,577)
Management compensation	(8,569)	(7,467)	(12,385)	(12,289)
Equity in subsidiaries (Note 11)	28,229	(6,741)	-	-
Other operating expenses, net	(1,514)	(3,640)	(388)	(5,535)
<b>INCOME FROM OPERATIONS BEFORE FINANCIAL EFFECTS</b>	<b>566,039</b>	<b>494,004</b>	<b>598,950</b>	<b>521,610</b>
Financial income (Note 23)	26,707	31,470	43,391	54,714
Financial expenses (Note 23)	(13,239)	(11,800)	(33,453)	(43,453)
<b>INCOME FROM OPERATIONS</b>	<b>579,507</b>	<b>513,674</b>	<b>608,888</b>	<b>532,871</b>
Nonoperating income (expenses), net	688	(212)	909	(1,242)
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>580,195</b>	<b>513,462</b>	<b>609,797</b>	<b>531,629</b>
Income and social contribution taxes (Note 9.b.)	(110,869)	(116,105)	(149,023)	(134,747)
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>469,326</b>	<b>397,357</b>	<b>460,774</b>	<b>396,882</b>
Minority interest	-	-	(1)	(1)
<b>NET INCOME</b>	<b>469,326</b>	<b>397,357</b>	<b>460,773</b>	<b>396,881</b>
<b>EARNINGS PER SHARE - R\$<sup>(*)</sup></b>	<b>1.0978</b>	<b>0.9349</b>	<b>1.0778</b>	<b>0.9338</b>

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

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

## Statements of Changes in Shareholders' Equity (Company)

For the Years Ended December 31, 2006 and 2005

(In thousands of Brazilian reais - R\$, except for the dividends and interest on capital per share)

	Capital	Capital reserves			Profit reserves			TOTAL
		Treasury shares	Share premium	Investment grants	Legal	Retention	Retained earnings	
<b>BALANCES AS OF DECEMBER 31, 2004</b>	<b>230,762</b>	<b>(3,655)</b>	<b>105,673</b>	<b>9,998</b>	<b>18,650</b>	<b>76,024</b>	<b>-</b>	<b>437,452</b>
Sale of treasury shares by exercise of stock options (Note 19.e.)	-	337	4,537	-	-	-	-	4,874
Payment of receivables from shareholders (Note 19.b.)	-	2,053	249	-	-	-	-	2,302
Tax incentives	-	-	-	717	-	-	-	717
Net income	-	-	-	-	-	-	397,357	397,357
Allocation of net income:								
Dividends - R\$0.6714 per outstanding share (Note 19.d.) <sup>(*)</sup>	-	-	-	-	-	-	(285,237)	(285,237)
Interest on capital - R\$0.0801 per outstanding share (Notes 19.c. and 19.d.) <sup>(*)</sup>	-	-	-	-	-	-	(34,205)	(34,205)
Profit retention reserve (Note 19.h.)	-	-	-	-	-	77,915	(77,915)	-
<b>BALANCES AS OF DECEMBER 31, 2005</b>	<b>230,762</b>	<b>(1,265)</b>	<b>110,459</b>	<b>10,715</b>	<b>18,650</b>	<b>153,939</b>	<b>-</b>	<b>523,260</b>
Sale of treasury shares by exercise of stock options (Note 19.e.)	-	541	8,039	-	-	-	-	8,580
Payment of receivables from shareholders (Note 19.b.)	-	-	2,272	-	-	-	-	2,272
Capital increase through subscription of shares (Note 19.a.)	3,100	-	-	-	-	-	-	3,100
Tax incentives	-	-	-	3,872	-	-	-	3,872
Net income	-	-	-	-	-	-	469,326	469,326
Allocation of net income:								
Dividends - R\$0.7630 per outstanding share (Note 19.d.)	-	-	-	-	-	-	(325,866)	(325,866)
Interest on capital - R\$0.0787 per outstanding share (Notes 19.c. and 19.d.)	-	-	-	-	-	-	(33,569)	(33,569)
Profit retention reserve (Note 19.h.)	-	-	-	-	-	109,891	(109,891)	-
<b>BALANCES AS OF DECEMBER 31, 2006</b>	<b>233,862</b>	<b>(724)</b>	<b>120,770</b>	<b>14,587</b>	<b>18,650</b>	<b>263,830</b>	<b>-</b>	<b>650,975</b>

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

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

## Statements of Changes in Financial Position

For the Years Ended December 31, 2006 and 2005

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2006	2005	2006	2005
<b>SOURCES OF FUNDS</b>				
<b>FROM OPERATIONS:</b>				
Net income	469,326	397,357	460,773	396,881
Items not affecting working capital:				
Depreciation and amortization (Note 12)	6,966	4,989	54,601	44,035
Monetary and exchange variations, net, except those referring to tax, civil and labor contingencies	(506)	3,130	(73)	4,087
Reserve for tax, civil and labor contingencies, including monetary variation on those reserves (Note 16)	8,547	14,074	12,998	31,040
Deferred income and social contribution taxes (Note 9.a.)	(3,012)	(5,056)	(6,485)	(8,023)
Equity in subsidiaries (Note 11)	(28,229)	6,741	-	-
Proceeds from sale and disposal of property, plant and equipment and intangible assets	2,141	559	3,881	3,056
Minority interest	-	-	(4)	1
	<u>455,233</u>	<u>421,794</u>	<u>525,691</u>	<u>471,077</u>
<b>FROM SHAREHOLDERS:</b>				
Capital increase through subscription of shares (Note 19.a.)	3,100	-	3,100	-
Sale of treasury shares by exercise of stock options (Note 19.e.)	8,581	4,887	8,581	4,887
Payment of receivables from shareholders (Note 19.b.)	2,272	2,288	2,272	2,288
<b>FROM THIRD PARTIES:</b>				
Reclassification of recoverable taxes from property, plant and equipment to current and noncurrent assets	-	-	10,536	-
Increase in noncurrent liabilities	830	25,007	31,570	119,016
Tax incentives	3,872	717	3,872	717
	<u>473,888</u>	<u>454,693</u>	<u>585,622</u>	<u>597,985</u>
<b>USES OF FUNDS</b>				
Acquisition of property, plant and equipment and intangible assets (Note 12)	21,165	9,991	193,596	111,636
Increase in investments (Note 11)	163,423	149,425	-	-
Increase in noncurrent assets (long-term assets)	1,925	1,639	14,232	7,291
Decrease in noncurrent liabilities	1,274	-	29,119	-
Transfer from noncurrent to current liabilities	44,348	-	20,740	78,783
Dividends proposed and paid (Note 19.d.)	325,866	285,237	325,866	285,237
Interest on capital proposed and paid (Notes 19.c. and 19.d.)	33,569	34,205	33,569	34,205
	<u>591,570</u>	<u>480,497</u>	<u>617,122</u>	<u>517,152</u>
	<u>(117,682)</u>	<u>(25,804)</u>	<u>(31,500)</u>	<u>80,833</u>
<b>REPRESENTED BY</b>				
(Decrease) increase in current assets	(49,602)	168,867	65,714	268,425
Increase in current liabilities	68,080	194,671	97,214	187,592
	<u>(117,682)</u>	<u>(25,804)</u>	<u>(31,500)</u>	<u>80,833</u>

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

## Notes to the Financial Statements

For the Years Ended December 31, 2006 and 2005

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

### 1. OPERATIONS

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

### 2. PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

Until December 31, 1995, the generally accepted accounting principles in Brazil established a simplified methodology for the recording of inflation effects determined to that date. This methodology, named monetary restatement of the balance sheet, consisted of the restatement of permanent assets (investments, property, plant and equipment, and deferred charges) and shareholders' equity accounts at the indexes disclosed by the Federal Government. The net effect of the monetary restatement was accounted for in the statements of income in a specific account under the heading "Monetary restatement of the balance sheet". This monetary restatement was prohibited by Law No. 9,249, of December 26, 1995, effective January 1, 1996.

### 3. SIGNIFICANT ACCOUNTING PRACTICES

#### a) Results of operations

Determined on the accrual basis of accounting.

#### b) Cash investments

Consists of highly liquid temporary investments, except for the long-term investments, stated at cost plus income earned through the balance sheet dates.

#### c) Allowance for doubtful accounts

Recognized based on an analysis of risks on realization of receivables, in an amount considered sufficient to cover possible losses.

#### d) Inventories

Stated at the average cost of acquisition or production, adjusted to market value and for possible losses, when applicable.

#### e) Investments

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 restated 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.

#### g) Deferred charges

Represented by goodwill arising from the merger of shares of Natura Empreendimentos S.A. into Natura Participações S.A., less the provision for maintenance of dividend payment capacity, as described in Note 13.

#### h) Current and noncurrent liabilities

Stated at known or estimated amounts, plus, if applicable, interest and monetary and exchange variations incurred through the balance sheet dates.

#### i) Income and social contribution taxes

The provision for income tax was recorded at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution tax was calculated at the rate of 9% of taxable income. Deferred income and social contribution taxes recorded in current and noncurrent assets result from expenses recorded in income, although temporarily nondeductible for tax purposes. Additionally, deferred income and social contribution taxes were recorded on tax loss carryforwards.

Pursuant to CVM Resolution No. 273/98 and CVM Instruction No. 371/02, deferred taxes are recorded at their probable realizable values, as detailed in Note 9.

#### j) Loans and financing

Adjusted based on exchange and monetary variations and interest incurred through the balance sheet dates, as provided for by contract and mentioned in Note 14.

#### k) Reserves for tax, civil and labor contingencies

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

#### l) Swap and forward transactions

The nominal values of swap and forward transactions are not recorded in the balance sheet. Unrealized gains or losses on these transactions are recorded on the accrual basis of accounting, as mentioned in Notes 22.b. and 22.d.

#### m) Financial income and expenses

Represented by interest and monetary and exchange variations on cash investments, escrow deposits and loans and financing and swap and forward contracts as mentioned in Note 23.

#### n) Interest on capital

For corporate purposes, interest on capital is accounted for as allocation of

income in shareholders' equity. For tax purposes, interest on capital is treated as financial expense, reducing the income and social contribution tax basis.

**o) Earnings per share**

Calculated based on the number of shares at the balance sheet dates, excluding treasury shares.

**p) Supplementary information**

In order to permit additional analysis, the Company presents, as supplementary information, the individual and consolidated statements of cash flows (Attachment I) and value added (Attachment II).

**q) Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses for the reporting periods. Since management's judgment involves estimates of the probability of future events, actual results may differ from the estimates.

**4. CONSOLIDATION CRITERIA**

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

	Ownership interest - %	
	2006	2005
<b>DIRECT:</b>		
Indústria e Comércio de Cosméticos Natura Ltda.	99.99	99.82
Natura Cosméticos S.A. - Chile	99.99	99.96
Natura Cosméticos S.A. - Peru	99.94	99.93
Natura Cosméticos S.A. - Argentina	99.91	95.00
Natura Brasil Cosmética Ltda. - Portugal	98.00	99.99
Nova Flora Participações Ltda.	99.99	100.00
Natura Inovação e Tecnologia de Produtos Ltda.	99.99	99.99
Natura Europa SAS	100.00	100.00
Natura Cosméticos S.A. - México	99.99	99.99
Natura Cosméticos C.A. - Venezuela	99.99	99.00
Natura Cosméticos Ltda. - Colômbia	99.99	-
<b>INDIRECT:</b>		
Natura Logística e Serviços Ltda.	99.99	99.99
Flora Medicinal J. Monteiro da Silva Ltda.	100.00	100.00
Ybios S.A. (proportional consolidation - joint control)	33.33	33.33

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

The shareholders' equity balances as of December 31, 2006 and 2005, reported by the Company, differ by R\$10,424 and R\$1,871, respectively, from those recorded in the consolidated financial statements due to the elimination of unrealized profits in the inventories of subsidiaries and the Company. For the same reason net income balances reported by the Company as of December 31, 2006 and 2005 differ by R\$8,553 and R\$476, respectively, from the balances in the consolidated financial statements.

	Net income		Shareholders' equity	
	2006	2005	2006	2005
<b>COMPANY</b>	<b>469,326</b>	<b>397,357</b>	<b>650,975</b>	<b>523,260</b>
Elimination of unrealized profits of the subsidiary Indústria e Comércio de Cosméticos Natura Ltda. with the Company and other subsidiaries	(8,553)	(476)	(10,424)	(1,871)
<b>CONSOLIDATED</b>	<b>460,773</b>	<b>396,881</b>	<b>640,551</b>	<b>521,389</b>

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

- Indústria e Comércio de Cosméticos Natura Ltda.: engaged principally in the production and sale of Natura products to Natura Cosméticos S.A. - Brazil, Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Cosméticos S.A. - Mexico and Natura Europa SAS, whose amounts are mentioned in Note 10.
- Natura Cosméticos S.A. - Chile, Natura Cosméticos S.A. - Peru, Natura Cosméticos S.A. - Argentina, Natura Brasil Cosmética Ltda. - Portugal (as of December 31, 2006 this company has no activities currently), Natura Cosméticos C.A. - Venezuela (as of December 31, 2006 currently in the preoperating stage) and Natura Cosméticos Ltda. - Colombia (as of December 31, 2006 currently in the preoperating stage): their activities are an extension of the activities conducted by the parent company Natura Cosméticos S.A. - Brazil.
- Nova Flora Participações Ltda.: holds equity interest in the subsidiary Flora Medicinal J. Monteiro da Silva Ltda.
- Natura Inovação e Tecnologia de Produtos Ltda.: its activities consist of product and technology development and market research.
- Natura Europa SAS: engaged in the purchase, sale, import, export and distribution of cosmetics, fragrances in general, hygiene and health products.
- Natura Cosméticos S.A. - Mexico: engaged in the purchase, sale, import, export, distribution and storage of cosmetics, fragrances in general, hygiene and health products.
- Natura Logística e Serviços Ltda.: engaged in the provision of administrative and logistics services.
- Flora Medicinal J. Monteiro da Silva Ltda.: engaged in the sale of phytotherapeutic and phytocosmetic products of its own brand. Since 2005 this company has had no activities.
- Ybios S.A.: engaged in research, management and development of projects, products and services in the biotechnology area, and may also enter into agreements and/or partnerships with universities, foundations, companies, cooperatives, associations, and other public and private entities, provision of services in the biotechnology area, and holding of equity interest in other companies.

**5. CASH INVESTMENTS**

	Company		Consolidated	
	2006	2005	2006	2005
Bank certificates of deposit (CDBs)	79,338	228,106	203,351	325,231
Investment funds	10,848	8,978	10,848	8,978
	<u>90,186</u>	<u>237,084</u>	<u>214,199</u>	<u>334,209</u>
Noncurrent (Note 16.i)	-	-	4,336	3,968
Current	<u>90,186</u>	<u>237,084</u>	<u>209,863</u>	<u>330,241</u>

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

## 6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2006	2005	2006	2005
Trade accounts receivable	379,023	322,228	399,209	337,104
Allowance for doubtful accounts	(22,842)	(19,540)	(25,041)	(20,840)
	<u>356,181</u>	<u>302,688</u>	<u>374,168</u>	<u>316,264</u>

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

	Company				
	2005	Additions (*)	Reversals	Write-offs (**)	2006
Allowance for doubtful accounts	(19,540)	(40,091)	1,286	35,503	(22,842)

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

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

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

## 7. INVENTORIES

	Company		Consolidated	
	2006	2005	2006	2005
Finished products	23,280	814	155,733	88,471
Raw materials and packaging	-	-	77,176	66,162
Promotional material	5,525	21	14,847	7,976
Work in process	-	-	7,300	6,037
Allowance for losses	(146)	-	(17,965)	(16,339)
	<u>28,659</u>	<u>835</u>	<u>237,091</u>	<u>152,307</u>

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

	Company			
	2005	Additions, net (*)	Write-offs (**)	2006
Total of allowance for inventory losses	-	(476)	330	(146)

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

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

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

## 8. RECOVERABLE TAXES

	Company		Consolidated	
	2006	2005	2006	2005
ICMS (State VAT) on purchases of fixed assets	2,653	1,918	16,838	11,581
ICMS (State VAT) on purchases of goods	811	22	13,382	6,946
IVA - value-added tax (foreign operations)	-	-	8,089	2,914
COFINS (tax on revenue) on fixed asset acquisitions	-	-	10,858	420
PIS (tax on revenue) and COFINS on purchases of goods	35	-	325	2,185
IRPJ (income tax)	-	-	1,868	3,580
PIS/COFINS/CSLL - withheld at source	-	-	1,782	860
PIS on fixed asset acquisitions	-	-	2,357	91
IPI (Federal VAT)	-	-	895	-
CSLL (social contribution tax)	-	-	725	3,091
Recoverable INSS (social security contribution)	8	-	170	72
IRRF (withholding income tax)	-	-	-	776
Other	-	-	2,379	1,025
	<u>3,507</u>	<u>1,940</u>	<u>59,668</u>	<u>33,541</u>
Noncurrent	1,990	1,432	20,981	9,574
Current	<u>1,517</u>	<u>508</u>	<u>38,687</u>	<u>23,967</u>

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

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

## 9. INCOME AND SOCIAL CONTRIBUTION TAXES

### a) Deferred

Deferred income (IRPJ) and social contribution (CSLL) taxes recorded in the financial statements result from temporary differences (Company and subsidiaries) and tax loss carryforwards (subsidiaries). These credits are recorded in current and noncurrent assets, in view of their expected realization based on projections of taxable income, considering the limit of 30% for annual offset of tax loss carryforwards against taxable income, pursuant to applicable legislation.

and tax loss carryforwards (subsidiaries). These credits are recorded in current and noncurrent assets, in view of their expected realization based on projections of taxable income, considering the limit of 30% for annual offset of tax loss carryforwards against taxable income, pursuant to applicable legislation.

	Company		Consolidated	
	2006	2005	2006	2005
<b>CURRENT:</b>				
Tax loss carryforwards	-	-	-	1,089
Temporary differences:				
Allowance for doubtful accounts (Note 6)	7,766	6,644	7,766	6,644
Allowance for inventory losses (Note 7)	50	-	6,108	5,555
Effects of unrealized profits in the inventories of the Company (Note 4)	-	-	5,370	-
Allowance for losses on swap and forward contracts (Notes 22.b. and 22.d.)	678	919	743	919
Other provisions	<u>9,366</u>	<u>8,841</u>	<u>12,249</u>	<u>11,550</u>
Deferred income and social contribution taxes	<u>17,860</u>	<u>16,404</u>	<u>32,236</u>	<u>25,757</u>
<b>NONCURRENT:</b>				
Tax loss carryforwards	-	-	-	375
Temporary differences:				
Reserves for tax, civil and labor contingencies (Note 16)	19,554	16,847	34,635	27,809
Other provisions	<u>1,138</u>	<u>833</u>	<u>1,174</u>	<u>1,140</u>
Deferred income and social contribution taxes	<u>20,692</u>	<u>17,680</u>	<u>35,809</u>	<u>29,324</u>

As required by CVM Resolution No. 273/98 and CVM Instruction No. 371/02, management, based on projections of results, estimates that the recorded tax credits will be fully realized within five years. The amounts recorded in noncurrent assets will be realized as follows:

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

#### b) Current expense

Reconciliation of income and social contribution taxes:

	Company		Consolidated	
	2006	2005	2006	2005
Income before taxes on income	580,195	513,462	609,797	531,629
Income and social contribution taxes at the rate of 34%	(197,266)	(174,576)	(207,331)	(180,753)
Reversal of provision for maintenance of dividend payment capacity (Note 13)	49,933	49,933	49,933	49,933
Technological research and innovation benefit - Law No. 11,196/05 (*)	15,370	-	15,370	-
Interest on capital (Notes 19.c. and 19.d.)	11,413	11,630	11,413	11,630
Tax incentives (donations)	2,564	2,147	2,957	2,268
Equity in subsidiaries and exchange variation on translation of foreign investments (Note 11)	9,084	(3,530)	-	-
Permanent differences	(2,049)	(1,700)	(2,843)	(1,932)
Losses generated by subsidiaries	-	-	(23,091)	(15,952)
Other	82	(9)	4,569	59
Income and social contribution taxes - net expenses	<u>(110,869)</u>	<u>(116,105)</u>	<u>(149,023)</u>	<u>(134,747)</u>
Income and social contribution taxes - current	(115,337)	(125,367)	(161,987)	(146,897)
Income and social contribution taxes - deferred	4,468	9,262	12,964	12,150
Income and social contribution taxes - net expenses	<u>(110,869)</u>	<u>(116,105)</u>	<u>(149,023)</u>	<u>(134,747)</u>
Effective rate - %	<u>19.1</u>	<u>22.6</u>	<u>24.4</u>	<u>25.3</u>

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

## 10. RELATED PARTIES

Receivables from and payables to related parties are as follows:

	Company		Consolidated	
	2006	2005	2006	2005
<b>CURRENT ASSETS:</b>				
Related parties:				
Natura Logística e Serviços Ltda. <sup>(a)</sup>	3,209	2,806	-	-
Natura Inovação e Tecnologia de Produtos Ltda. <sup>(b)</sup>	3,098	1,211	-	-
Nova Flora Participações Ltda. <sup>(c)</sup>	833	833	-	-
	<u>7,140</u>	<u>4,850</u>	<u>-</u>	<u>-</u>
Advance for future capital increase:				
Nova Flora Participações Ltda. <sup>(d)</sup>	162	1,007	-	-
Natura Cosméticos Ltda. - Colômbia <sup>(e)</sup>	428	-	-	-
	<u>590</u>	<u>1,007</u>	<u>-</u>	<u>-</u>
Receivables from shareholders <sup>(f)</sup>	<u>20</u>	<u>130</u>	<u>20</u>	<u>130</u>
<b>CURRENT LIABILITIES:</b>				
Suppliers:				
Indústria e Comércio de Cosméticos Natura Ltda. <sup>(g)</sup>	132,221	106,470		
Natura Logística e Serviços Ltda. <sup>(h)</sup>	16,615	9,259		
Natura Inovação e Tecnologia de Produtos Ltda. <sup>(i)</sup>	20,091	8,512		
	<u>168,927</u>	<u>124,241</u>	<u>-</u>	<u>-</u>
Dividends payable-Shareholders	<u>213,813</u>	<u>195,070</u>	<u>213,813</u>	<u>195,070</u>
Interest on capital payable-Shareholders	<u>-</u>	<u>17,699</u>	<u>-</u>	<u>17,699</u>

Transactions with related parties are summarized as follows:

	Product sales		Product purchases	
	2006	2005	2006	2005
Natura Cosméticos S.A. Indústria e Comércio de Cosméticos Natura Ltda.	-	-	1,381,926	1,111,577
Natura Cosméticos S.A. - Argentina	-	-	22,842	13,403
Natura Cosméticos S.A. - Peru	-	-	14,523	9,623
Natura Cosméticos S.A. - Chile	-	-	9,103	6,112
Natura Cosméticos S.A. - México	-	-	6,138	1,865
Natura Europa SAS	-	-	817	923
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	495	675
	<u>1,435,844</u>	<u>1,144,178</u>	<u>1,435,844</u>	<u>1,144,178</u>

	Service sales		Service purchases	
	2006	2005	2006	2005
Administrative structure: <sup>(j)</sup>				
Natura Logística e Serviços Ltda.	261,776	172,383	-	-
Natura Cosméticos S.A. Indústria e Comércio de Cosméticos Natura Ltda.	-	-	184,186	124,082
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	55,209	34,264
	<u>-</u>	<u>-</u>	<u>22,381</u>	<u>14,037</u>
	<u>261,776</u>	<u>172,383</u>	<u>261,776</u>	<u>172,383</u>
Product and technology research and development: <sup>(k)</sup>				
Natura Inovação e Tecnologia de Produtos Ltda.	152,781	113,596	-	-
Natura Cosméticos S.A.	-	-	152,781	113,596
	<u>152,781</u>	<u>113,596</u>	<u>152,781</u>	<u>113,596</u>
Lease of properties and common charges: <sup>(l)</sup>				
Indústria e Comércio de Cosméticos Natura Ltda.	5,588	8,575	-	-
Natura Logística e Serviços Ltda.	-	-	3,238	5,695
Natura Inovação e Tecnologia de Produtos Ltda.	-	-	1,301	1,831
Natura Cosméticos S.A.	-	-	1,049	1,049
	<u>5,588</u>	<u>8,575</u>	<u>5,588</u>	<u>8,575</u>
Total of service sales and purchases	<u>420,145</u>	<u>294,554</u>	<u>420,145</u>	<u>294,554</u>

(a) Refers to advances granted for provision of logistics and general administrative services.

(b) Refers to advances granted for provision of product and technology development and market research services.

(c) Amount receivable due to the capital reduction made on January 30, 2004, approved by the shareholders' meeting held on the same date.

(d) Cash contributions to Nova Flora Participações Ltda. mainly for maintenance of working capital. In August 2006, cash contributions made in prior years were capitalized.

(e) Refers to remittances made to Natura Cosméticos Ltda. - Colombia, necessary for the start-up of activities in Colombia in 2006.

(f) On September 29, 2000, April 30, 2002, December 30, 2002 and January 5, 2004, under a stock purchase and sale agreement, a financing in the total amount of R\$6,174 was made to two directors of the Company, with interest rate of 3% per year and maturities between April 30, 2009 and September 30, 2010. This financing was granted to the directors in order for them to acquire common shares in Natura Empreendimentos S.A. and Natura Participações S.A. In the corporate restructuring completed in March 2004, these shares were exchanged for common shares issued by Natura Cosméticos S.A. The financing, in the amount of R\$112 as of December 31, 2006 (R\$2,493 as of December 31, 2005), is amortized with dividends and interest on capital paid by the Company to those directors, based on the shares acquired by them and which are restricted.

(g) Payables for the purchase of products. Prices and terms are within normal market conditions.

(h) Payables for services described in item (j).

(i) Payables for services described in item (k).

(j) Logistics and general administrative services.

(k) Product and technology development and market research services.

(l) Rental of part of the industrial complex located in Cajamar and buildings located in the municipality of Itapeperica da Serra.

The main intercompany balances as of December 31, 2006 and 2005, as well as the intercompany transactions that affected the results for the years, refer to transactions between the Company and its subsidiaries, which were substantially carried out under usual market conditions for each type of transaction.

## 11. INVESTMENTS

	Company		Consolidated	
	2006	2005	2006	2005
Investments in subsidiaries	707,422	516,921	-	-
Others	-	8	630	8
	<u>707,422</u>	<u>516,929</u>	<u>630</u>	<u>8</u>

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	Nova Flora Participações Ltda.	Natura Inovação e Tecnologia de Produtos Ltda	Natura Europa SAS	Natura Cosméticos S.A. México	Natura Brasil Cosmética Ltda. - Portugal	Natura Cosméticos Ltda. Colômbia	Total
Shares of subsidiaries	526,155	53,167	2,277	20,314	4,999	3,450	5,008	48,929	32,601	113	1	
Number of shares (common shares)	526,154	53,161	2,276	20,296	4,999	3,450	5,007	48,929	32,599	111	1	
Ownership interest	99.99%	99.99%	99.94%	99.91%	99.99%	99.99%	99.99%	100.00%	99.99%	98.00%	99.99%	
Capital	526,155	53,167	2,277	20,314	4,999	3,450	5,008	48,929	32,601	113	1	697,014
Shareholders' equity of subsidiaries	635,542	2,714	1,347	8,197	1,421	(4,541)	35,855	12,676	9,683	(1)	(23)	702,870
Share in shareholders' equity	635,541	2,714	1,346	8,189	1,421	(4,541)	35,852	12,676	9,683	(1)	(23)	702,857
Net income (loss) of subsidiaries, net of exchange variation on translation of foreign investments	67,188	(5,205)	421	(11,884)	(3,277)	(1,376)	13,723	(17,948)	(14,245)	(25)	(24)	27,348
Book value of Company's investment:												
Balances as of December 31, 2005	473,827	1,453	947	83	245	-	22,130	13,400	4,808	28	-	516,921
Equity in subsidiaries	67,188	(5,205)	421	(11,874)	(3,277)	(505)	13,722	(17,948)	(14,245)	(24)	(24)	28,229
Exchange variation and other adjustments on translation of foreign investments	-	(127)	(22)	(770)	(64)	-	-	316	(843)	(5)	1	(1,514)
Change in investments in subsidiaries (nonoperating income)	871	-	-	-	-	(871)	-	-	-	-	-	-
Recognition of provision for losses	-	-	-	-	-	339	-	-	-	1	23	363
Capital increase	93,655	6,593	-	20,750	4,517	1,037	-	16,908	19,963	-	-	163,423
Balances as of December 31, 2006	<u>635,541</u>	<u>2,714</u>	<u>1,346</u>	<u>8,189</u>	<u>1,421</u>	<u>-</u>	<u>35,852</u>	<u>12,676</u>	<u>9,683</u>	<u>-</u>	<u>-</u>	<u>707,422</u>
Provision for losses:												
Balances as of December 31, 2005	-	-	-	-	-	(4,202)	-	-	-	-	-	(4,202)
Reversal of provision for losses	-	-	-	-	-	(339)	-	-	-	(1)	(23)	(363)
Balances as of December 31, 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,541)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(23)</u>	<u>(4,565)</u>
Net balances as of December 31, 2006	<u>635,541</u>	<u>2,714</u>	<u>1,346</u>	<u>8,189</u>	<u>1,421</u>	<u>(4,541)</u>	<u>35,852</u>	<u>12,676</u>	<u>9,683</u>	<u>(1)</u>	<u>(23)</u>	<u>702,857</u>

## 12. PROPERTY, PLANT AND EQUIPMENT

		Company					
		2006			2005		
ANNUAL DEPRECIATION RATE - %	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	
<b>PROPERTY, PLANT AND EQUIPMENT</b>							
Vehicles	20 to 33	19,598	8,357	11,241	16,412	6,022	10,390
Leasehold improvements	12	7,874	558	7,316	900	185	715
IT equipment	20	4,810	2,792	2,018	3,832	2,353	1,479
Furniture and fixtures	10	3,087	1,633	1,454	2,403	1,453	950
Machinery and equipment	10	1,646	311	1,335	1,064	191	873
Construction in progress	-	2,371	-	2,371	8	-	8
Advances to suppliers	-	455	-	455	-	-	-
		<b>39,841</b>	<b>13,651</b>	<b>26,190</b>	<b>24,619</b>	<b>10,204</b>	<b>14,415</b>
<b>INTANGIBLE ASSETS</b>							
Software	20	6,702	3,152	3,550	5,179	1,920	3,259
		<b>6,702</b>	<b>3,152</b>	<b>3,550</b>	<b>5,179</b>	<b>1,920</b>	<b>3,259</b>
		Consolidated					
ANNUAL DEPRECIATION RATE - %	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	
<b>PROPERTY, PLANT AND EQUIPMENT</b>							
Machinery and equipment	10	181,046	56,563	124,483	131,819	41,811	90,008
Buildings	4	144,684	30,309	114,375	144,140	24,618	119,522
Installations	10	79,547	33,065	46,482	67,884	27,040	40,844
Lands	-	33,662	-	33,662	15,910	-	15,910
IT equipment	20	38,763	19,516	19,247	28,772	15,050	13,722
Vehicles	20 to 33	30,196	11,124	19,072	24,694	8,325	16,369
Molds	33	47,868	30,637	17,231	36,521	22,428	14,093
Furniture and fixtures	10	18,876	6,313	12,563	13,789	5,009	8,780
Leasehold improvements	12	12,694	1,380	11,314	1,028	204	824
Construction in progress	-	42,652	-	42,652	8,569	-	8,569
Advances to suppliers	-	26,764	-	26,764	16,813	-	16,813
Other	10	6,463	2,407	4,056	5,364	1,907	3,457
		<b>663,215</b>	<b>191,314</b>	<b>471,901</b>	<b>495,303</b>	<b>146,392</b>	<b>348,911</b>
<b>INTANGIBLE ASSETS</b>							
Software	20	32,735	13,561	19,174	24,885	8,571	16,314
Patents	10 to 25	941	941	-	1,056	997	59
Goodwill on acquisition of investment - Nova Flora <sup>(a)</sup>	10	8,015	8,015	-	8,015	8,015	-
Business lease - Natura Europa <sup>(b)</sup>	-	5,860	-	5,860	5,753	-	5,753
		<b>47,551</b>	<b>22,417</b>	<b>25,034</b>	<b>39,709</b>	<b>17,583</b>	<b>22,126</b>

(a) The goodwill on the acquisition made by the subsidiary Nova Flora Participações Ltda. was fully amortized in 2005, due to the low expectation of profitability from 2006 onwards. Liabilities related to this subsidiary are properly reflected in the consolidated financial statements.

(b) The business lease generated on the purchase of a commercial location where Natura Europa SAS operates is supported by an appraisal report issued by independent appraisers, attributable to the fact that it is an

## 13. DEFERRED CHARGES

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

The amounts are as follows:

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

The provision for maintenance of future dividend payment capacity, as it is in the full amount, will result in the recognition of the goodwill amortization tax benefits for all of the Company's shareholders. The goodwill amount is being amortized over a seven-year period.

#### 14. LOANS AND FINANCING

Type	Company		Consolidated		Maturity	Charges	Guarantees
	2006	2005	2006	2005			
BNDES - EXIM	-	-	53,070	-	April 2008	Interest of 2.6% p.y. + TJLP (long-term interest rate) for 80% of the financing and interest of 10.2% p.y. + exchange variation for 20% of the financing	Exports and guarantee of Natura Cosméticos S.A.
BNDES - PROGEREN (Support Program for Enhancing Employment and Income Capacity)	37,141	69,890	37,140	69,890	June 2007	Interest of 3.5% p.y. + TJLP	Bank guarantee
NCE (Export Credit Note)	-	-	36,635	31,641	April 2008	Interest of 104.7% of CDI <sup>(*)</sup>	Promissory notes and guarantee of Natura Cosméticos S.A.
FINEP (Financing Agency for Studies and Projects)	-	-	21,747	32,050	December 2008	Interest of 3.0% p.y. + TJLP	Guarantee, promissory notes and receivables of Natura Cosméticos S.A.
BNDES (Brazilian Bank for Economic and Social Development)	7,939	19,342	20,258	34,994	October 2007 and April 2010	Interest of 4.0% p.y. + TJLP + UMBNDES <sup>(**)</sup> for the maturity in October 2007 and interest of 4.5% p.y. + TJLP + UMBNDES <sup>(**)</sup> for the maturity in April 2010	Mortgage <sup>(***)</sup>
FINEP II	-	-	17,623	-	March 2013	TJLP	Guarantee of Natura Cosméticos S.A. and bank guarantee.
BNDES - FINAME (Government Agency for Machinery and Equipment Financing)	-	-	12,938	12,115	October 2006 to April 2011	Interest of 4.5% p.y. + TJLP	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes.
Banco do Brasil (Brazilian Bank) - FAT Fomentar (Employee Shelter Fund)	-	-	2,568	-	November 2013	Interest of 4.4% p.y. + TJLP	Chattel mortgage, guarantee of Natura Cosméticos S.A. and promissory notes.
ACE (Advances on Export Contracts)	-	-	986	-	January 2007	Interest of 5.4% p.y.+ exchange variation	Exports
Loans - Argentina	-	-	-	6,775	January 2006	Interest of 9.5% p.y. + exchange variation (Argentinean pesos)	Guarantee of Natura Cosméticos S.A.
Total	<u>45,080</u>	<u>89,232</u>	<u>202,965</u>	<u>187,465</u>			
Current	45,052	44,942	75,888	68,309			
Noncurrent	<u>28</u>	<u>44,290</u>	<u>127,077</u>	<u>119,156</u>			

(\*) CDI - interbank certificate of deposit.

(\*\*) UMBNDES - BNDES monetary unit. Financing in local currency from the BNDES is guaranteed mainly by the Cajamar Unit.

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

Maturities of noncurrent debt are as follows:

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

## 15. TAXES PAYABLE

	Company		Consolidated	
	2006	2005	2006	2005
ICMS (State VAT)	65,151	58,163	64,789	58,184
IRPJ (income tax)	7,374	10,438	8,916	12,229
IRRF (withholding income tax)	2,074	1,570	5,726	4,235
COFINS (tax on revenue)	517	74	3,740	2,166
CSLL (social contribution tax)	3,082	4,118	3,662	4,718
PIS/COFINS/CSLL (Law No. 10,833/03)	2,085	1,093	3,011	1,606
IVA - value-added tax (foreign operations)	-	-	1,970	1,557
ISS (tax on service)	94	-	1,162	553
PIS (tax on revenue)	113	17	779	826
IPI (Federal VAT)	-	-	-	2,081
Other	-	63	1,917	970
	<u>80,490</u>	<u>75,536</u>	<u>95,672</u>	<u>89,125</u>

## 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.

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

	Company		Consolidated	
	2006	2005	2006	2005
Tax	25,046	22,247	35,969	49,944
Civil	5,130	4,077	7,316	6,060
Labor	4,599	3,929	5,808	5,118
	<u>34,775</u>	<u>30,253</u>	<u>49,093</u>	<u>61,122</u>

### Tax Contingencies

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

	Company					
	2005	Additions	Reversals	Write-offs	Monetary restatement	2006
PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 <sup>(b)</sup>	12,740	-	-	-	1,488	14,228
Late payment fines on Federal taxes paid in arrears <sup>(c)</sup>	4,926	-	-	-	646	5,572
Deductibility of CSLL (social contribution tax) (Law No. 9,316/96) <sup>(d)</sup>	5,901	-	-	-	437	6,338
Tax assessment - INSS (social security contribution) <sup>(e)</sup>	4,944	-	-	-	477	5,421
Monetary restatement of Federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) <sup>(f)</sup>	4,851	-	(12)	-	91	4,930
IPI (Federal VAT) - tax collection lawsuit <sup>(i)</sup>	3,773	-	-	-	370	4,143
Assessment notice - 1990 (corporate income tax) <sup>(j)</sup>	2,448	-	-	-	235	2,683
IRPJ and CSLL tax assessment - attorneys' fees <sup>(k)</sup>	-	1,469	-	-	-	1,469
Attorneys' fees and other	6,254	313	(421)	(62)	765	6,849
Total reserve for tax contingencies	<u>45,837</u>	<u>1,782</u>	<u>(433)</u>	<u>(62)</u>	<u>4,509</u>	<u>51,633</u>
Escrow deposits for tax contingencies	<u>(23,590)</u>	<u>(939)</u>	<u>34</u>	<u>-</u>	<u>(2,092)</u>	<u>(26,587)</u>
Total reserve for tax contingencies, net of escrow deposits	<u>22,247</u>	<u>843</u>	<u>(399)</u>	<u>(62)</u>	<u>2,417</u>	<u>25,046</u>
	<b>Consolidated</b>					
	2005	Additions	Reversals	Write-offs	Monetary restatement	2006
IPI - zero rate <sup>(a)</sup>	15,814	9,497	-	-	2,603	27,914
PIS (tax on revenue) - semiannual - Decree-laws No. 2,445/88 and No. 2,449/88 <sup>(b)</sup>	14,267	-	-	-	1,663	15,930
Late payment fines on Federal taxes paid in arrears <sup>(c)</sup>	5,859	-	-	-	766	6,625
Deductibility of CSLL (social contribution tax) (Law No. 9,316/96) <sup>(d)</sup>	5,901	-	-	-	437	6,338
Tax assessment - INSS (social security contribution) <sup>(e)</sup>	4,944	-	-	-	477	5,421
Monetary restatement of Federal taxes (IRPJ/CSLL/ILL) according to the UFIR (fiscal reference unit) <sup>(f)</sup>	4,976	-	(14)	-	94	5,056
IPI tax assessment - attorneys' fees <sup>(g)</sup>	5,717	-	-	(1,265)	164	4,616
IPI (Federal VAT) credit on purchases of fixed assets and consumption material <sup>(h)</sup>	4,325	-	(225)	-	337	4,437
IPI (Federal VAT) - tax collection lawsuit <sup>(i)</sup>	3,773	-	-	-	370	4,143
Assessment notice - 1990 IRPJ (corporate income tax) <sup>(j)</sup>	2,448	-	-	-	235	2,683
IRPJ and CSLL tax assessment - attorneys' fees <sup>(k)</sup>	-	1,469	-	-	-	1,469
Attorneys' fees and other	8,765	530	(618)	(205)	1,368	9,840
Total reserve for tax contingencies	<u>76,789</u>	<u>11,496</u>	<u>(857)</u>	<u>(1,470)</u>	<u>8,514</u>	<u>94,472</u>
Escrow deposits for tax contingencies	<u>(26,845)</u>	<u>(28,590)</u>	<u>77</u>	<u>-</u>	<u>(3,145)</u>	<u>(58,503)</u>
Total reserve for tax contingencies, net of escrow deposits	<u>49,944</u>	<u>(17,094)</u>	<u>(780)</u>	<u>(1,470)</u>	<u>5,369</u>	<u>35,969</u>

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

(b) Refers to the offset of PIS paid as per Decree-laws No. 2,445/88 and No. 2,449/88, in the period from 1988 to 1995, against Federal taxes due in 2003 and 2004. The appeal filed by the Company was judged favorably to it on September 12, 2005 by the 1st Panel of the 2nd Board of Tax Appeals that, by a majority of the votes, denied the alleged lapsing of the offset right and unanimously recognized the unconstitutionality of the Decree-laws determining that the calculation basis should be the billing of the sixth month prior to the occurrence of the taxable event, without monetary restatement. The decision was published and a notification was sent. The Federal Revenue Service filed a special appeal with the Superior Board of Tax Appeals, which did not grant the appeal. The decision is pending formalization and publication.

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

- (d) Refers to CSLL (social contribution tax) that was addressed by a mandate that questions the constitutionality of Law No. 9,316/196, 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\$4,245 (R\$3,787 as of December 31, 2005), is deposited in escrow.
- (e) Refers to INSS (social security contribution) required by tax assessments issued by the National Institute of Social Security as a result of an inspection. The Company, as a taxpayer having joint liability for tax payment, is required to pay INSS on services provided by third parties. The amounts are discussed in court through a tax debt annulment action and are deposited in escrow.
- (f) Refers to the monetary restatement of federal taxes (IRPJ/CSLL/ILL) related to 1991 based on the UFIR (fiscal reference unit), discussed in a mandate. The amount involved is deposited in escrow.
- (g) Refers to attorneys' fees for the defense in the tax assessment notice issued in November 2005 by the Federal Revenue Service, relating to the tax basis of the IPI (Federal VAT) on intercompany transactions. In June 2006, the subsidiary was notified of the decisions rendered by the 2<sup>nd</sup> Panel of the Federal Revenue Service Judgment Office in Ribeirão Preto, which cancelled, by unanimous vote, the tax requirements related to IPI on these transactions. There was a mandatory appeal, which is pending judgment at the 4<sup>th</sup> Chamber of the 2<sup>nd</sup> Board of Tax Appeals of the Federal District. The attorneys are of the opinion that the likelihood of loss is remote.
- (h) The subsidiary Indústria e Comércio de Cosméticos Natura Ltda. is discussing through injunctions the right to the IPI (Federal VAT) credit on purchases of fixed assets and consumption materials. In view of Federal Regional Courts' former decisions, the attorneys believe that the risk of loss changed to probable. The reversal in 2006 refers to the lapse of the period for review begun between July and December 2001.
- (i) Refers to a tax collection lawsuit seeking to collect the IPI (Federal VAT) related to July 1989, when wholesale establishments began to be considered equivalent to industrial establishments under Law No. 7,798/89. The lawsuit is in the Federal Regional Court of 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\$4,336 (R\$3,968 as of December 31, 2005).
- (j) Refers to a tax assessment notice issued by the Federal Revenue Service requiring the payment of income tax on profit from incentive-based exports made in base year 1989, at the rate of 18% (Law No. 7,988, of December 29, 1989) and not 3%, as established by article 1 of Decree-law No. 2,413/88, which supported the Company in its tax payments at that time.
- (k) Refers to attorneys' fees for defense against the tax deficiency notices issued against the Company in August 2003 and December 2006, by the Federal Revenue Service, in which income and social contribution taxes (IRPJ and CSLL) are demanded related to the deductibility of the yield of the debentures issued by the Company in 1999 and 2001. The attorneys' opinion is that the likelihood of unfavorable outcome is remote.

#### Civil contingencies

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

	Company					
	2005	Additions	Reversals	Payments	Monetary restatement	2006
Several civil lawsuits <sup>(a)</sup>	1,811	2,557	(1,152)	(478)	206	2,944
Civil lawsuits and attorney's fees - Flora Medicinal <sup>(b)</sup>	2,266	-	(15)	-	83	2,334
Total reserve for civil lawsuits	4,077	2,557	(1,167)	(478)	289	5,278
Escrow deposits for civil contingencies	-	(148)	-	-	-	(148)
Total reserve for civil contingencies, net of escrow deposits	4,077	2,409	(1,167)	(478)	289	5,130
	Consolidated					
	2005	Additions	Reversals	Payments	Monetary restatement	2006
Several civil lawsuits <sup>(a)</sup>	2,043	2,769	(1,326)	(579)	250	3,157
Civil lawsuits and attorney's fees - Flora Medicinal <sup>(b)</sup>	6,649	-	(66)	-	421	7,004
Total reserve for civil lawsuits	8,692	2,769	(1,392)	(579)	671	10,161
Escrow deposits for civil contingencies	(2,632)	(151)	1	-	(63)	(2,845)
Total reserve for civil contingencies, net of escrow deposits	6,060	2,618	(1,391)	(579)	608	7,316

- (a) As of December 31, 2006, the Company and its subsidiaries are parties to 1,164 lawsuits (760 as of December 31, 2005), at the civil court, special civil court and PROCON (consumer protection agency), filed by beauty consultants, consumers, suppliers and former employees, mostly related to indemnity claims.
- (b) The Company is a party to civil lawsuits filed by a former shareholder of the indirect subsidiary Flora Medicinal, which seek the determination of any amounts and the satisfaction of alleged liabilities due to the former shareholder's withdrawal. With the end of the expert investigation phase in four of the five civil lawsuits, it was possible to determine the amounts involved, although no decision, even by the lower court, has been issued.

#### Labor contingencies

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

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

	Company					
	2005	Additions	Reversals	Payments	Monetary restatement	2006
Total reserve for labor contingencies	3,929	761	(705)	(43)	953	4,895
Escrow deposits for labor contingencies	-	(301)	5	-	-	(296)
Total reserve for labor contingencies, net of escrow deposits	3,929	460	(700)	(43)	953	4,599
	Consolidated					
	2005	Additions	Reversals	Payments	Monetary restatement	2006
Total reserve for labor contingencies	5,118	1,084	(1,029)	(72)	1,238	6,339
Escrow deposits for labor contingencies	-	(536)	5	-	-	(531)
Total reserve for labor contingencies, net of escrow deposits	5,118	548	(1,024)	(72)	1,238	5,808

#### Escrow deposits

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

#### Possible losses

The Company 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 presented as follows:

	2006	2005	2006	2005
<b>TAX:</b>				
INSS debt annulment action <sup>(a)</sup>	5,209	4,750	5,209	4,750
Offset of 1/3 of COFINS - Law No. 9,718/98 <sup>(b)</sup>	4,223	3,902	4,223	3,902
Tax assessment - transfer pricing on loan agreements with foreign related company <sup>(c)</sup>	1,342	1,239	1,342	1,239
Tax debt notification - GFIP (FGTS payment and social security information form) <sup>(d)</sup>	673	-	673	-
ICMS Tax Substitution deficiency notice <sup>(e)</sup>	608	-	608	-
Request for offset of taxes of the same type - IRPJ (income tax) and IRRF (withholding income tax) <sup>(f)</sup>	406	-	406	-
Other	1,310	459	1,500	663
	13,771	10,350	13,961	10,554
Civil	4,496	1,542	15,235	9,489
Labor	15,249	2,878	20,551	5,388
	33,516	14,770	49,747	25,431

- (a) Lawsuit filed by the Company seeking the annulment of the tax demanded by the INSS (social security contribution) through a tax assessment notice issued for purposes of collecting the social security contribution on the allowance for vehicle maintenance paid to sales promoters.
- (b) Law No. 9,718/98 increased the COFINS (tax on revenue) rate from 2% to 3%, and allowed this 1% difference to be offset in 1999 against the social contribution tax paid in the same year. However, in 1999 the Company and its subsidiaries filed for a mandate and obtained authorization to suspend the payment of the tax credit (1% rate difference) and to pay COFINS based on Supplementary Law No. 70/91, prevailing at that time. In December 2000, considering former unfavorable court decisions, the Company and its subsidiaries waived the lawsuit and enrolled in the tax debt refinancing program (REFIS), for payment in installments of the debt related to the COFINS not paid in the period. With the payment of the tax, the Company and its subsidiaries gained the right to offset 1% of COFINS against social contribution tax, which was made in the first half of 2001. However, the Federal Revenue Service understands that the period for offset was restricted to base year 1999. On September 11, 2006 the Company was notified that the offsets made were not approved, and timely filed the applicable appeal. This lawsuit is awaiting ruling at the lower administrative court.
- (c) Refers to a tax assessment notice whereby the Federal Revenue Service is demanding the payment of IRPJ and CSLL on the difference of interest on loan agreements with a foreign related party. On July 12, 2004, an administrative defense was filed and is still being judged.
- (d) Demand of fine for failure to complete the GFIP (FGTS payment and social security information form), an accessory social security obligation, for independent contractors' social security contributions and indemnities. The Company is discussing the collection at the administrative level.
- (e) Tax deficiency notice for ICMS Tax Substitution, demanded by Goiás State, due to supposed underpayment by the Company. The Company has presented its defense at the administrative level and is awaiting judgment.
- (f) Refers to the nonapproval of the offset of IRPJ credits related to the fourth quarter of 1999 against IRRF debts for the second quarter of 2000. The Company has presented its defense at the administrative level, for which a partially favorable judgment has been rendered. On July 12, 2006, an annulment action was filed, and an escrow deposit was made, to challenge collection of the balance of offset not approved by the Federal Revenue Service.

#### Contingent Assets

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

### 17. MANAGEMENT AND EMPLOYEES PROFIT SHARING

The Company and its subsidiaries pay profit sharing to its employees and managers, tied to the achievement of operational targets and specific objectives established and approved at the beginning of each year. As of December 31, 2006, the following amounts were recorded as profit sharing: R\$13,850 (R\$13,506 as of December 31, 2005) and R\$39,260 (R\$35,171 as of December 31, 2005), Company and consolidated, respectively, under the heading "Salaries, profit sharing and related charges" in current liabilities, with contra entry to "Employees profit sharing" and "Management compensation" in the statement of income for those years.

### 18. COMPENSATION OF MANAGEMENT AND EXECUTIVES

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

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

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

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

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

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

(\*) Refers to profit sharing.

(\*\*) Refers to the balance of unexercised vested and unvested options as of the balance sheet dates.

(\*\*\*) Refers to the weighted-average exercise price of the option at the time of the Stock Option Grant, updated by the inflation calculated based on the IPC-A (extended consumer price index) through the balance sheet date. Note 20 presents the pro forma net income as of December 31, 2006 and 2005, should Company's management opt for recognizing the effects of the plans in the accounting records, considering the vesting period and using the intrinsic value method (difference between the market price obtained on December 31, 2006 and 2005 and the value of the option updated based on the IPC-A, for the years then ended).

### 19. SHAREHOLDERS' EQUITY

#### a) Capital

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

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

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

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

**b) Receivables from shareholders**

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

**c) Interest on capital**

At the Board of Directors' Meeting on July 26, 2006, the Company's management proposed the payment of interest on capital, according to the terms of the bylaws, CVM Resolution No. 207/96 and Law No. 9,249/95. As of December 31, 2006, the recorded gross amount of interest on capital is R\$33,569 (R\$34,205 as of December 31, 2005) and was calculated within legal limits, including as to the mandatory minimum dividend of 30% according to article 202 of Law No. 6,404/76 and the bylaws.

Withholding income tax in the amount of R\$5,035 (R\$5,131 as of December 31, 2005) was withheld and paid by the Company.

**d) Dividend payment policy**

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

- Increase in the amounts resulting from the reversal, in the year, of previously recognized reserves for contingencies.
- Decrease in the amounts intended for the recognition, in the year, of the legal reserve and reserve for contingencies.

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

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

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

Dividends were calculated as follows:

	Company	
	2006	2005
Net income	469,326	397,357
Profit reserve - legal (item g. of this Note)	-	-
Calculation basis for minimum dividends	469,326	397,357
Mandatory minimum dividends	30%	30%
Annual minimum dividend	140,798	119,207
Proposed dividends	325,866	285,237
Interest on capital - net of withholding income tax	28,534	29,074
Withholding income tax	5,035	5,131
Total dividends and interest on capital - gross	<u>359,435</u>	<u>319,442</u>
Amount exceeding the mandatory minimum dividend	218,637	200,235
Dividends per share - R\$	0.763	0.671
Interest on capital per share - net - R\$	<u>0.067</u>	<u>0.069</u>
Total dividends and interest on capital, per share - net - R\$	<u>0.83</u>	<u>0.74</u>

**e) Treasury shares**

As of December 31, 2006, common shares in treasury, which have been used in the exercise of options in the Stock Option Programs for purchase or

subscription of shares, totaled 679,317 (2,160,075 as of December 31, 2005), at a unit average cost of R\$0.3350 (R\$0.3560 as of December 31, 2005).

**f) Share premium**

Refers to the goodwill generated on the issuance of 3,299 common shares resulting from the capitalization of debentures in the amount of R\$100,000, occurred on March 2, 2004.

**g) Profit reserve - legal**

Since the balance of the legal reserve plus capital reserves exceeded 30% of the capital, the Company decided, in accordance with article 193 of corporate law, not to recognize a legal reserve on net income for 2005 and 2006.

**h) Reserve for profit retention**

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

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

After distribution of profits for the year ended December 31, 2006, the profit reserves exceeded capital by R\$48,618.

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

**20. STOCK OPTION PROGRAM**

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

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

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

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

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

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

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

## 21. PENSION PLAN

On August 1, 2004, the Company implemented a supplementary defined contribution plan for all employees of the Company and its subsidiaries in Brazil. According to the terms of this plan, the cost is shared between the Company and the employees, so that the Company's share is equivalent to 60% of the employee's contribution according to a contribution scale based on salary ranges from 1% to 5% of the employee's compensation. The plan is managed by Brasilprev Seguros e Previdência S.A. and the Company's contributions for the year ended December 31, 2006 totaled R\$3,397 (R\$3,037 as of December 31, 2005).

## 22. FINANCIAL INSTRUMENTS

### a) General conditions

The Company 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.

### b) Exchange risk

The Company has entered into swap and forward transactions to hedge against exchange variation on its liabilities resulting from financing agreements and operating activities. According to the Company's policy, swap and/or forward transactions must be contracted for all debts that may expose the Company to exchange risks. These transactions consist of swaps between two variable rates: foreign currency and CDI (interbank deposit rate).

As of December 31, 2006 and 2005, the Company had swap and forward transactions with financial institutions in the amounts of R\$30,410 and R\$7,242, respectively. Since March 2006, the Company has been contracting transactions for imports of equipment, purchase of inputs pegged to exchange variation, and investments in international operations, resulting in a liability balance of R\$2,185 and R\$2,703, respectively, recorded in current liabilities in consolidated. Foreign exchange exposure is mainly indexed to the U.S. dollar and the euro.

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

### c) Interest rate risk

The Company and its subsidiaries are exposed to fluctuations in the TJLP due to the financing agreements entered into with the BNDES and FINEP.

### d) Fair values

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

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

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

At the balance sheet dates the Company consults the financial market and updates the fair value of financial instruments.

### e) Credit risk

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

## 23. FINANCIAL INCOME, NET

	Company		Consolidated	
	2006	2005	2006	2005
<b>FINANCIAL INCOME:</b>				
Interest on cash investments	21,989	25,738	33,722	36,648
Gains on monetary and exchange variations	3,008	4,092	5,835	13,639
Interest earned	23	183	825	1,145
Gains on swap and forward transactions	37	-	91	-
Other financial income	1,649	1,453	2,918	3,282
	<u>26,707</u>	<u>31,470</u>	<u>43,391</u>	<u>54,714</u>
<b>FINANCIAL EXPENSES:</b>				
Interest on financing	(7,114)	(5,910)	(18,677)	(14,665)
Losses on monetary and exchange variations	(3,424)	(2,530)	(7,541)	(8,817)
Losses on swap and forward transactions	(1,622)	(1,230)	(4,114)	(12,223)
Other financial expenses	(1,079)	(2,130)	(3,121)	(7,748)
	<u>(13,239)</u>	<u>(11,800)</u>	<u>(33,453)</u>	<u>(43,453)</u>
<b>Total financial income, net</b>	<u><b>13,468</b></u>	<u><b>19,670</b></u>	<u><b>9,938</b></u>	<u><b>11,261</b></u>

## 24. 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 December 31, 2006, the insurance coverage was as follows:

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

## 25. SUBSEQUENT EVENT

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

- a) *Private placement of 1,514,750 common shares, without par value, by the Company, within the limit of authorized capital, as set forth in article 6 of the Company's by-laws, which will be designated for subscribing and paying up the common shares, without par value, issued by the Company, corresponding to the shares granted to the Company's Management and Employees, as well as to the direct or indirect subsidiaries' Management and Employees, participants in the: "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and "Amendment to the Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006", excluding the preferential right to subscription by the Company's other shareholders in view of the specific designation mentioned above, under the terms of paragraph 3, article 171, of Law No. 6,404/76. The prices for paying up the shares issued and to be subscribed, under the referred terms, set according to the "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and to the "Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006", corresponds, on February 28, 2007, to R\$3.15, R\$7.75, R\$16.64 and R\$24.80, respectively, subject to monetary adjustment based on the IPC-A, calculated and released by the Brazilian Institute of Geography and Statistics (IBGE), through the subscription date, and must be paid in cash, upon subscription.*
- b) *Purchase of 1,000,000 common shares, without par value, representing the Company's capital, to be held in treasury for subsequent sale, in order to fulfill the exercise of the options granted to the Company's Management and Employees, as well as to the direct or indirect subsidiaries' Management and Employees, participants in the "Amendments to the Stock Option Plans of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Years 2003, 2004 and 2005" and "Amendment to the Stock Option Plan of Purchase or Subscription of Common Shares Issued by the Company Related to Calendar Year 2006."*

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

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

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

**Statements of Cash Flows**  
**For the Years Ended December 31, 2006 and 2005**  
(In thousands of Brazilian reais - R\$)

ATTACHMENT I

	Company		Consolidated	
	2006	2005	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	469,326	397,357	460,773	396,881
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortizations (Note 12)	6,966	4,989	54,601	44,035
Monetary and exchange variations, net, except those referring to tax, civil and labor contingencies	7,339	7,800	14,529	6,312
Reserve for losses on swap and forward contracts (Notes 22.b. and 22.d.)	1,585	1,231	4,022	12,064
Reserve for tax, civil and labor contingencies, including monetary variation on those reserves (Note 16)	8,547	14,074	12,998	31,040
Allowance for inventory losses (Note 7)	146	-	1,626	1,943
Deferred income and social contribution taxes (Note 9.a.)	(4,468)	(9,262)	(12,964)	(12,150)
Proceeds from sale and disposal of property, plant and equipment and intangible assets	736	(204)	2,476	2,242
Equity in subsidiaries (Note 11)	(28,229)	6,741	-	-
Minority interest	-	-	(4)	1
	<u>461,948</u>	<u>422,726</u>	<u>538,057</u>	<u>482,368</u>
<b>(INCREASE) DECREASE IN ASSETS</b>				
Current assets:				
Accounts receivable (Note 6)	(53,493)	(66,235)	(57,904)	(66,198)
Inventories (Note 7)	(27,970)	800	(86,410)	(32,289)
Other receivables	(2,528)	(7,750)	(2,317)	7,152
Noncurrent assets (long-term assets):				
Escrow deposits (Note 16)	(1,467)	(888)	(29,369)	(2,688)
Recoverable taxes (Note 8)	(558)	(556)	(8,019)	(5,726)
Other receivables	(1,051)	(4,252)	(2,575)	4,111
Subtotal	<u>(87,067)</u>	<u>(78,881)</u>	<u>(186,594)</u>	<u>(95,638)</u>
<b>INCREASE (DECREASE) IN LIABILITIES</b>				
Current liabilities:				
Suppliers	49,383	42,816	54,736	41,849
Salaries, profit sharing and related charges, net (Note 17)	3,376	2,574	15,545	9,125
Taxes payable, net (Notes 8 and 15)	3,944	25,261	(4,366)	19,794
Other payables	4,054	12,799	6,233	9,589
Noncurrent liabilities:				
Other payables	1,414	(556)	8,491	(4,380)
Subtotal	<u>62,171</u>	<u>82,894</u>	<u>80,639</u>	<u>75,977</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>437,052</u>	<u>426,739</u>	<u>432,102</u>	<u>462,707</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment and intangible assets (Note 12)	(21,165)	(9,991)	(193,596)	(111,636)
Investments (Note 11)	(163,423)	(149,425)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(184,588)</u>	<u>(159,416)</u>	<u>(193,596)</u>	<u>(111,636)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Decrease in current loans (Note 14)	(52,207)	(12,907)	(116,005)	(75,104)
Fundings - noncurrent loans (Note 14)	-	65,342	111,322	120,366
Payments of swap and forward transactions (Notes 22.b. and 22.d.)	(2,295)	(3,072)	(4,540)	(15,499)
Payment of dividends (Note 19.d.)	(307,123)	(203,812)	(307,123)	(203,812)
Payment of interest on capital (Notes 19.c. and 19.d.)	(51,268)	(30,129)	(51,268)	(30,129)
Payment of capital (Note 19.a.)	3,100	-	3,100	-
Tax incentives	3,872	717	3,872	717
Sale of treasury shares by exercise of stock options (Note 19.e.)	8,581	4,929	8,581	4,929
Payment of receivables from shareholders (Note 19.b.)	2,272	2,288	2,272	2,288
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(395,068)</u>	<u>(176,644)</u>	<u>(349,789)</u>	<u>(196,244)</u>
<b>NET (DECREASE) INCREASE IN CASH AND BANKS</b>	<u>(142,604)</u>	<u>90,679</u>	<u>(111,283)</u>	<u>154,827</u>
Cash and banks at beginning of year	275,966	185,287	386,439	231,612
Cash and banks at end of year	133,362	275,966	275,156	386,439
<b>CHANGE IN CASH AND BANKS</b>	<u>(142,604)</u>	<u>90,679</u>	<u>(111,283)</u>	<u>154,827</u>
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE</b>				
Income and social contribution taxes paid	112,978	103,859	143,276	111,605
Interest paid on loans and financing	4,073	2,484	9,902	6,645

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

**Statements of Value Added**  
**For the Years Ended December 31, 2006 and 2005**  
(In thousands of Brazilian reais - R\$)

ATTACHMENT II

	Company		Consolidated					
	2006	2005	2006	2005				
<b>REVENUES</b>	<u>3,686,217</u>	<u>3,088,611</u>	<u>3,842,193</u>	<u>3,201,561</u>				
Sales of goods, products and services	3,724,334	3,119,889	3,880,988	3,234,980				
Allowance for doubtful accounts - recognition (Note 6)	(38,805)	(31,066)	(39,704)	(32,177)				
Nonoperating	688	(212)	909	(1,242)				
<b>INPUTS PURCHASED FROM THIRD PARTIES</b>	<u>(2,321,827)</u>	<u>(1,860,261)</u>	<u>(2,132,303)</u>	<u>(1,731,670)</u>				
Cost of sales and services	(1,347,257)	(1,110,075)	(1,274,736)	(1,046,472)				
Materials, energy, outside services and other	(974,570)	(750,186)	(857,567)	(685,198)				
<b>GROSS VALUE ADDED</b>	<u>1,364,390</u>	<u>1,228,350</u>	<u>1,709,890</u>	<u>1,469,891</u>				
<b>RETENTIONS</b>	<u>(6,966)</u>	<u>(4,989)</u>	<u>(55,625)</u>	<u>(44,035)</u>				
Depreciation and amortization (Note 12)	(6,966)	(4,989)	(55,625)	(44,035)				
<b>VALUE ADDED GENERATED BY THE COMPANY</b>	<u>1,357,424</u>	<u>1,223,361</u>	<u>1,654,265</u>	<u>1,425,856</u>				
<b>VALUE ADDED RECEIVED IN TRANSFER</b>	<u>54,936</u>	<u>24,729</u>	<u>43,391</u>	<u>54,714</u>				
Equity in subsidiaries (Note 11)	28,229	(6,741)	-	-				
Financial income (Note 23)	26,707	31,470	43,391	54,714				
<b>TOTAL VALUE ADDED TO BE DISTRIBUTED</b>	<u>1,412,360</u>	<u>1,248,090</u>	<u>1,697,656</u>	<u>1,480,570</u>				
<b>DISTRIBUTION OF VALUE ADDED</b>	<b>(1,412,360)</b>	<b>100%</b>	<b>(1,248,090)</b>	<b>100%</b>	<b>(1,697,656)</b>	<b>100%</b>	<b>(1,480,570)</b>	<b>100%</b>
Payroll and related charges	(144,832)	10%	(118,907)	10%	(379,669)	22%	(306,416)	21%
Taxes and contributions	(781,410)	56%	(714,503)	57%	(817,140)	48%	(727,181)	49%
Financial expenses and rents; includes exchange variation on translation of foreign investments (Notes 11 and 23)	(16,792)	1%	(17,323)	1%	(40,073)	3%	(50,091)	3%
Dividends (Note 19.d.)	(325,866)	23%	(285,237)	23%	(325,866)	19%	(285,237)	19%
Interest on capital (Notes 19.c. and 19.d.)	(33,569)	2%	(34,205)	3%	(33,569)	2%	(34,205)	2%
Minority interest	-	-	-	-	(1)	-	(1)	-
Retained earnings <sup>(*)</sup>	(109,891)	8%	(77,915)	6%	(101,338)	6%	(77,439)	6%

(\*) Unrealized profit from subsidiaries is eliminated.

**Supplemental information to the statements of value added:**

Of the amounts recorded under "Taxes and contributions" in 2006 and 2005, the amounts of R\$467,418 and R\$412,131, respectively, refer to ICMS (State VAT) under the taxpayers' substitution regime levied on the estimated profit margin defined by the State Finance Secretariats obtained from sales made by Natura beauty consultants to final consumers.

In order to analyze this tax impact on the statements of value added, these amounts should be deducted from the amounts recorded under "Sales of goods, products and services" and "Taxes and contributions", since sales revenue does not include the estimated profit attributable to Natura beauty consultants upon the sale of products, in the amounts of R\$1,583,938 and R\$1,311,672 in 2006 and 2005, respectively, considering an estimated profit margin of 30%.

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

## Independent Auditors' Report

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

- 1) We have audited the accompanying individual (Company) and consolidated balance sheets of Natura Cosméticos S.A. and subsidiaries as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2) Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
- 3) In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual (Company) and consolidated financial positions of Natura Cosméticos S.A. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial position for the years then ended, in conformity with Brazilian accounting practices.
- 4) Our audits were conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1 taken as a whole. The accompanying statements of cash flows and value added, individual (Company) and consolidated, for the years ended December 31, 2006 and 2005, are being presented in Appendixes I and II, respectively, for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2006 and 2005 taken as a whole.

São Paulo, February 28, 2007  
DELOITTE TOUCHE TOHMATSU  
Independent Auditors  
CRC 2 SP 01 1609/O-8

**Edimar Facco**  
Engagement Partner – CRC 1 SP 138635/O-2

## Global Compact Commitment

The company endorses the Global Compact, a United Nations (UN) initiative that brings together companies, workers and society in general to provide a global structure that promotes sustainable growth and citizenship, by means of committed and innovative corporate leadership.

For additional information on this initiative, consult the websites [www.unglobalcompact.org](http://www.unglobalcompact.org) and [www.ethos.org.br](http://www.ethos.org.br).

Natura's commitment to Global Compact principles is detailed in the following table.

Global Compact Principles	GRI Indicators Relevant	GRI Indicators Indirectly Relevant
<b>Human Rights Principles</b>		
Principle 1 – Respect and protect human rights.	HR1; HR2; HR3; HR4 HR5; HR6 HR7; HR8 HR9	LA4 LA13 LA14 SO1
Principle 2 – Prevent human rights violations.	HR1; HR2; HR8	
<b>Principles of Working Rights</b>		
Principle 3 – Support freedom of association in the workplace.	HR5; LA4; LA5;	
Principle 4 – Abolish forced labor.	HR7	HR1; HR2; HR3
Principle 5 – Abolish child labor.	HR6	HR1; HR2; HR3
Principle 6 – Eliminate discrimination in the workplace.	HR4; LA2; LA13; LA14	HR1; HR2; EC5; EC7; LA3
<b>Principles of Environmental Protection</b>		
Principle 7 – Support a preventive approach to environmental challenges.	Responsible Management Chapter	EC2
Principle 8 – Promote environmental responsibility.	EN2; EN5; EN6; EN7; EN10; EN13; EN14; EN18; EN 21; EN22; EN26; EN27; EN30	EC2; EN1; EN3; EN4; EN8; EN9; EN11; EN12; EN15; EN16; EN17; EN19; EN20; EN23; EN24; EN25; EN28; EN29; PR3; PR4
Principle 9 – Encourage environmentally friendly technologies.	EN2; EN5; EN6; EN7; EN10; EN18; EN26; EN27	
<b>Anti-Corruption Principle</b>		
Principle 10 – Fight against corruption in all its forms, including extortion and bribery.	SO2; SO3; SO4	SO5; SO6

# GRI Index

In its full commitment to Global Reporting Initiative (GRI) guidelines, Natura included the GRI Index in its 2005 Annual Report, pursuant to the recommendations of that organization. In addition to facilitating access to information and indicators, the Index is designed to assess the company's level of commitment to the GRI guidelines. Additional information about the GRI model may be obtained at [www.globalreporting.org](http://www.globalreporting.org).

Performance	Aspect	Indicator	Chapter	Page	Performance	Aspect	Indicator	Chapter	Page	
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		EN20	On-line		Product	Occupational health and safety	PR1	Competitive Advantages	26	
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	EN30	Competitive Advantages	27			PR9	On-line			
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	EN30	Organization Profile	37			PR9	On-line			
Labor practices and decent labor	Employment	LA1	Employees	48	ON-LINE CONTENT					
		LA2	Employees	48						See additional information and international operating indicators on our website.
		LA3	Employees, On-line	53	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.		
	Relationship between workers and governance	LA4	On-line						See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.
		LA5	On-line		See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.			
		Occupational health and safety	LA6	On-line					See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.
	LA7		On-line		See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.			
	LA8		On-line					See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.
	LA9	On-line		See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.				
	Training and education	LA10	Employees				51	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.
		LA11	Employees	53	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.			
		LA12	On-line					See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.	See additional information and international operating indicators on our website.

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The Annual Report is a vehicle of communication between Natura and the various publics with which it interacts. Through it, Natura communicates its beliefs and its economic, social and environmental performance. Your opinion is very important in helping us continue to improve our Annual Report.

**1. Into which of these Relationship Groups do you fall? Mark all that apply.**

<input type="radio"/> Shareholder	<input type="radio"/> Supplier	<input type="radio"/> Financial Analyst
<input type="radio"/> Employee	<input type="radio"/> Surrounding Community	<input type="radio"/> Press
<input type="radio"/> Consultant	<input type="radio"/> Government	<input type="radio"/> Academic (Student/Teacher)
<input type="radio"/> Consumer	<input type="radio"/> NGO	<input type="radio"/> Other: Describe: _____

**2. How would you rate the following features of the Annual Report 2006? Rate each feature below from 1 to 5, with 1 indicating Very Poor and 5 indicating Excellent.**

Visual appearance / format	Transparency in reporting information
Organization / data distribution	Clear and easy-to-understand information
Comprehensiveness of the information reported	Credibility and reliability of the information reported

**3. In your opinion, what are the most relevant issues to be shared in the Natura Annual Report? Rate each topic below from 1 to 5, with 1 indicating Not at all Relevant, and 5 indicating Very Relevant.**

Economic impacts	Relationship with suppliers and supplier communities
Relationship with employees	Relationship with surrounding communities
Training and education	Investments and projects benefiting society and the environment
Benefits for employees	Biodiversity
Diversity and equal opportunity	Use of energy
Relationship with consultants	Use of water and effluents
Relationship with consumers	Greenhouse gases
Consumer health and safety	Waste management
Human rights	Environmental impact of products
Government relationships	Environmental impact of shipments

Is there any subject not reported in the Natura Annual Report 2006 that you consider to be very relevant? Describe: \_\_\_\_\_

Of the topics listed above, is there any content you were not satisfied with? Why? \_\_\_\_\_

Do you have any suggestions or comments about the Natura Annual Report 2006? \_\_\_\_\_

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